

# I N V E S T M E N T FOCUS

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#### To Our Clients:

This note is part of our continuing effort to stay connected with you. While the office has been closed temporarily, we continue to be available to you remotely.

These are very difficult times for so many people. Please know that we continue to work hard for you and your family during this period of uncertainty.

If friends or relatives could use some reassurance during these times, we would be happy to offer our perspectives.

## Perspectives on Investing & the Covid-19 Impact

The impact of the Covid-19 virus continues to have extraordinary global effects. The significant containment efforts — from closing international borders, to quarantining regions and shutting down non-essential businesses in many areas — continue to have wide-ranging societal and economic impacts. In the equity markets, we have seen unprecedented market volatility. In just a matter of months, the major U.S. and Canadian indexes have fallen from near-euphoric highs to levels that haven't been seen in many years.

As the situation continues to progress in North America, we are living through a period of extreme volatility. Market swings have been fast and aggressive. This has likely been driven by the reality that through technology and the media we are more connected than ever — with this being perhaps the first major global health event of the social media age.

The market moves we've seen in recent weeks aren't entirely new. Human behaviour can sometimes be a factor in the erratic performance of equity markets. A recent article in Fortune Magazine reflects upon the European debt crisis of 2011. Over six consecutive trading days, the S&P 500 Index fluctuated significantly on a daily basis (see Figure 1). At the time, there was no rational reason for stocks to rise and fall by more than 4 percent in almost all of those trading days. However, stocks were in the midst of a double-digit correction and, for many, the 2007-08 financial crisis was fresh in investors' minds.

**Figure 1: Fluctuations in S&P 500 Index Daily Returns During European Debt Crisis**

Date	Daily Return
August 4, 2011	-4.8%
August 5, 2011	-0.1%
August 8, 2011	-6.7%
August 9, 2011	+4.7%
August 10, 2011	-4.4%
August 11, 2011	+4.6%

Source: Ben Carlson, "How the 'fear center' in your brain is driving panic selling and buying in the stock market," Fortune Magazine, March 7, 2020.

Our brains are inherently hardwired to respond to danger and potential risks to keep us out of harm's way. Behavioural finance experts have shown that the "fight or flight" instinct is triggered when it comes to our investments and the potential pain that may be felt when portfolio values drop. As such, it isn't surprising that the uncertainty and fear associated with this particular global health crisis may be helping to drive the momentum in the markets.

There are few historical precedents for the current situation to help us understand what is yet to come. Understandably, this particular crisis may feel different because of many factors: the rapid spread of the virus, the significant containment response and the anxieties across different areas — from health, to economic and social.

However, if history is any indicator, it has shown us that time is the ultimate equalizer. Past pandemics have not had enduring effects on the economy or markets. The Spanish flu (1918), which tragically took an estimated 50 million people, was followed two years later by the "roaring twenties". Similarly, the impact of the

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Hong Kong flu (1968) resulted in a mild recession in the U.S. and none in Canada, but the virus wasn't a central theme even just a couple of years after its containment.

Significant periods of market volatility are also not new. Since 1928, the S&P 500 has experienced 12 declines of 30 percent or more and 20 declines of at least 20 percent. These losses occurred every 7 to 8 years and every 4 to 5 years, respectively. This is the natural trade-off when investing in the equity markets. While it may feel safe to be in cash when equity markets are in a downturn, it is worthwhile to remember that holding cash over the long term would forego the opportunity of equity market returns. Despite these significant declines, an investment of \$100 in the S&P 500 Index in 1928 would have grown to more than \$500,000 by the end of 2019. A \$100 investment in U.S. treasury bills would have yielded \$2,080 within the same period. Risk and return are intrinsically linked.<sup>1</sup>

### Reasons for Optimism?

While it may be difficult to see beyond today's challenges, there may be reasons for optimism. There has been a unified acknowledgement that there will be significant economic effects in the near term. However, policy responses have been faster and deeper than ever in history. Both the Canadian and U.S. central banks have been quick to engage in emergency interest rate cuts. At the time of writing, significant economic stimulus packages continue to be rolled out globally, including C\$107 billion of relief in Canada, as well as a US\$2.2 trillion stimulus package in the U.S.<sup>2</sup>

There have been early signs of abatement from Asia, where the virus' progression has been months ahead of that in North America. Quarantining and social distancing efforts have helped to stabilize the number of new virus cases; China's numbers have slowed markedly; South Korea, a non-authoritarian country, has also been able to reduce its new cases.

During these uncertain times, let's not forget that containment of the virus isn't futile. Our medical knowledge far exceeds that of 1918 and 1968, or any other period in history. This, too, shall pass. Adversity can also be a catalyst for progress. In the past, major setbacks have been a reagent for new solutions. Consider that even in the worst economic times we have faced, the Great Depression, there was concurrent and significant innovation:

microwaves, jets, electron microscopes, nylon, Teflon, and plastics, to name just a handful. Humans have overcome the most difficult of challenges with great determination and resiliency.

### We Are Here for You

We continue to monitor the rapidly changing situation. Despite the broad market declines, we believe that quality companies with solid balance sheets will weather this storm and recover in due course. While we have been proceeding with an abundance of caution, there may also be opportunities for the longer-term investor to slowly increase equity positions in quality companies at low valuations.

With efforts to contain this virus still in their infancy, equity markets are likely to continue to experience significant volatility in the near term. However, looking ahead, it is important not to lose sight of the fact that, just as we have seen in the past, equity markets can quickly turn their course. Investing has always been a marathon. This one, while currently testing our true resolve, is certainly not insurmountable.

Stay safe, healthy and continue to look forward. Please call if you have concerns.

Sources: 1. <https://awealthofcommonsense.com/2020/03/whats-causing-all-the-panic-buying-selling-of-stocks/>; 2. Measures announced include those up to March 27, 2020. There are likely to be additional actions taken by governments as the situation continues to evolve.

### Support Offered to Canadians

The Government of Canada continues to announce actions to help Canadians facing hardship as a result of the Covid-19 virus. Support will be provided to those facing unemployment, those who are quarantined or in isolation and for families now caring for children at home. This includes increasing the Canada Child Benefit and providing an additional one-time payment by early May for the GST/HST credit for low-income families. Small businesses will also be given assistance, including an increased wage subsidy and access to interest-free loans.

For all Canadian taxpayers, the government has announced an extension to the 2019 income tax filing due date for individuals (other than trusts) to June 1, 2020. Any new income tax balances or instalments owing will be deferred until August 31, 2020 without incurring interest or penalties.

As these measures continue to evolve, visit the Government of Canada website for the latest details: <https://www.canada.ca/en/department-finance/economic-response-plan.html>

For provincial support, please see: <https://budget.ontario.ca/2020/marchupdate/action-plan.html>

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