It may be difficult to focus on the outlook for financial markets when the welfare of our clients, family, and friends is top of mind. Nevertheless, putting events that affect the markets into perspective is an important responsibility of ours – in good times and bad. As a result, we wanted to share our key thoughts on the current situation and how we intend to approach the days, weeks and months to come.

Volatility
We are currently experiencing some of the sharpest moves – both up and down – in stock prices that we have witnessed in some time. It feels particularly extreme because of where we just came from. It has only been a year or so since we left behind a decade of unusual calm in the markets. The emergence of a pandemic has been the unforeseen catalyst that has driven this bout of heightened volatility. This has been exacerbated by a combination of the velocity of news (particularly via social media), fear and panic, illiquidity in the bond market, and the broad adoption of technology-driven trading.

Coronavirus
The spread of the coronavirus is the key issue. The only proven way to slow infection rates is through social isolation and quarantine. It's been successful in China and South Korea to some extent, and we are awaiting results in Italy, which has undertaken similar action. Elsewhere, other countries have escalated their containment efforts. It will take at least a few weeks, if not longer, to gauge whether these actions are enough to slow the rate of infection. Ultimately, governments have to sacrifice their economies to some extent for the sake of society's welfare.

Energy
Another factor has been the rapid decline in oil prices as a result of a standoff between two of the world's largest oil producers: Saudi Arabia and Russia. While it's hard to predict an outcome given its political nature, we expect this could last for a period of months, if not longer. But low oil prices hurt both countries and there is likely some pain threshold, measured in months, at which point negotiations may renew. The implications are important for Canada as any extended period of low oil prices will hurt our economy and our market, both of which depend on the industry. Furthermore, the bond market is watching this closely as investors have justifiably grown concerned about the ability of some companies to repay their loans should prices remain depressed for an extended period.

Governments and central banks
Governments and central banks have stepped up their efforts considerably in recent days. While more may be needed, it is clear that governments are taking more aggressive measures to limit the spread of the virus. Moreover, many have or are expected to announce significant fiscal measures – from emergency loans, to tax relief, to direct payments – to help alleviate the pressures that consumers and businesses will face over the weeks and months to come. Meanwhile, central banks have aggressively lowered interest rates but more importantly have undertaken a variety of measures, including coordinated policies, to improve liquidity conditions and ensure that businesses have proper access to credit should they need to borrow money.

Implications
Investors will need to prepare themselves for economic data that will deteriorate markedly in the weeks and months to come. One needs to only look to China to appreciate the severity of the weakness – readings for industrial production and retail sales fell substantially during its period of lockdown. But the degree of the fall in stock and corporate bond markets suggests markets are already reflecting high odds of a recession. The important question now is whether the measures that have been taken – and may yet be taken – by governments and central banks are meaningful enough to limit the impact to a period

of months and a mild recession versus something that extends well into the second half of the year and is deeper in nature.

In the near term, we expect these large swings in prices to continue. In our experience, basing investment decisions on extreme scenarios and trying to make large portfolio shifts in today's environment of big price swings is very challenging. It may be too focused on the short term and may do more harm than good given the increasing intervention by policymakers designed to stabilize the economy and eventually reignite economic growth. Past experience reminds us that market declines often end in a climactic fashion. But no one has the ability to accurately predict exactly when that will be.

Rather, we are committed to remain disciplined in our investment approach. This means: focusing on your long-term objectives and ensuring your portfolio is properly structured to deliver your required long-term outcomes. To accomplish this, a few measures we may undertake in the future include:

- Rebalancing of positions across your portfolio
- Harvesting tax losses where appropriate
- Undertaking due diligence and reviewing all holdings to ensure quality
- Opportunistically adding to existing or new positions that meet our criteria should the prices become excessively cheap

We believe these measures will help us ensure we continue to have the most conviction in your portfolio and its ability to help you achieve your objectives over time.

Should you have any questions or concerns, please feel free to reach out.