The Krygier Report

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

Mark J. Krygier
Vice-President, Portfolio Manager & Wealth Advisor
416-733-5750
mark.krygier@rbc.com

Avital Pearlston
Associate Wealth Advisor
416-733-5751
avital.pearlston@rbc.com

Irene Hama
Associate
416-733-5752
irene.hama@rbc.com

Jessica Y. Liang
Associate
416-733-5749
jessica.liang@rbc.com

Remotely familiar!

The global populace continues to battle coronavirus and the battle lines are getting tightly drawn. On the one hand, there continues to be a practical need to keep vigilant about preventing the spread of the virus and treating those already infected by it, hence the continued recommendations by the medical community to "stay at home". On the other hand, notwithstanding the obvious human tragedy of those who are ill or who have unfortunately passed away as a result of the virus, there is the financial devastation on the broader populace which has many up in arms, in some cases violently protesting against this interference in their ability to earn a living. Some suggest the damage wrought by the forced "closure" may be more long-lasting and more broadly felt than the virus itself, and whether one agrees with that or not it is easy to see why this is an ethical dilemma not easily resolved. In the meantime, like so many others, my team and I are working "remotely" from our respective homes, trying to maintain a semblance of normal work life in the face of a very not-normal world around us. The question many are beginning to ask is how much of this dramatic change in our daily patterns will continue after the virus is contained? How many of us will want to work from home and save the hassle of the commute, the cost involved in driving, parking, and wearing office garb? How many employers will see the financial virtue of stay-at-home employees, which may allow them to reduce their overhead by cutting back on some of the highly-priced office space they maintain? How many small entrepreneurs will be forced into bankruptcy through forced closures of their business? The potential ramifications are endless and a bit mind-numbing.

Investors trying to look beyond the current environment need to filter through the media barrage and the political verbiage to try and figure out – what will be the "new normal?" Will everything and everyone return to their previous routines? I tend to believe that this dramatic shock to the economy and disruption to people's lives has to have some lasting impact, yet in certain areas it seems logical that if anything, pent-up demand will generate a lot of economic activity in the quarters to come. Providers of "basics" – food and toiletries – have seen huge short-term demand. Will people continue to overstock their homes with cans of tuna, soup and toilet paper going forward? Probably not. Will they continue the frenetic pace of streaming movies, playing on-line games, etc. when there isn't as much home-time? Unlikely. However, it seems logical that many other behaviors may be impacted in longer-lasting ways.

Until this crisis, despite their obvious success to date, how many people had still not yet used Amazon or other on-line services to do their purchasing? Will they give up that convenience so easily, once they return to their daily (and busier) routines? Will traditional retailers, already reeling from on-line competition and over-indebted consumers, be able to woo back the masses into their physical locations? If anything, this crisis may have simply cemented and brought forward the "digitization" of how we shop and manage our time. How many industrial conglomerates have already started to question from where they source their supply chains, so that being the "lowest cost" producer of widgets may no longer be the only consideration by management in determining the best means of operating their own businesses. Will real estate markets in formerly "hot" areas like Toronto and Vancouver return to their peak prices, in the face of rising unemployment, over-indebted consumers, rising barriers to foreign buyers, and increasing threats to the local economy? I have my doubts. Yet, pent-up demand, for instance, in the area of elective medical procedures, such as hip and knee replacements, non-critical heart procedures, etc., as well as a demand for so many services we typically utilize like dentists, hairdressers and restaurants, may drive a massive spending spree – for those fortunate enough to retain the wherewithal to spend and with those services still in business.

It is clear that governments and central banks have reacted strongly to this pandemic, and at a much faster pace, than they did in the face of the 2008 subprime crisis. Perhaps the fear of another "Lehman Brothers" moment was the motivating factor for this reaction. Economist Lacy Hunt of Hoisington Investment Management notes that the actions taken by the U.S. Federal Reserve (the "Fed") in March were "totally unprecedented." The motivation in doing so is clear - the hope that government fiscal and monetary action will stimulate real economic activity and drive inflation rates higher. Hunt's conclusion, however, is that subpar growth and a deflationary recession is the more likely result.

Bottom line

Markets have once again climbed out from the depths of despair, as news about pandemic containment strengthens. Individuals, companies and governments all anxiously anticipate a return to "normal", but the "new normal" will likely not completely resemble the old one. While many activities will undoubtedly return to normal, others will change, and investors have to remain vigilant for opportunities and dangers in this rapidly changing environment. At *Krygier Wealth Management*, we are strategizing for the future by being patient as well as being mindful as to what new opportunities are being created, and trying to understand how to benefit from them.

Global benchmarks
As at April 30, 2020 (Canadian $ Returns – excepted where noted)

Asset class	YTD	1 year	3 years
S&P/TSX Composite T/R (Canada)	-12.4%	-7.9%	1.3%
S&P 500 TR - US$	-9.3%	0.9%	9.0%
NASDAQ Composite - US$	-0.9%	9.8%	13.7%
MSCI Europe Index Price Return	-14.7%	-12.4%	-3.7%
MSCI Emerging Markets	-10.9%	-10.7%	-1.2%
China S.E Shanghai A Price Return	-0.7%	-7.7%	-3.3%
MSCI World Index Price Return	-6.6%	-1.9%	3.7%

Asset class	YTD	1 year	3 years
30-year U.S. T-Bond - US$	29.2%	46.0%	15.8%
10-year U.S. T-Bond - US$	13.1%	20.5%	7.6%
Long GOC Bond (2048)	15.3%	22.4%	9.9%
10-year GOC Bond	11.5%	12.9%	5.0%
5-year GOC Bond	6.8%	7.1%	2.9%
3-month CDN T-bill	0.7%	1.8%	1.3%
US$/CDN$ (1.3941)	7.4%	4.1%	0.7%

Source: RBC Capital Markets Quantitative Research

For past copies of ***The Krygier Report*** visit
www.krygierwealthmanagement.ca.

RBC Wealth Management
Dominion Securities