Highlights

- COVID-19 and its potential economic impact continues to dominate headlines and capital markets movement.
- Sovereign bonds were the best safe haven, providing balanced investors with a positive performance offset.
- Bond yields plunged: U.S. 10- and 30-year government bond yields set record lows.
- Most equity markets dropped into 'correction territory', back to levels last seen a few months ago.

Markets declined sharply in February due to growing virus impact

Spreading investor panic is now a growing concern too.

Global stock markets experienced sharp (in some cases historic) declines at the end of February in reaction to the spread of the coronavirus outbreak and its potential to wreak havoc on the global economy. In the final week of the month, investors fled risk-on assets (like equities and commodities), turning primarily to the most conservative of risk-haven assets (specifically cash and sovereign debt).

Virus-related market declines wipe out year-to-date gains, and then some

Equity markets and bond yields across the globe started the month with a positive tone, as bond yields began to rise, and major stock indices set new record highs. The enthusiasm came to a screeching halt, as the health crisis spread outside of China and into regions like Europe and the Middle East. Concerns for a potential pandemic grew such that investors could no longer dismiss the risks, culminating in a historic week in capital markets to close out February.

- The S&P 500 dropped 11% for the week of February 24, marking its worst weekly performance since the financial crisis.
- After posting declines of more than 2% in three of the five days of the week, the U.S. stock benchmark concluded the week nearly 13% below its all-time high of February 19, 2020 – the fastest decline ever from a record high into correction territory (i.e., a decline of 10% or more).
- U.S. treasury yields also set records. U.S. 10- and 30-year bond yields crashed below prior record lows: the 10-yr at 1.15% was 0.21% lower than July 2016; and, the 30-yr at 1.68% was 0.27% below August 2019. Thus far in March,

Market Summary

Canadian Fixed Income[1]	Month	YTD
FTSE Canada Universe Bond Index	0.7%	3.6%
FTSE Canada All Corporate Bond Index	0.4%	3.1%

Canadian Equities[2]	Month	YTD
S&P/TSX Composite	-6.1%	-4.7%

	Month		YTD	
Global Equities[2]	Local	CAD	Local	CAD
S&P 500	-8.4%	-7.0%	-8.6%	-5.4%
MSCI EAFE	-8.3%	-7.9%	-9.4%	-8.0%
MSCI Emerging Markets	-3.9%	-3.9%	-7.1%	-6.6%

Currencies and Commodities (in USD)	Level	Month	YTD
CDN $	$0.746	-1.2%	-3.0%
Oil (West Texas)	$44.76	-13.2%	-26.7%
Gold	$1,583.76	0.0%	4.0%
Reuters/Jeffries CRB Index	$159.45	-6.4%	-14.2%

Canadian Sector Performance[2]	Month	YTD
Energy	-7.5%	-9.7%
Materials	-7.6%	-9.8%
Industrials	-6.3%	-2.2%
Cons. Disc.	-7.3%	-9.7%
Info Tech	-2.7%	6.5%
Health Care	-16.7%	-18.9%
Financials	-5.5%	-4.1%
Cons. Staples	-6.1%	-1.9%
Comm. Services	-6.8%	-4.1%
Utilities	-3.1%	4.2%
Real Estate	-3.8%	0.5%

Local currency unless otherwise stated.
[1]Total return [2]Price only return
Source: Bloomberg

yields have continued to drop deeper into record low territory with both the U.S. and Canadian 10-year yields now below 1%.

The Canadian equity market showed more resiliency than its global counterparts (although still marking losses). Within the Canadian market, the defensive sectors, like Utilities and Real Estate, held up better than the rest (as expected). Though still marking losses, these sectors held onto positive YTD gains. Cyclical sectors, such as Energy and Consumer Discretionary lost ground, along with Materials and Health Care – the worst performing sectors for the month. Oil prices dropped sharply by 13.2%.

Safe-haven assets aren't what they used to be

The flight to safety didn't unfold according to the usual script. Most risk assets were abandoned, but copper counter-intuitively rose 1.2%. Likewise, a number of safe-haven assets didn't post as positive a performance as would traditionally be expected. The price for gold stayed unchanged for the month, while the U.S. Dollar Index (DXY) rose only slightly.

Are you getting the benefits of active asset management?

The coronavirus wasn't on anyone's radar until early 2020, but elevated stock valuations were. While the reason for the equity market decline is tragic, we view the equity market pullback as overdue and are watching closely for opportunities that the abrupt change in risk sentiment may provide. We're being patient. Even with most equity markets dropping into 'correction territory' at the end of February, given the sizeable run-up of the past few months, that simply brings markets back to levels they were at a few months ago. The handwringing about such a muted retracement is a sign that investors have begun to expect markets to be a one-way bet. That leads us to believe that the largest risk to the markets may be complacency. This, among other nuanced factors laid out in GLC's 2020 Capital Market Outlook, led to GLC's slight defensive position coming into 2020 – active management positioning that affords us the liberty to assess the unfolding events from a position of strength.

Importantly, well diversified and balanced fund investors are seeing meaningfully less dramatic moves than are being reported for major market indices – multi-asset funds, such as asset allocation funds, are designed for volatile markets due to their built-in rebalancing and active management oversight.

Additionally, highly volatile markets such as these often cause market dislocations and mispricing. With the current retracement in risk, GLC's portfolio managers are monitoring the situation closely – on watch not just for emerging risks, but also with an eye toward taking advantage of emerging opportunities. Unlike passively managed funds, such as ETFs, active managers can tactically take advantage of these situations – creating opportunities to add value and contribute to strong long-term investment performance.

Stay calm and carry on (but more hand washing is still a good idea)

These prior crises have set historical precedents and taught lessons we now need to put into practice. **After the peak of each episode, the market selloff subsides, and investors move from fear driving their investment decisions back to fundamentals driving asset gains.** Historically, equity markets have typically recovered six to twelve months post-crisis.

While the COVID-19 outbreak dominates the world's headlines, we caution against 'doom and gloom' type thinking that could get in the way of rationed and reasoned long-term investment goals. In the recent GLC Insights report, we offer five ways investors can stay on track to meeting their investment goals and keep their investment plans healthy in today's markets. Key among them all – avoid making emotional decisions that lend themselves to overreactions, which can ultimately be contrary to long-term value creation.

Market selloffs are not new to GLC's experienced portfolio managers. They're not abandoning their well-thought-out investment strategies, nor do we think investors should.

Christine Wellenreiter, CM
VP Marketing and Communications, has more than 15 years of investment industry experience and has been writing the monthly Market Matters for over 10 years.