



COVID – 19 Market Update

March 15, 2020

Coming off an exceptional year for financial markets, the start of 2020 has taken a turn as major global markets have fallen along with investors' risk appetite. The following are some of the notable drivers weighing on investor sentiment:

COVID – 19 direct impact

Fears related to the global economic impact of the coronavirus have rapidly accelerated. As cases and death tolls outside of China have grown, there is much uncertainty and a lack of agreement on how governments will respond. A temporary slowdown in economic activity will stem from global action to contain the spread of the virus (i.e. travel restrictions, temporarily shuttering operations, and canceling public events). Changes to consumer spending (i.e. less demand to be in public shopping centres or restaurants, reduced demand for travel and tourism) will impact near-term corporate profits. However, neither of these consequences are expected to result in a fundamental shift in long-term economic performance.

The greatest risk to the global economy is summed up in one word – uncertainty. There is a lot that is unknown about the virus, the extent of its spread, progress to contain it, and its cumulative economic effect in Canada, the US and around the world.

Canada – A tail of two markets

Stocks

There is oil and then there is everything else.

The energy sector in Canada represents 11.1% of our GDP. So when oil prices drop we will see a significant pullback in the TSX.

What happened to oil prices: OPEC and its allies ended their meeting over the weekend (March 7/8) without an agreement on curbing crude production to stabilize energy markets impacted by a weaker demand outlook. Russia, a key ally to OPEC, rejected Saudi Arabia's proposal to cut overall supply as it continued to show resentment towards increasing U.S. shale production. In return, Saudi Arabia vowed to dramatically increase production to slash oil prices sparking fears of a price war. This series of events resulted in a steep drop in crude oil prices on Monday. Nevertheless, lower energy prices are expected to hurt both parties (as a result of their substantial economic reliance on oil exports), making a long-term price war unsustainable. The silver lining, even if this drags on, is that lower oil prices are generally positive for the consumer and industries with high sensitivity to fuel cost.

Every other sector in the TSX also saw a significant pullback due to the fear and uncertainty with the COVID-19.

Bonds

Bond funds on the other hand had opposite effect. Primarily due to interest rates dropping in Canada and the US. As interest rates pull back typically bond prices go up and vice versa.

Interest rates

Interest rates have been lowered by a full 1% in 2020. Considering oil prices, general economy and low inflation rates we expect interest rates to stay low for a long time. The Bank of Canada has more room to cut rates further and they may do that especially if the US continues to drop their lending rates.

US

The US market is much more diversified than the Canadian economy. The largest sector is technology. The S&P 500 is down -16.76% year to date. The sell off is again due to the uncertainty of how the US and countries around the world will try and contain the virus. We do anticipate more volatility in the US market for the months ahead. We think this is going to get worse before it gets better.

US ability to return to normalcy will largely depend on its current administration's ability to contain the virus. To date, the efforts have been deeply disappointing. Based on my estimates, there is a large percent of the population who have COVID-19 that have not been tested. Once the testing gets to acceptable levels I am anticipating a surge in confirmed cases. The US has pledged up to \$50 billion by declaring a state of emergency, however, it feels like it's too late.

Global markets

Global markets have been hurt the most. Considering this virus was first discovered in China the shutdown of the factories and all manufacturing has completely disrupted global supply chains. Many countries in Asia depend on China's need for their resources (including oil) which has been put on pause. The global index is down -26.8% year to date. Countries with a high dependence on China is Taiwan, Malaysia, Singapore, Korea, Chile and Saudi Arabia. The ripple effect of China slowing down will be felt by all but mostly by the countries mentioned.

INDEX	CLOSE	WEEK	YTD
TSX	13,666	-15.50%	-19.90%
S&P 500 Index	2,711	-8.80%	-16.10%
MSCI EAFE*	1,492	-17.70%	-26.80%
10-yr GoC Yield	0.83%	0.20%	-0.90%
Oil (\$/bbl)	\$33.18	-19.60%	-45.70%



What should you do?

Target Date and Target Risk Funds

All target date and target risk funds available through Canada Life (formally Great-West Life), Manulife Financial, Sunlife Financial and Industrial Alliance have built in rebalancing mechanisms. That means as equities have been dropping these funds have been selling some fixed income and buying equities to rebalance and try to take advantage of lower prices. Most funds also hold a certain percentage in bonds. I mentioned earlier that as interest rates drop typically bond prices go up. Therefore, as Equities have dropped the fixed income portion in your portfolio has tried to prop up your returns.

There is already and there will continue to be more opportunity in the market for the months ahead. It's hard to find a company that has not seen a pull back in their evaluation including gold. Energy has seen one of the largest drops. Therefore, energy will take longer to recover considering the circumstances.

These are unprecedented times and the situation is changing by the hour. This is not the time to panic but to remain calm and trust the long-term approach you had when you chose the investments you are currently invested in.

Thank you,

Amar Munjal, RPA

Helpful informational links:

Sun life:

https://www.sunlife.ca/Canada/GRS+matters/GRS+matters+articles/2019/Breaking+News?vgnLocale=en_CA

GWL: <https://www.smartpathnow.com/>

Industrial Alliance: www.ia.ca/economy

Manulife: <https://www.manulife.ca/personal/support/contact-us/update-on-covid-19.html>