STOCK MARKETS : IT'S A TEETER TOTTER

Analyzing and determining an **appropriate investment strategy** is always a challenge, but perhaps never more daunting than today. Every week, not only do I have access to a wide range of written research, but also webcasts from a number of strategists and economists. I wanted to share with you my efforts to consolidate all the data as to the state of the investment world.

In a simplistic way, I view the current state of equity markets like a teeter-totter or a see-saw as we called them in Africa. **On one side** is the ongoing fallout from Covid19: the economic destruction from the global shutdown, the cost to businesses, individuals' and governments' coffers. **On the other side** is the potential positive effects of Central Banks globally doing everything possible through monetary and fiscal policy to alleviate the damage. Also on this side are drug companies and governments working together in a focused effort to find anti-viral drugs and vaccines to bring this pandemic under control as soon as possible.

And right in the middle of the see-saw are the financial markets, and depending on the news of the day, sliding to one side or the other. As the Pandemic spreads and governments and economists scrambled to readjust (in hindsight) way too rosy of forecasts on the duration of this outbreak, all the weight was on the COVID-19 side and equity markets fell precipitously. Concentrated central bank and government action to provide liquidity and financial aid in late March gave "weight" to the economic side and markets witnessed the biggest up-days since the 1930's.

So that brings us to last week. <u>The "COVID-19" side is not giving up.</u> The rate of infections, and sadly deaths, continues to increase and clear signs of social distancing working have yet to emerge. Estimates of the pandemic peak vary from weeks to months and so do the estimates of the effects on countries' economies. As an example, the range for the US second quarter GDP (Gross Domestic Product) varies from negative 15% on an annualized basis to a minus 35%, or more. As to when we will be back to some degree of normalcy, again the guesses (because that's what they are) also vary from a few months to sometime in 2021. Either way, it is obvious many industries are going to take much longer to recover than others.

<u>The week ended with the see-saw definitely "tilting" to the COVID-19, as the unemployment numbers were worse than the already pessimistic forecasts</u>. Add in more department stores shutting down and airlines publishing their weekly cash burn, e.g. Delta - $60 million a day, and the result was a negative week all around. **The only potential good news for Canada was the Arab – Russian deal to limit oil production. We shall see how that evolves.**

To offset the negative news, we do have some **encouraging facts** to potentially add "weight" to the other side:

1. **Abbot Laboratory's** new 5 minute coronavirus test and a plan to provide 50,000 kits a day that started April 1st.
2. The price action of the major US stock indices over the last week or two has led a number of market technicians to believe that **the worst of the decline is over**. While we may see volatility, and a "test" of the lows in the weeks ahead, by year-end equity markets should be higher – around 2,750 to 2,900 on the S&P 500 is a very likely target.
3. A just released RBC survey of 185 institutional investors found them **the most bullish on stocks** since the survey began in 1st QTR 2018

The 3 main reasons:

- **Share price valuations are attractive**, even after factoring in terrible short-term financial results
- The unprecedented **FED support** will continue for a long time – well into the recovery stage
- Belief that the economy, while the short-term hit is immense, will **bounce back relatively quickly**

Market timing? The survey indicated almost 60% believe **the S&P 500 will bottom in 2Q20, while 19% believe the low point has already been seen** (2,237 on March 23rd). And what will be the final low? The most popular choice is around 2,200 on the S&P 500, with the majority expecting it falls somewhere between 2,050 and 2,200. As I write, the index is at 2,480, or some 13% above the popular low point.

So to conclude: Over the next few weeks, the climbing infected numbers and fatality rate may result in days of tilting to the COVID-19 side. At the same time, unemployment numbers and other economic reports will also add their weight, and, as a result, there will be days of markets sliding down. Nevertheless, I firmly believe, as we go further into the 2nd quarter, evidence of curtailment of the spread will be a positive factor for stock markets. In addition, any signs of meaningful progress on anti-viral drug or vaccine development will result in a very meaningful tilt to the recovery side of the see-saw and stock markets will react very positively.