

DZWGMG Update – May 1, 2020

This week, we provide another update on coronavirus trends and the plans to reopen economies. With April now in the rear view mirror, we also take a step back and look at how the markets recovered so sharply over the month. But, just as we did at the market lows in March, we remind investors to not let emotions get in the way after such a rebound. Rather, staying disciplined and sticking with the investment plan and process is just as important in recovery as it is during the depths of a crisis.

Coronavirus update

Progress. That sums up the covid-19 situation this week in the developed world. At a high level, the number of new case counts in countries such as Canada, the United States, and across Europe continues to trend lower. Even within the more troublesome provinces such as Quebec and Ontario, there have finally been signs of slowing new case counts. The same can be said across the border in the U.S., where most states have reported lower new daily case counts. The situation remains very worrisome in long-term care homes, particularly in the two aforementioned provinces, where the mortality rates have been higher given the more vulnerable population. In the emerging world, the story is also concerning. Russia, Brazil, India, and South Africa are just a few of the countries whose new daily case trends have been accelerating. The number of tests being conducted in these countries has been rising, contributing somewhat to these trends as more infected people are being discovered. We expect the trend to get worse before it hopefully stabilizes and improves as we have seen elsewhere. Aside from case trends, one issue that has potential to resurface in a negative way and bears watching going forward is geopolitical tension between the United States and China, as rhetoric around the source and handling of the virus appears to be escalating.

Economic reopening plans

We will focus on Canada as there have been notable developments this week. Our Prime Minister and the premiers released a list of common principles in each region for restarting the economy, including among other things: stability in number of hospitalizations and new cases, sufficient capacity to test, trace, and isolate an infected person, workplace protocols such as protective gear, and coordination of non-essential travel. There is an acknowledgement that each region faces unique circumstances and is likely to need different actions at different times. We have seen a few provinces begin to modestly lift restrictions, others are exploring industry specific guidelines, and some have unveiled phased approaches that are set to begin over the next week.

Market update

What a difference a month can make. The month of April was one of the best on record for global equity markets, standing in contrast to the month of March which was one of the worst. Equity markets are still down from their highs earlier this year, but the recent recovery has been nearly as staggering as the decline. How can this be? Unemployment has soared by millions and activity has basically ground to a halt. Yet, investors are looking beyond the dire economic headlines, believing that central banks and governments have bought enough time with significant aid for consumers, households, and businesses. The hope is that as economies begin to gradually reopen through May and June, we will see a sharp acceleration in economic and earnings growth as early as this summer.

Lessons learned and managing emotions

There are important lessons to be learned through this experience, some of which we have discussed in previous notes. First, markets are forward looking, and reflect the anticipation of what is expected to come, not what is necessarily happening right now. And second, when investor sentiment reaches an

extreme, both negative and positive, it may not take much to change the trend. More specifically, there's a point at which bad news no longer drives market prices lower. Moreover, news that is simply "less bad", not necessarily "good", can actually lead to positive price action as investors who have become accustomed to negativity have to shift their mindset.

Just as we did after the meaningful decline in March, we want to emphasize the need to manage emotions and stay disciplined and remain focused on long-term outcomes. While there is still work to be done, we are hopeful that we are past the peak of this health care crisis and can now transition our attention to the economic and earnings recovery. But, we don't expect it to be an easy path forward. We expect some ups and downs along the way as uncertainty is likely to be higher than normal, risks of additional outbreaks remain, and some measures of social distancing are still required. Furthermore, it remains difficult to forecast the behavioural changes that some may experience, holding us back from a complete return to normal.

In the meantime, we continue to stick with our investment process and plan as we manage your portfolio through this tumultuous time.

Should you have any questions or concerns, please feel free to reach out.