Wealth Management
Dominion Securities

Portfolio Advisor

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Market commentary

Equities

The COVID-19 pandemic has created a tremendous amount of uncertainly across global equity markets. Investors are struggling to assess the full impact of the severely reduced economic activity created by population lockdowns, self-isolation and social distancing measures worldwide. As economic indicators and first-quarter corporate earnings begin to roll in over the next few months they will make for grim reading despite the colossal fiscal and monetary efforts of governments and central banks. We expect market swings – both up and down – to remain the norm in the short term, as investors digest clues that the health care crisis is being alleviated and they determine the depth of the damage from COVID-19.

While we believe a recession will be temporary, and that the global economy and corporate earnings have the potential to begin recovering later in the year, there are numerous factors that could disrupt the eventual course of the pandemic and economy. To address this risk, we have moved down our recommended global equity exposure.

Fixed income

Global-benchmark U.S. Treasury bonds saw enormous swings in their yields over the course of March. But with the U.S. Federal Reserve stepping in to support markets – cutting their bank lending rates, buying up market assets to inject cash (i.e., liquidity) into the market – we think the U.S. Treasury market's volatility will subside. Though plenty of public health concerns and economic risks remain in the months ahead, current market conditions offer attractive valuations across a number of fixed income sectors when considered against their risks, with current valuations largely unseen for at least a decade.

We are maintaining our present portfolio weighting in global fixed income, as global yields remain historically low, and we think they will steady around current levels. With markets already priced for a temporary recession, we are prudently increasing our holdings of high-yield corporate and credit debt.

To learn more, please ask us for the latest issue of *Global Insight*.

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And then along came a black swan ...

After more than a decade of delivering phenomenal returns to investors, global equity indices reached their zeniths in the latter part of February.

Economists had already begun to debate the timing of the natural end of the business cycle – itself also stretching back through the prior 10 years – and market pundits worried that the longest bull market in history was on its last legs. Then a true "black swan" event – the COVID-19 pandemic – overtook the world. But despite the cause of the market's woes being so different, over the long term, the market's response – and recovery – will likely not be.

It's always darkest before the dawn

A black swan event is an unforeseen occurrence that has a substantial and meaningful impact. In short, it is a shocking surprise with often world-changing consequences, like the COVID-19 pandemic. It caught the world completely by surprise, and sideswiped the global economy and investment markets along with it. In response to the anticipated economic impact of physical distancing and massive shutdowns of major economies around the world, equity markets plunged and bond yields collapsed. This drove short-term interest rates to record lows, and government and high-grade corporate debt prices to record highs (bond yields have an inverse relationship to bond prices – when yields fall, prices rise, and vice versa).

Much of the market upheaval was generated by the uncertainty of the pandemic's economic impact. Humans dislike information vacuums, and tend to fill a void with the worst possible scenarios. But with governments and central banks – not to mention companies, individuals and charitable organizations – stepping in quickly and forcefully to help individuals and businesses, some of the market angst was assuaged. This has helped to stabilize and even buoy stock values after a relatively short time.

Patience pays

Post-crisis market performance of the S&P 500 Index

10 worst quarters (since 1950)	Related event	Performance	Subsequent returns: 1 year	3 years	5 years
Q3 1974	Oil embargo / stagflation	-25.2%	38%	73%	118%
Q4 1987	Black Monday	-22.5%	17%	49%	109%
Q4 2008	Financial Crisis	-21.9%	26%	49%	128%
Q2 1962	Cuban Missile Crisis	-20.6%	31%	69%	95%
Q2 1970	Vietnam War	-18.0%	42%	57%	56%
Q3 2002	Tech Wreck	-17.3%	24%	59%	105%
Q3 2001	Elevated global tensions	-14.7%	-20%	13%	40%
Q3 2011	Eurozone debt crisis	-13.9%	30%	86%	113%
Q3 1990	Savings and loan crisis	-13.8%	31%	64%	121%
Q4 2018	U.S.-China Trade War	-13.5%	31%	?	?
	Average		25%	58%	98%
Q1 2020	COVID-19 pandemic	-19.6%	?	?	?

Source: RBC Global Asset Management. Returns are in U.S. dollars, include dividends, and are compound annual rates of return for 3- and 5-year returns. An investment cannot be made directly into an index. The table does not include transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results.

The waiting is the hardest part

As most long-term investors know through experience, markets do go through periods of upheaval that lead to stretches of volatility, sometimes even extreme volatility. However, as the chart here shows, after such events pass – and they always do within a few months or quarters – investors have historically enjoyed substantial returns in the ensuring years.

This too shall pass

Previous major market events have been caused by economic, financial or social conflagrations, like wars or political crises. This black swan event was caused by a health crisis (and exacerbated by a dispute between Russia and Saudi Arabia over oil production that has led to collapsing oil prices). As a result, its length and impact is difficult to gauge, and its resolution still remains murky. Waiting out the uncertainty – and the consequent volatility – is always the difficult part for an investor. But what is becoming clearer by the day is that this too shall pass, and that patience, once again, will reward investors over time.

Finding clarity in crisis

Setting life and financial goals is important any time. But in deeply troubling and challenging times like we face today, we are often more focused than ever on what matters to us – and what doesn't, too. While you are isolated at home, consider revisiting your goals – and maybe setting some new ones – together with your family.

The game of (your) life

To help reduce the spread of COVID-19, millions of us have been cooped up at home for weeks, often with little to do or anywhere to go. Many of us are finding constructive activities to keep ourselves busy, and even developing new hobbies and abilities. Some of us may have even dusted off their old board games, like The Game of Life, finding new fun in old pastimes.

But if you are running short of things to do during the Great Lockdown – and let's face it, there's only so much on Netflix that's worth watching – there's a great activity to consider that is critically important. And it will help ensure that you are set up for success long after the pandemic has come and gone. That activity is establishing what matters to you and, from there, setting (or re-setting) your life and financial goals.

Let's get started!

Here are five questions you can ask yourself (or along with your spouse/partner/family) to help establish what matters to you:

1. **What are the principles and values that guide my life?** (e.g., caring for the environment, commitment to family, giving back to the community, creating wealth, caring for others)
2. **What matters most to me?** (e.g., family, happiness, financial freedom, career building or growing a business)
3. **Over the next year to three years, what are my key priorities?** (e.g., seeing my kids off to the next stage of their lives, saving for retirement, buying a cottage)
4. **Longer term, what are my priorities?** (e.g., physical/mental health, transitioning to retirement, selling or passing my business to my children)
5. **What is my legacy going to be, and how will I ensure that it reflects my wishes and values?** (e.g., establishing a charitable trust, passing my wealth to my children/family, donating funds to an institution or cause)

Establishing what matters to you infuses your goals with meaning

Now that you have taken the time to articulate your principles and values, establish what matters to you and consider what your priorities are in the near and long term, as well as your legacy, you are able to establish your goals. When your goals align with what fundamentally matters to you, you are far more likely to stay on a plan that helps you achieve them.

We can help – talk to us today about establishing your goals and setting in place a plan that will help you achieve them. You don't even need to leave the safety of your home, as we can do it all remotely.

Contact Nicky in our office at 905.312.2904 to set up a time to discuss your goals further.

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