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# REVIEW AND COMMENTARY
# 1st QUARTER – 2020

## *'Once more unto the breach, dear friends, once more'*

While the line following the Shakespearean quote above is not appropriate given the delicate health of so many of our friends and neighbors, this one line resonates especially well with those of us who have invested for more than the past 40 years. There has been a lot of financial water under the bridge. Our first significant experience was 1987 when approximately 22% was lost one Friday afternoon. Then there was the Dot.com bubble in March 2000 where technology valuations imploded which was followed approximately a year later when the US was assaulted by air during the 9/11 attacks. In 2008-9, the financial markets roiled as the US banking system came perilously close to collapse. While the past 11 years have not been without challenges, one of the most notable the market drop in the last quarter of 2018 when stock and commodity prices dropped significantly over a three month period. While the first COVID 19 case was reported in December 2019, since the latter part of February 2020 market turmoil has been reflective on some of these past examples. While every time is different, it is fair to say not many of us have been through a Pandemic.

This may the first time in the past 70 plus years where the cost of human capital has been so readily measured along side financial indices. This is why we are reminded once again about how important so many people are to our everyday lives such as EMS, first responders, doctors, nurses and other health providers. Transit workers who help those who need to be moved to work everyday to stock grocery and pharmaceutical shelves, help with check out and delivery goods and services to our doors so that those of us who can not go to work may remain in isolation. The real tests here is that we are all important and life rarely affords us the time to slow down enough to appreciate others- so let's be grateful and gracious to others.

There are some bright spots. While so many countries struggle to maintain their health crisis, parts of Asia, China, Spain and Italy seem to have stabilized their health cases. Starbucks CEO announced that he is re-opening stores in Wuhan China (among other areas) and their self distancing policies are showing constructive signs in their North West coast operations. This is significant because we don't have to rely on government data which may be manipulated. CEO's who manipulate their data often go to prison. China, unexpectedly in March, reported an increase in their Purchasing Managers' Index (PMI) rose to 52 in March from a record low of 35.7 in February. Anything above the 50-point mark is suggests growth rather than contraction. While this may be an anomaly, it is, at worst, a sign that some economic activity has returned to China.

Where do we stand now? There is little doubt that the cost of human capital remains high and at risk. Certainly, with the advantage of hindsight, we know that the US and Canadian Governments were slow to act. Thankfully, corporate American stood up first and took the first decisive action regarding the virus.

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Few of you may know Rudy Gobert. At first, he is the first prominent professional athlete to contract the virus, it started a chain reaction that eventually made Governments to take notice. He is a professional basketball player and once he was diagnosed, Adam Silver, Commissioner of the NBA, suspended league play. This sent a resounding shot across the bow of grass roots America. Because several teams in the league had played against him just prior to his diagnosis, entire teams were tested. One of those teams was the Toronto Raptors, bringing Canada into the fold. Given many NBA teams share facilities with other teams in other sports, those leagues also suspended play. All professional sports are played in front of thousands of fans, so every sport reviewed their circumstances. Quickly, every major sporting league suspended operations. I doubt few would argue that if you needed an important message sent to the average citizen as quickly as possible it would be most efficient to have it come from their favourite sports team or athlete than through government edict. Thankfully, governments got serious and all businesses, except for those deemed essential, were closed quickly thereafter.

It is difficult to assess whether the market has more downside. Saudi- Russia tensions over oil prices have sent oil prices down dramatically. While neither country can manage their fiscal house at levels anywhere close to present levels (WTI May Crude $26) demand destruction for the commodity from COVID19 was unlikely part of the Saudi initial plan when they decided to increase production after Russians failed to agree to a production cut. While prices may go lower short term as marginal producers are forced shutter their operations, crude prices will go higher longer term.

In more general equity terms, March 23rd looks to have been a low mark so far. Presently, the Dow Jones and SP/TSX Composite are approximately 20% above these intra day lows. While this by no means gives us confidence that we are at the start of a new bull market, we do think that those lows were part of a massive margin call wringing out excessive leverage in the capital markets. One of the reasons why the US Federal Reserve and the Bank of Canada moved decisively around that time to ease lending requirements, add liquidity to various capital markets, was that they were equally aware of the waves of forced selling. Since then Central Banks around the globe have infused liquidity and eased interest rates. Now Governments are providing financial assistance to those disadvantaged by COVID19. Certainly, there may be more stimulus to come if needed. This is what happened during 2008-9. The old saying of 'Don't fight the Fed' certainly makes sense now.

What could take the markets lower? COVID 19 can. There are concerns about a second wave- a legitimate concern especially if cities and counties re-open pre-maturely. It is doubtful warm weather will have any beneficial effect in curtailing this pandemic- social distancing, self isolation and well known preventive health measures such as handwashing and protective masks and gloves. If little progress is made to curb the rate of infection then I would suspect, there may be new markets lows, however, it may be a more gradual decline than what we've experienced in the past several weeks. Businesses have to be shut for several months than presently expected, dividends reduced further and little to no evidence of any global growth for the foreseeable future. This could lead to lower equity markets though Central Banks around the globe would work in concert to reverse that outcome.

But what if like other hard- hit jurisdictions North America continues to show signs that the virus is moderating? China's economy has shown improvement and if it can continue to recover, even modestly, this will be positive. If the rate of infection stalls and recovery rates improve in the U.S. then having the two largest economies in the world reviving simultaneously will be positive for the financial markets. We are uncertain of the optimism of a V shaped equity recovery the worst is behind us. Financial capital will be replaced and grow beyond early 2020 levels but this time of turmoil sadly be remembered more for the very high and permanent cost of human capital.