glc asset management

Market Matters
Summary for Q1 2020

Highlights

The rapid spread of COVID-19 dominated headlines, altered daily lives and spread fear across capital markets.

Government aid and policy responses globally have been both material and rapid.

Balanced investors benefited from fixed-income holdings to offset large equity losses, though only the safest of safe-haven assets realized gains.

An oil price war between Saudi Arabia and Russia caused crude prices to plummet 66% to near USD $20/barrel.

COVID-19 pandemic: A time like no other

It's hard to imagine a more dominant news story than the spread and impact of the Coronavirus (COVID-19) pandemic. Hardly an aspect of daily life, nor a corner of the world has been left unaffected. Our first and foremost thoughts go to all who have felt the blow of this illness, and we extend our heartfelt gratitude to all those who continue to do their part in fighting the spread.

Stock and bond market shockwaves

The speed, scope and shockwaves of the virus' spread was matched in capital markets.

Equity markets around the globe suffered dramatic losses in the first quarter of 2020, and the volatility has been extreme.

- Most major stock markets booked losses in and around -20%.
- From February 19 to March 23, 2020, the U.S. stock market (S&P500) saw the quickest meltdown from an all-time high in history.
- 23 days the Dow Jones Industrial Average (Dow) moved more than 2% in any direction in the first three months of 2020. This included a three-day rally from March 24 to March 26, where the Dow jumped 21% before retreating slightly into the quarter's end. This is technically known as a 'bull run within a bear market', and otherwise known as a nausea-inducing rollercoaster ride.
- Canada felt the added weight of yet another crushing blow to the energy sector. The emergence of an oil price war between Saudi Arabia and Russia drove crude oil prices down to multi-decade lows to close out the quarter near USD $20/barrel.

Investors' massive flight-to-safety caused dramatic swings in bond values too, but fixed income holdings within diversified portfolios by and large did their job offsetting large equity market losses.

Market Summary

Canadian Fixed Income[1]	Month	QTR	YTD
FTSE Canada Universe Bond Index	-2.0%	1.6%	1.6%
FTSE Canada All Corporate Bond Index	-5.4%	-2.5%	-2.5%

Canadian Equities[2]	Month	QTR	YTD
S&P/TSX Composite	-17.7%	-21.6%	-21.6%

	Month		QTR		YTD	
Global Equities[2]	Local	CAD	Local	CAD	Local	CAD
S&P 500	-12.5%	-7.6%	-20.0%	-12.6%	-20.0%	-12.6%
MSCI EAFE	-13.0%	-9.0%	-21.2%	-16.3%	-21.2%	-16.3%
MSCI Emerging Markets	-13.2%	-10.9%	-19.3%	-16.8%	-19.3%	-16.8%

Currencies and Commodities (in USD)	Level	Month	QTR	YTD
CDN $	$0.711	-4.8%	-7.7%	-7.7%
Oil (West Texas)	$20.48	-54.2%	-66.5%	-66.5%
Gold	$1,597.89	0.9%	4.9%	4.9%
Reuters/Jeffries CRB Index	$121.79	-23.6%	-34.4%	-34.4%

Canadian Sector Performance[2]	Month	QTR	YTD
Cons. Disc.	-26.1%	-33.3%	-33.3%
Cons. Staples	-7.9%	-9.7%	-9.7%
Energy	-31.5%	-38.2%	-38.2%
Financials	-18.6%	-21.9%	-21.9%
Health Care	-22.7%	-37.3%	-37.3%
Industrials	-13.6%	-15.4%	-15.4%
Info Tech	-9.7%	-3.8%	-3.8%
Materials	-10.3%	-19.1%	-19.1%
Real Estate	-29.6%	-29.3%	-29.3%
Comm. Services	-5.3%	-9.2%	-9.2%
Utilities	-10.0%	-6.2%	-6.2%

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

- The U.S. dollar, U.S. Treasuries and Canadian sovereign and provincial bonds saw positive returns (each valued as safe-havens by investors). Most other credit products saw their yield spreads widen and their values weaken, particularly through March as the massive economic impact of COVID-19 became apparent.
- Corporate issuance of debt set records too. Year-to-date gross issuance outpaced last year by 58% as companies hurried to secure cash amid expectations of difficult days ahead.

It may be some time before the alarming headlines subside, and capital markets return to assessing the fundamental outlook for companies on a stock by stock, bond by bond, basis – but they always do. Along the way, there will be a weeding out of financial excesses, bad debt and weak business models. This is the unpleasant, but necessary, pruning that creates room for investor confidence to return and for sustainable market growth to emerge.

Lessons learned from the Great Financial Crisis: Act fast. Be bold.

The government response globally has been both material and rapid – a lesson learned from Great Financial Crisis (GFC) in 2008/2009 when policymakers (all of them treading unfamiliar territory) were conservative and hesitant in their efforts, ultimately delaying and prolonging the economic recovery. Today, governments around the world are using every tool they have, many of them developed and battle-tested during the GFC, to support their economies during this crisis. They are acting quickly and boldly, and that's good.

The programs and relief strategies announced at various levels of federal and regional government will differ in size, scope, implementation and targets, but virtually all measures are being put in place to restore confidence in wide swaths of the financial market. They are designed to help households and businesses to have access to enough capital, liquidity and resources to survive the worst part of the crisis. Whether it's with a direct injection of funds, or the promise to keep liquidity flowing, these are necessary backstops to keep markets functioning. They are as much about supporting business, consumer and investor confidence, as they are about generating near-term economic benefit.

Foxholes and financial crisis

These policy initiatives will not unilaterally avert a recession, but they are very likely to prevent a much more serious economic downturn, which inevitably leads to a shorter road to recovery. During the GFC, then-Chairman of the U.S. Federal Reserve Ben Bernanke, stated when justifying government intervention in the private sector, ***'there are no atheists in foxholes and no ideologues in financial crisis'.*** In other words, whether you believe in government intervention in the capital markets or not, sometimes you've just got to do what you've got to do.

We believe more dramatic market volatility is likely. Times like these help to remind investors what it means to take risk, and what it means to be a long-term investor. We see testing out short-term market timing hunches as more akin to gambling than investing!

Only one question matters now: How long will it last?

The longer the global health crisis drags out, the greater its economic disruption. No matter how many economic models, market scenarios, and government relief packages there are, their ultimate success depends on how quickly the spread of the virus can be contained, and thus when everyday life and commerce can resume – and this answer remains unknown. So let's all do our part in heeding the advice of medical professionals, supporting those on the front-lines and those working behind the scenes however possible. ***We are all in this together, and together, we will 'flatten the curve'!***

Christine Wellenreiter, CM, ICD.D
VP Marketing and Communications, has more than 20 years of investment industry experience and has been writing the monthly Market Matters for over 15 years.