♫♫Clouds so swift Rain won't lift
Gate won't close Railings froze
Get your mind off wintertime
You ain't goin' nowhere♫♫

I am sure you are all watching the news so I propose not to delve too much on stock markets, except to note that on Friday stocks were steady **until** New York Govenor Andrew Cuomo ordered the state's entire workforce to stay home in an attempt to cope with the coronavirus, following California's statewide "stay at home" order issued the night before. The end result was a sharp selloff into Friday's close that left both the Dow and S&P 500 more than 4% lower on the day.

As I have commented before the global shutdown will lead to an immense drop in 2nd quarter and most likely 3rd quarter economc growth and company profits. For the USA, I have seen forecasts anywhere from minus 10% to as much as -24% retraction. Canada, with our over exposure to energy, should expect worse numbers. **At the same time the world-wide scale of government financial stimulus continues to escalate, so once the "all clear" sounds, I am optimistic for a rapid revenue rebound in most industries.**

You will have received the second edition of Sandra's ***distraction avenues***, a follow on to her previous suggestions. So as the " investment" side of the team, I thought that instead of dwelling on the now, I will provide three thoughts as to why the eventual stock market rebound may well be swift and large.

Balanced Portfolios: Many pension and mutual fund portfolios are required by mandate to maintain a fixed balance between fixed income (bonds) and equities – for example, 50-50 or 60-40 mix. The large and rapid decline in share prices has meant a potential rebalance of around 20% re-allocation of a portfolios value from bonds into stocks . Timing is unknown (most are monthly or quarterly) but ultimately this has to be done: so a potential source of significant buying at some point in the future. JP Morgan, when analysing the global value of 60:40 mutual funds, **estimates some $300 billion of stocks will need to be purchased. US *defined benefit plans* add up to another $400 billion. Similarly there are many other similar investment mandates world-wide.**

Systematic Quantitative Strategies: Simply put many of these work as one sector falls below a preset technical level (often volatility or momentum-based) a percentage of that sector must be sold and allocated to the stronger sector (e.g. bonds) and as more declines occur – more selling and more reallocation. JP Morgan estimates over $100 billion in the week of 23rd Feburary alone was fueled by these type of strategies. **When markets turn higher the reverse must happen**.

Technical Chart Patterns: We have reached percentage decline levels, on the S&P500 for example, where-in looking at prior bear markets, have proved to be close to the final low points. And also from a short term point of view, we are at levels where at least a significant short term up move has occurred. However data suggests it will be at least a few more weeks before we get a clearer picture if social distancing is working, that and no historic guidelines as to the final economic toll suggests <u>these levels may well be exceeded as analysts and investors struggle to evaluate how much the future economic shock is already "built into" share prices.</u>