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The Krygier Report

An exclusive newsletter from Mark J. Krygier, Vice President & Portfolio Manager | April 2020 www.krygierwealthmanagement.ca

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Hope springs eternal!

Whew…need I say more? The month of March 2020 is finally over, but it will not be forgotten. Fears of coronavirus or Covid-19 morphed, from a "made-in-China" problem to a global pandemic, resulting in the physical closure of almost everything, everywhere. Most, if not every country globally felt its impact, with the cancellation of air transportation, the closing of borders to noncitizens, and the disruption to daily living by the closure of businesses, schools, government offices and shopping malls. Fears about sickness turned to fears about potential shortages of basic consumer staples, and shoppers at the Walmarts, Costcos, etc. experienced excessively long-line-ups as people desperately tried to stock their homes. "Isolationism" and "social distancing" became the "new-normal" and "stay-at-home" the new physical reality – in some instances even enforced by police departments, as governments attempt to "flatten the curve" of the virus spread, to try and contain its evil impact on their respective populaces.

In March, investors experienced firsthand the worst week on record in the markets since 1929, the single largest one-day point drop on the Dow Jones Industrial Average (the "Dow") in history, followed by the single largest one-day gain and the three best consecutive days of gains since 1933. Volatility in the markets, as measured by the "VIX" index, hit all-time highs, as the U.S. dollar surged, oil prices plummeted, and even "safe" stocks like banks and utilities lost on paper a significant amount of capital in an extraordinarily short period of time. This was an out of control express freight train and there was no place to hide. Even after almost 24 years of managing money for individuals, it is always challenging being at the epicentre of extreme human emotion. Fear of death and financial ruin – it doesn't get much bigger than that – all of which was compounded by a literal mass bombardment by media coverage of the issue.

Will the virus continue to wreak havoc into the future? What kind of future can we expect? Will the economies of the world collapse under the weight of yet more debt generated by governments desperate to hold their countries together in this time of crisis and avoid complete financial ruin? Will global health care systems collapse from patient overload and ultimately health-care provider burn-out? How many people will die from the virus? Will our currencies be worth anything in the future or are we going to leave these "paper" systems in favour of something else with more "value"? Such concerns have us all on edge, so I thought it would be appropriate to revisit the mechanics of the capital markets. What can we expect from our investments in such a volatile environment? Should we have sold everything? Is it too late to do so? Is "hold for the long-term" just a catchy marketing slogan?

Firstly, it is crucial to continously remind ourselves that capital markets are a "leading" indicator of the economy, not a "lagging" one. Unemployment figures, which will obviously get significantly worse for the next few months, are a "lagging" indicator, as they show us only "after the fact" how many people were out of work during a particular time period. "Earnings" reports from corporations are also only produced at the end of a particular time period, reflecting how a company's earnings grew or shrunk during that past timeframe. In contrast, stock markets are constantly changing, as investors try to properly price securities today, based on their own expectations for a company's earnings to get either better or worse at some point in the future. How many times have we heard a company report an increase in earnings of 20%, only to see the stock fall 10% on the news, or the opposite, a company announcing a drop in revenue of 10%, and the stock jumps 15% on the announcement! How can that be? Is this investment business just a "crap shoot" better suited for Vegas than for long-term investors? When we recognize that future expectations are being priced in today, all of this makes sense. When markets melt down dramatically as they did in March, and then right afterwards they have the single largest percentage gain in a day – ever – it is a reflection of the repricing of expectations. From the initial fears of Armageddon, to the glimmer of hope for a halt to this illness, the market can turn on a dime when emotions run high. However, like all highly emotional states, these periods of high drama are never enduring.

The challenge for investors is to stay resolute in the face of high emotion, and to remember that the economic strength of one's investments has always been the best determinate of the long-term "returns" one can expect. Investors who found the recent "rollercoaster' ride of the highs and the lows to be more volatility than they could tolerate, in their search for "good" returns, have to remember this is not over yet, and there will be more "bumps and grinds" ahead of us. It may be a worthwhile exercise to review one's investment agenda to see if one needs to make adjustments going forward. Do you hold enough liquidity to weather a financial storm? If not, even if the timing is not great, just do it!

Bottom line

Spring brings hope and renewal, yet the impact of the coronavirus has not been fully felt. Governments have already stepped in to do what they do best – to be the bank of last resort and to guarantee liquidity in the face of closure – now, as investors, we have to think about a time when the virus will be contained, and to ask ourselves if we are properly positioned for the rebound. If we wait until employment numbers or corporate earnings have improved, the markets will have already priced in that "better tomorrow". Plan for tomorrow and enjoy each day!

Global benchmarks
As at March 31, 2020 (Canadian $ Returns – excepted where noted)

Asset class	YTD	1 year	3 years
S&P/TSX Composite T/R (Canada)	-20.9%	-14.2%	-1.9%
S&P 500 TR - US$	-19.6%	-7.0%	5.1%
NASDAQ Composite - US$	-14.2%	-0.4%	9.2%
MSCI Europe Index Price Return	-18.6%	-13.6%	-3.4%
MSCI Emerging Markets	-17.6%	-15.5%	-2.2%
China S.E Shanghai A Price Return	-4.0%	-11.1%	-4.3%
MSCI World Index Price Return	-15.0%	-7.4%	1.8%

Asset class	YTD	1 year	3 years
30-year U.S. T-Bond - US$	27.9%	41.6%	15.9%
10-year U.S. T-Bond - US$	12.7%	19.3%	7.9%
Long GOC Bond (2048)	10.5%	15.1%	9.5%
10-year GOC Bond	9.2%	9.9%	4.9%
5-year GOC Bond	5.8%	6.1%	2.8%
3-month CDN T-bill	0.6%	1.9%	1.3%
US$/CDN$ (1.4059)	8.3%	5.4%	1.8%

Source: RBC Capital Markets Quantitative Research

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