Canaccord Genuity Wealth Management

Insights

Above and Beyond

LYSNES MAGREEHAN WEALTH MANAGEMENT

2020 so far

COVID-19 dominated headlines in the second half of the first quarter, with the novel coronavirus spreading throughout the world, creating a global pandemic that will likely have an impact on economies, and markets, across the globe for some time. With no known treatment or vaccine, countries have been forced to limit travel and initiate measures to "flatten the curve" and limit the spread of the virus, many of which require citizens to stay at home. As of quarter end, total cases in the US, Italy and Spain topped those reported in China where the virus initiated, and expectations are that this next month we will see an increase in these figures.

Beyond COVID-19, oil prices also collapsed in the first quarter. Starting with a steady decline at the beginning of 2020 due to concerns about weaker global demand, WTI plummeted by nearly 25% on March 9th, the largest single day decline in nearly thirty years, after the OPEC+ production-cut pact fell apart due to a dispute between Russia and Saudi Arabia. Both the Saudis and Russians have announced further production increases, maintaining pressure on the price of the commodity which ultimately forced the price of a barrel lower by nearly 70% in the quarter.

Canadian markets fell in the quarter with the S&P/TSX Composite off by over 23%, giving up much of the gains earned in 2019 all in the first three months of 2020. The Energy sector fell by 37% as the prospect of lower oil prices for longer becomes a risk for higher cost producers of the economy. In response to the economic impact of COVID-19, the Canadian government initiated several programs to assist it's citizens through this crisis including the Canada Emergency Response benefit for those who have had their employment impacted by the virus, an increase to the Child Tax Benefit as well as various other measures. The Bank of Canada also slashed rates, cutting the overnight rate from 1.75% to 0.25% through a series of rate cuts in March and announced an expansion of its bond buyback program to help support liquidity in credit markets. Economic concerns caused by the COVID-19 and low oil prices also had a negative effect on the Canadian dollar which dropped by nearly 10% relative to the US dollar in the quarter.

The S&P 500 dropped over 20% in the quarter, its worst three-month return since the fourth quarter of 2008. The index also posted its two worst days since 1987 in March, along with two days of returns over 9% as equity markets were exceptionally volatile and sensitive to daily updates on the COVID-19 virus and programs designed to curtail its impact on the economy.

The US government introduced an $8.3B "phase one" law in early March aimed at vaccine research and state/local aid.

The second phase was a ~$100B bill focused on paid sick leave. The third phase was the largest stimulus package in U.S. history, offering ~$2T in funding for corporate aid, small business loans, healthcare assistance and a $1,200 direct payment to all adults ($500 to children) in the U.S. Despite these measures, and an anticipated fourth phase of stimulus, economists have projected that GDP could contract by as much as 30% in Q2 and unemployment rates could exceed 30% in the US.

Looking at other markets and assets, Global equities were no better in Q1 with the MSCI World Index falling 24% as COVID-19 spread through Asia and Europe, taking its toll on economies across those regions. US Treasuries, the price of gold and the US dollar index all increased slightly in the quarter as investors looked for safe havens amidst market volatility.

So, where does that leave us?

Typically, the Canadian economy has been so closely tied to the US due to our proximity, etc. The U.S. economy is a much larger and more diverse economy than Canada's, and as a result the US may be less affected by the economic fallout of this virus than other parts of the world. That doesn't mean that the U.S. economy will be firing on all cylinders though. Fourth-quarter 2019 GDP growth for the U.S. was at an annualized rate of 2.1%, but that number doesn't matter given today's situation. Manufacturing activity that showed a modest rebound in January will likely continue to slow over the foreseeable future, unemployment will undoubtedly track higher in the coming months, and the market will continue to gyrate with heightened levels of volatility.

Investing is a long-term commitment. And although everyone has a view on which direction the markets will go, no one can predict risk or predict what will drive the markets through a correction. All anyone can do is manage risk, especially during and after black swan events such as this.

An important reminder that markets are "forward-looking", meaning the current prices reflect the available news and that information has been discounted into today's values. The market has already factored in the fact that we will have a recession, unemployment will spike higher and that it will take time for the economy to heal. We will manage to get through this crisis, like others before it, and we need to ensure our portfolios are structured adequately so as to not miss out on an eventual upturn in market prices, once the outlook becomes a little clearer. Markets have historically started to move higher well before the recession ended. It is for that time that we are positioning portfolios.

As always, we are here to discuss your personal circumstances with you. We will get through this together.

How can you weather the turmoil?

Investing during volatile times can challenge your discipline and commitment, but there are principles for your investment strategy that can help ease your mind and keep you focused on the long term:

- Stay informed. Critically think through the various media headlines, hype and narratives to formulate a rational conclusion. This process requires effort, time, insight into other perspectives, an openness towards the discoveries made and a willingness to take responsibility.
- Diversify across various economies, businesses, countries, and investment classes to help spread risk, remain more consistent, and reduce potential for underperforming assets to impact your portfolio.
- Stay disciplined and committed to your long-term investment plan — don't ride the emotional rollercoaster. Speak to us – we are here to work with you.
- Don't jump ship. The difference between investment success and disappointment can boil down to a few days of being in or out of the markets.
- Take a long-term perspective. Accept that markets rise and fall but, over time, markets have always moved higher.
- Turn market volatility into your advantage. By investing a specific amount at regular intervals, dollar-cost averaging can help you buy more shares of an investment at lower prices. This helps take the worry out of making a single lump-sum investment at the wrong time.

In times of unusual volatility, you may sometimes feel an impulse, large or small, to push the panic button. But panicking often leads to wrong decisions. Talk to us. We can help you determine how to weather the turbulence — it's what we do.

REIT and Real Estate Corner

While 2008 marks the largest absolute drop in the US REIT market, the current correction has definitely been the swiftest. The US, Canadian, and Global REIT markets got off to a good start to the year, each peaking around Feb 20 and up between 5% and 11% then. Since that time, all three REIT indexes are down more than 30%, and that is with one of the strongest rallies ever from Tuesday through Thursday last week. At their worst, a week ago yesterday, they were down about 45% from the February peaks.

Why haven't REIT been more resilient? While REIT prices didn't fare too well during the Great Financial Crisis, REIT operating results actually hung in quite well. What really hurt the REITs back then were credit markets seizing up, and the fear that REITs, which are quite reliant on debt markets to fund themselves, would not have access to capital. As credit markets improved, so did REIT valuations. The current crisis is different. While the sudden market shock sent credit spreads sharply higher, strong and swift action by the US Fed and other central banks seems to have calmed that market somewhat. However the economic impact of Covid 19 is just starting to be felt. In most recessions, some businesses will fail, and some tenants may not be able to pay rent, and that process takes a while to play out. Never before have businesses been forced to close and entire industries essentially stop functioning. The REIT market is now correctly focused on tenants' ability to pay rent, both in the form of companies such as retail stores or consumer focused entities such as gyms, but also individuals' ability to pay rent to apartment landlords. Across many subsectors of the REIT space there will be tenant landlord tensions and negotiations over the next little while

In this current environment, REITs entered this market sell-off in the best financial health that they have ever been in. While metrics vary from REIT to REIT, generally balance sheets are in great shape, with low leverage, particularly in the US, from a profitability and debt/ebitda as well as a loan to value perspective.

During the 2008 crisis, many REITs were forced to raise dilutive equity to survive as they couldn't take on more debt, which resulted in poor share performance for a few years afterward. They learned their lessons well, and have spent the last several years shoring up and strengthening balance sheets, through asset sales, extending debt terms, and equity raises once their share prices recovered.

Also, from a liquidity perspective the REIT sector is generally in good shape, with strong relationships with lenders, generally under-utilized lines of credit, and large pools of unencumbered assets. Real estate fundamentals were also very strong across most asset sub types and geographies heading into the crisis. That has obviously changed dramatically in the past few weeks, but at least REITs are heading into this from a position of strength.

A factor that should help valuations over time is that prior to this crisis there were literally billions of dollars recently raised in real estate specific private equity funds from the likes of Brookfield and Blackstone. Much of that money is still looking for a home. While merger and acquisition (M&A) in the short term might be delayed as the market digests the rapidly changing dynamics, and when the dust settles, publicly-traded real estate is still trading at a substantial discount to Net Asset Value (NAV) there will undoubtedly be private funds ready to swoop in, which we think ultimately will be supportive for the sector.

Summary: we feel real estate can perform well. Credit remains open to REITs, interest rates are low, balance sheets are coming into this in great shape and fundamentals should remain strong for many of the underlying subsectors of the market.

Continuing Education

In order to continue strengthening his knowledge and to better service our clients in an ever-changing investment landscape, Mike successfully completed both the Investment Management Techniques (IMT) and the Portfolio Management Techniques (PMT) courses through the Canadian Securities Institute. Having completed these examinations along with surpassing industry experience requirements, Mike has earned the Chartered Investment Manager (CIM) designation.

Beyond the continuing education requirements of our industry, our team is committed to going above and beyond. We are devoted to strengthening our knowledge so that we are equipped to best serve and assist clients as you transition through life's various stages.

Canada's Economic Response Plan

Please see the attached piece from CI Investments detailing Canada's Economic Response Plan.

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