

SHOW ME THE MONEY

So much has happened since I wrote to you just one short week ago on the **"Unknown Unknowns"**. Countries worldwide have rapidly escalated actions to curtail the spread of COVID-19. I sent out my **"The Machine Stops"** missive on Thursday in an attempt to encapsulate my view of the situation and potential outcomes from an economic and investment point of view.

I write this on Sunday morning as we all learn of further new efforts to contain the spread. Buzzwords seldom heard of just a few weeks ago are on everyone's lips: *Flatten the curve, Community spread versus travel spread and In an overabundance of caution.* **What the next steps are, is anyone's guess and a total lock-down on travel and any type of gathering is not out of the question.**

Absolutely the number of COVID-19 cases is going to grow rapidly and these drastic steps are certainly necessary. "Social Distancing" may well be Time Magazine's words of the year.

I must admit to a wry smile when I remembered that when China virtually shut down Wuhan and Hubei provinces overnight, news media pontificated that such a step could only be done in a communist controlled country and one could never get away with such unilateral and drastic action in our democratic western world. Well guess what

I don't have to tell you what the reaction of financial markets has been as we all struggle to try and quantify the final toll in human and economic terms. Despite late Friday's 9% plus gains in all the major North American indices, every financial instrument and commodity, yes even the recent safe havens of gold and government bonds, were negative last week. I don't believe I have ever witnessed that before. Only two instruments had a notable gain: Natural gas up 9% (but it has been falling all year so don't read anything into that) and what continues to be the designated safe haven, **the US dollar** which, compared to major global currencies, gained over 3%.

What the end of this week will bring I don't know, I do expect increasing share price volatility and more recession predictions, thus any short-term market forecasts are futile, so instead I thought I would share a few illustrations to follow on what I wrote last Monday which was:

- **"Governments worldwide will do whatever they can to re-stimulate any economic slowdown.** Already China and South Korea have announced stimulus measures.
- Interest rates will stay low and, in fact, could go close to ZERO in the USA and Canada, which means dividend paying, solid companies will be attractive investments, even if profits are impacted short-term"

So, some samples of that stimulus in action:

1. Our Bank of Canada made another surprise cut of half a percentage point – the second in just 10 days, plus announced measures to encourage banks to keep lending and to increase liquidity in key parts of the financial system amid extreme market volatility.
2. Our Bank regulator is reducing the capital buffer of Canadian banks to make more funds available and adjusting the mortgage stress test.
3. Our federal government is set to announce this week first steps for aggressive fiscal stimulus, and perhaps immediate direct financial help for these most affected.
4. The US declares a national emergency which will open up to \$50 billion in financial assistance.
5. The World Bank group is making available an initial package of up to \$12 billion in immediate support to assist countries coping with the health and economic impacts of the global outbreak.
6. The European Central Bank will pile an extra 120 billion euros (\$135 billion) of "quantitative easing" (QE) asset purchases this year on top of its present 20 billion per month.
7. The UK and France, along with almost all major European countries, have announced billion dollar stimulus efforts.
8. Closer to ground level, a number of major companies have said they will continue to pay workers, especial hourly ones, that are greatly impacted by workspace closures.
9. In Ontario, the Ford government is drafting measures to allow people to stay off work without a sick note and will provide appropriate financial assistance as needed.

And last night, the US Federal Reserve board cut its key lending rate by a full percentage point bringing the rate close to zero.

I am sure there is much, much more to come. The US has delayed the April tax filing date, perhaps Canada will follow suit and quite possibly a temporary reduction in the GST rate. None of this will do much good until the outbreak is under control and containment measures can be relaxed, so let's all pray that is weeks rather than months.

However, it is very encouraging that when this does occur, strong measures will be in place to speedily get economies back to some level of growth.