

THE UNKNOWN UNKNOWNNS

Less than 10 days ago, world stock markets were extending their 2019 winning year and many, including Canada's TSX, recording new all-time highs. Yes, there was this early January outbreak of a respiratory disease in China, yes it was spreading and people were dying from it, but the impact was largely shrugged off by investors, companies and governments. Then, as I wrote to you last week, it started to matter, and this week the new catalyst seemed to be an unexpected outbreak in Italy, in a city as far removed from China as one could imagine.

The result: a week that was full of unknowns: Would every country be infected? Can we contain the spread? Fatality rates? What about global travel? The effect on world economic growth? Is a recession imminent? Will the Olympics be cancelled? Extreme and dire forecasts emerged as companies withdrew financial guidance, economists pondered the long-term economic effect and health officials gave less than reassuring media presentations. **Investors were left to wonder what other unknowns might emerge in the weeks ahead.**

As for stock markets: lots of sellers and a dearth of buyers meant a week of double digit percentage declines everywhere. I will leave it to you to peruse the financial press for the gory details – not a pretty week.

Tip: do not look at your February statement, but instead do remember, despite the miserable start to 2020, on a 52 week basis portfolios will still be positive – it's only some paper profits that have been eroded.

So where do we go from here? I, like everyone else, do not know, however this is what I feel certain about:

- The world is acting together to understand and control this outbreak and ultimately solutions will be found.
- **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.
- **HISTORY** shows that out of the last 12 recent medical crises - 6 months later shares were higher 11 out of those 12 times.
- Going back to the 1960s when, for whatever reason, markets have experienced sharp and steep large percentage price drops, such as we witnessed over the last ten days, afterwards 75% – 80% of the time (depending how you do the math) share prices were higher within a year and **over 5 years higher 100% of the time.**
- The halt to travel, conferences, purchases etc. means there is a huge pent-up demand building and which ultimately will need to be met.

- We survived the 1987 Crash, 9/11 and the 2008 Financial Crisis. **People and economies are amazingly resilient.** We and the economic world will survive this.

The options governments have to tackle the economic fallout – with interest rates already so low – will have to consider other strategies. So, expect more price volatility over the short-term. Please remember that when a solution is found and the uncertainty is lifted, I have zero doubt that buyers will flood back into stocks and those investors who stayed the course will be rewarded.