Balancing on the middle of the Teeter-Totter

Regular readers will remember my April 6th missive in which I likened the financial markets (and investors) to *someone standing on a Teeter Totter,* and depending on the news of the week would move and tilt it in favor of the **bad side** (Covid-19 with its human and economic toll) or the **good side** (improving case numbers and economic data or encouraging drug developments). In all modesty, I must say this analogy is playing out exactly as I wrote. For those who missed it, the link is on our website is here: click

After four weeks of rocket-like gains off the March 23rd lows, it was not unexpected that some 'digestion' was warranted, and the major US indices were basically unchanged for the week. Performance would have been better but for Friday's 2% plus declines. The reasons were a number of major companies withdrawing future earnings guidance, President Trump threatening new tariffs against China as "punishment" for the pandemic and, the most boggling of all, Tesla's CEO Elon Musk ***tweeting*** that the shares were too high – not surprising that the stock fell some 10% on Friday adding to Thursday's 9% loss (if that doesn't get him in further trouble with the SEC then nothing will). Our TSX, however, was up 1.4% boosted by a bounce back in energy prices and nice gains in the Financial and Real-Estate sectors. Global markets did their best but, as they had been lagging North America in performance since the March lows, some catch up was not unexpected.

I expect a **shaky start this week** as Friday's tariff threats spill over to Asian markets and the US April unemployment numbers are released. But this may will be balanced by more states opening up their economies and, hopefully, more good news on the Covid-19 infection rate statistics.

What was really notable last week was the huge amount of debt being raised by corporations, another record month in April of $285 billion, following on March's $260 billion. So in the last six weeks, over $500 billion of US investment grade bonds have come to market, this represents nearly half of the volume for the entire year in 2019.

Boeing led the pack raising **$25 billion**, and investors gobbled up the 6% yield, despite the 40 year term. Companies with better near-term fundamentals also took advantage of the record low rates. For example, Coca Cola did a 10-year deal with a coupon of 1.60%, less than half the cost of the 10-year bond they issued one month ago (3.45%). Even our own **Loblaw's** got into the act, raising $350 million in a 10-year deal with a 2.284% coupon. And, again just to illustrate the fall in rates, this was almost half the yield that was offered on Loblaw's 4-year bonds a few weeks ago.

Obviously, investors were reassured by the US Fed's commitment to maintain accommodative policies for as long as needed, and their willingness to buy corporate (even JUNK quality) bonds if needed to maintain financial stability and liquidity.

But the best example of how crazy things have become was the European Central Bank's (ECB) introducing a new program that provides European banks with a *no strings attached*, short-term loan at negative interest rates, -0.25%. YES, dear reader, that does mean the ECB will actually pay the bank to borrow . *Wouldn't we all like to get a deal like that for our own personal finances.*