The PFP Quarterly

Wealth Management
Dominion Securities

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Quarterly Update

The world changes fast, probably faster than we ever want it to. Even though we are coming off one of the strongest equity years in history, that seems like an afterthought with everything that is going on in the world today. While this may be a scary time, governments and citizens are all doing their part to combat this global crisis. It can be quite difficult to see the light at the end of the tunnel, but the one point we are very confident in is that there is always a light at the end of the tunnel. How long it takes to get to that point is unknown, but history has shown us that time and time again, we do come out the other side, and oftentimes, stronger.

Staying the course

Every year throughout history, there has been a reason to not stay invested. Over the last 30 years, there have been three recessions, an Asian currency crisis, a European debt crisis, an oil price collapse and Brexit, along with several other global issues. While in the moment, these times are often difficult to deal with, after a period of time, they just become history. Global markets and especially the U.S. stock market have been resilient throughout history. Stocks routinely recover from short-term crisis events to move higher over longer periods. Our focus is to stay disciplined and committed to your long-term investment plan and avoid an emotional rollercoaster that may derail your plan. As investors, we have to accept that volatility will always return, but taking a long-term perspective can help you stay the course when markets move from crisis to opportunity and back again. As said by the French writer Antoine de Saint-Exupery, “a goal without a plan is just a wish.”

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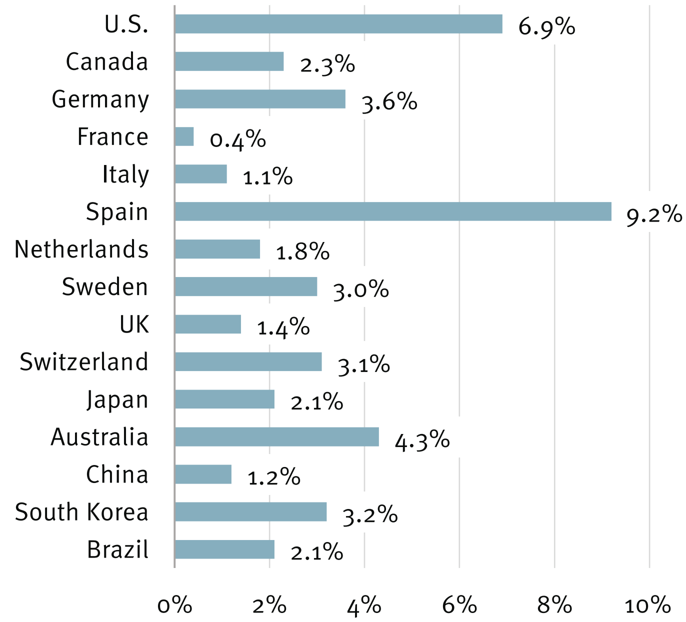
Throwing the kitchen sink

It is safe to say that governments around the world have not thrown the kitchen sink, but rather, the whole kitchen at the problem. We have seen stimulus packages put in place by numerous governments in the last month and a half that were not done in the midst of the financial crisis of 2008. The massive fiscal aid and stimulus packages of global governments are designed to put a floor under economies during this crisis by keeping consumers and businesses financially viable. In order to combat the fact that mostly every economy will be stalled due to the lack of economic activity, central banks are doing everything in their power to lessen the blow. As seen in figure 1, you can see the respective countries and their fiscal stimulus packages as a percentage of their GDP and the lengths each of them are willing to go to.

Aside from the fiscal stimulus packages, we have seen a number of countries that have either continued or started to implement quantitative easing. In the United States, due to the illiquidity of many government and corporate bonds, the Federal Reserve has $750 billion earmarked for bond purchases, and unexpectedly announced that it will expand beyond investment-grade bonds and into high-yield bonds and related exchange-traded funds (ETFs). This level of support is only the tip of the iceberg. If the central bank should need to utilize the full amount, the war chest could expand beyond $5 trillion. Needless to say, central banks are willing to do everything in their power to find ways to support the economy, consumers and corporations.

Global COVID-19 aid and stimulus packages thus far

Government outlay as a % of GDP



Note: A new relief package that is still in the works is included in estimates for Japan. Fiscal stimulus only includes spending and tax cuts by governments, and does not include relief measures such as tax and fee deferral, loans, and loan guarantees.

Source - RBC Global Asset Management; data as of 3/27/20

What are we doing

As we have communicated in the last few quarterly notes, we had been reducing equity in the belief that valuations were getting too high, as well as the appearance of other recessionary indicators. We would be fooling ourselves if we said that we knew that a world pandemic was going to happen, because to be frank, no one did. Thankfully, we were able to capitalize on the strength of the first quarter of 2019 and begin to strategically reduce our equity exposure and re-distribute it to cash and fixed income during the latter part of 2019. Coming into 2020 being underweight in equity and overweight in cash and fixed income has allowed us to soften the downside and put us in a good spot to take advantage of this opportunity. As we progress through this unprecedented situation, we will remain objective and iterative in our strategy. While we do not believe we are out of woods from a market, economic and social perspective, we do see an opportunity to further enhance our cash flow and portfolio from a risk/reward stance. Our strategy is to rebalance our equity allocation back to our target weighting over the coming weeks and months in a measured way.

Thank you for your continued trust and support.

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