Wealth Matters – Summer 2020

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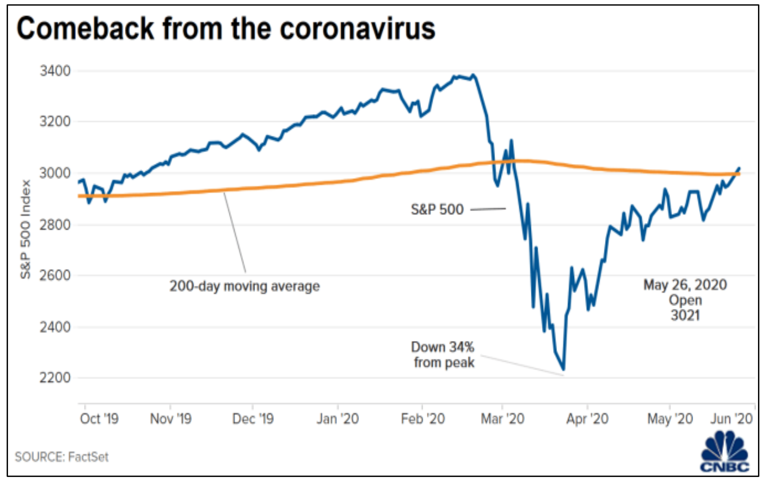


While new COVID-19 case counts in the US continue to surge, US equity markets continue to rebound from their lows of late March. While no major equity market has recovered all of its losses since the peak, the S&P500 benchmark for US Equities is down only -3% for the year at June 30th, and is trading above its 200-day average.

As often happens with bear markets, the declines are very rapid, but are usually followed soon after by a strong rebound. Global equity markets plunged with the fastest 30% drawdown in recorded history in the first quarter, followed by the largest 50-day advance in the second quarter. The S&P 500 has come roaring back in the three consecutive months of April 12.82%, May 4.76% and June 1.10%. The Nasdaq hit a record high on June 10 reflecting technology sector strength.

Each country and region has been affected differently based on the scale of the initial outbreaks, the population density, and containment measures adopted by each region. Those countries who have been most successful at early containment will now likely benefit from a faster resumption of employment and consumer spending – if they can keep it contained. Recent setbacks in Australia and elsewhere remind us how careful we must all be to limit outbreaks.

Many believe a sustained and complete economic recovery will depend on developing a vaccine. The World Health Organization reports that there are more than 100 vaccine applicants and 10 participating in clinical trials (WHO, May 27, 2020). Over the next couple of months results from these trials may be released. The trials could provide the markets with a sense of optimism or if they prove disappointing, investors may dread the prospect of a prolonged economic recovery and quite possibly testing a new low in the market. On the plus side, most countries are now better equipped to manage a second wave in terms of healthcare capacity and testing, and have learned enough about the virus to understand which control measures are most effective. So we look forward to cautious re-opening of our economies as the new normal.

Pandemic Survival

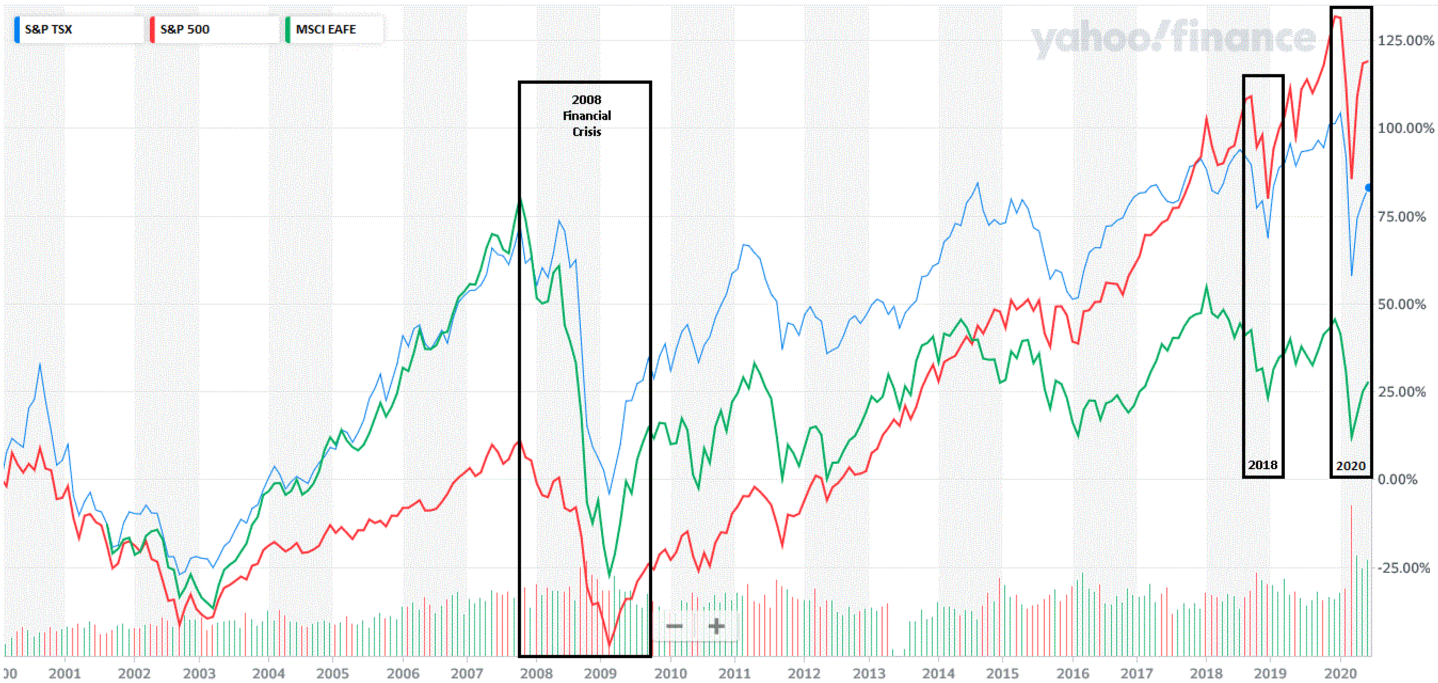
If you or someone you know are experiencing a loss of income, you may want to download our Pandemic Survival Guide: a one-page summary of options available in different circumstances to supplement income or defer payments, and a Budget Worksheet to help identify areas to reduce outflows until your inflows are able to increase again.
LINK: http://www.askpage.com/index_files/documents/Pandemic_Survival_Guide_2020Apr22.pdf

CRA and Canada websites outline current income support benefits available to individuals and business owners.
LINK: https://www.canada.ca/en/department-finance/economic-response-plan.html

We are here to help you assess your own situation and options, and welcome your call if you would like our help.

Investment Market Commentary

Almost every major equity benchmark posted a strong recovery this quarter after the bear market that ended the first quarter – not enough to recover all of the year's losses, but well above the bottom of the 2018 bear market. The graph below shows price levels of the Canadian TSX index in blue, US S&P500 in red, and MSCI EAFE international equity benchmark in green over the past 20 years, with a box around bear markets of 2008, 2018 and 2020 – through this lens, the 2020 drawdown was larger than 2018 but not nearly as severe as the 2008 bear market. Note: these series do not include the impact of reinvested dividends or currency exchange rate fluctuations. (The table below does.)



Index Total Returns in Canadian Dollars for Selected Periods (Guardian Capital)

Canadian Dollar ($US/$CA) 73.38c US	*4.10%*	*-4.69%*	*-3.97%*	*-1.70%*	*-1.62%*	*-1.15%*	*-1.75%*	*-2.48%*
Total Return in CAD$ to 2020 Jun 30	**3M**	**YTD**	**1Y**	**2Y**	**3Y**	**4Y**	**5Y**	**10Y**
Benchmark								
Fixed Income								
91-Day Treasury Bills	0.12%	0.77%	1.61%	1.60%	1.39%	1.15%	1.02%	0.98%
TMX Short Term Bond	2.15%	4.04%	4.47%	4.27%	2.95%	2.26%	2.12%	2.55%
TMX Universe Bond	5.87%	7.53%	7.88%	7.62%	5.28%	3.94%	4.20%	4.63%
Equities								
Canada: S&P/TSX Composite	16.97%	-7.47%	-2.17%	0.80%	3.91%	5.65%	4.45%	6.35%
USA: S&P 500 (LargeCap)	15.80%	1.69%	11.94%	10.84%	12.55%	13.79%	12.71%	16.88%
International: MSCI EAFE (Net)	10.35%	-6.98%	-1.21%	-0.38%	2.47%	6.59%	3.88%	8.41%
Benchmark Portfolios (Net of Expenses)								
Page Conservative Portfolio	8.23%	0.62%	2.83%	3,16%	3.19%	3.65%	2.98%	4.62%
Page Balanced Portfolio	11.65%	-2.32%	1.20%	1.72%	3.06%	4.54%	3.50%	5.75%
Page Growth Portfolio	14.75%	-5.15%	-0.51%	0.12%	2.70%	5.11%	3.73%	6.61%
www.askpage.com/index_files/documents/Portfolio_Benchmarks_2020Jun30.pdf								

All major equity benchmarks posted strong second-quarter recoveries, but still negative for the year. The Canadian benchmark is down almost -7.5% while the international MSCI EAFE index fared slightly better at -7%. The US S&P500 benchmark shows a year-to-date return of 1.69% in the table above, but that's in Canadian dollars (CAD). In US Dollars, the S&P is still down -3%, but since CAD weakened almost 5% since December, Canadian investors actually gained.

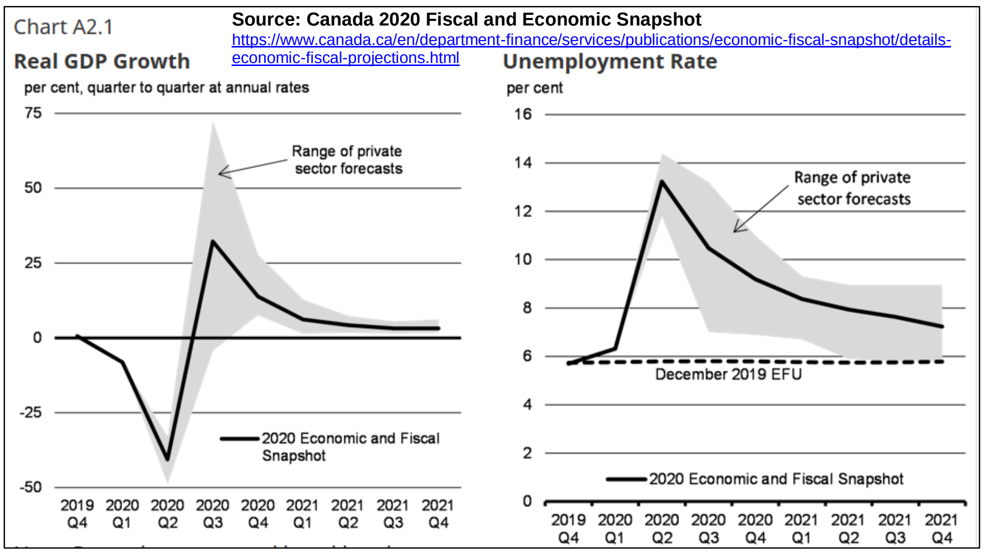
Fortunately, most of our clients don't hold all their investments in equities, and were rewarded with an offsetting gain in their bond portfolios: the TMX Universe Bond index is actually up over 7.5% for the year to June 30. The table above compares the returns of three model balanced portfolios, net of expenses.The more growth-oriented portfolio is down about 5% for the year, while the most conservative is actually up just over ½ %. You'd have to have been invested for 4 years or more for the higher equity allocation to have paid off, but the out-performance is consistent over longer periods.

Dealing with the most economic uncertainty in decades and head-spinning stretches of volatility in equity markets, many investors had rushed into money market funds pushing them to an incredible 5 trillion dollars since the start of the pandemic. In early April, a fund manager's survey showed institutional investors then held the most cash since the 9/11 terrorist attacks. While institutional investors have since deployed much of that cash to buy up cheap stocks as the market bottomed, there is a lot more money in the economy now than there was in January. Stimulus cheques were sent to millions as part of COVID-19 relief packages. Instead of spending, consumers may be saving that money in case of a long and drawn out recession. If that recession is shorter and less deep than feared, much of that cash on the sidelines could come back to support market valuations or push them to new highs.

As second-quarter GDP and unemployment data is released over the next weeks, we should expect to see some sobering statistics that reflect the impact of lockdowns. Fortunately, the path forward looks more optimistic. The phased reopening of the economy, recovery in the price of oil, and historic fiscal and monetary stimulus are laying the foundation for the upturn. A risk to the outlook is consumption. The Canadian consumer had underpinned the most recent expansion. Rising home values elevated household net worth but also indebtedness. Coupled with a high level of unemployment at mid-year, the cracks may be forming in this foundation.

The Canadian government released a Fiscal Snapshot in early July in place of a formal budget. The headline numbers show a deficit of over $300 billion in the current year due to pandemic relief measures, taking Canada's total debt to $1.2 trillion. These are staggering numbers, and the debt itself could be a drag on future growth. In context, the debt level is 'only' about 50% of GDP which is relatively healthy compared with other countries, and low bond interest rates will make it cheaper to service. The strategy is to let economic growth and inflation depreciate the debt as a fraction of GDP. Otherwise we'd have to tax our kids to repay it.

Source: Canada 2020 Fiscal and Economic Snapshot
https://www.canada.ca/en/department-finance/services/publications/economic-fiscal-snapshot/details-economic-fiscal-projections.html



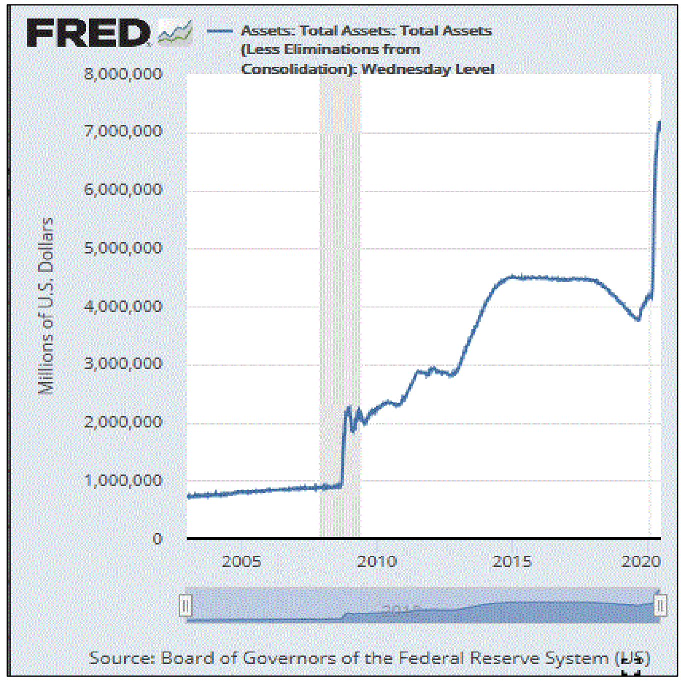
The snapshot includes projected unemployment and GDP growth through the end of 2021 based on a survey of 13 private-sector economists. The good news is that we've likely seen most of the pain, and pent-up consumer demand is expected to cause a surge in GDP in the third quarter, bringing 2020 full-year GDP down about -6.8% before resuming growth in 2021 at better rates than the past few years. This may also support asset market prices, though the real impacts of prolonged unemployment and consumer and business bankruptcies are yet to come. Those will probably show up in the data and headlines by the 4th quarter, and may depress market optimism when they do.

With equity valuations back to high multiples of earnings, and with fresh waves of outbreaks still occurring, we should expect high market volatility to continue. Investors should make a careful assessment of their portfolio risk budget, and maintain some safe assets for liquidity and to support expected withdrawal requirements.

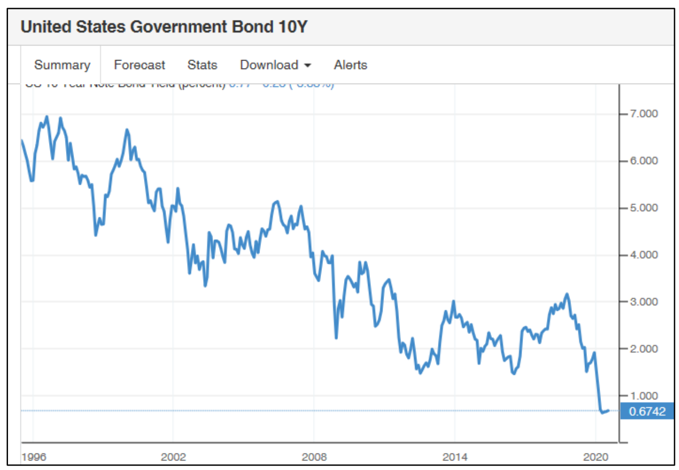
Please let us know if you would like to review your own portfolio against your objectives and risk tolerances.

Interest Rate Outlook

Just when we thought interest rates couldn't go any lower, they did! Already in 2018 many central banks around the world had their short term rates between 0 and 1% in the aftermath of the Global Financial Crisis. The US Federal Reserve Bank had been normalizing its rates in 2018 and selling off some of the bonds it had bought since 2008 in its Quantitative Easing program, until reversing course in 2019 amid the US-China trade war.



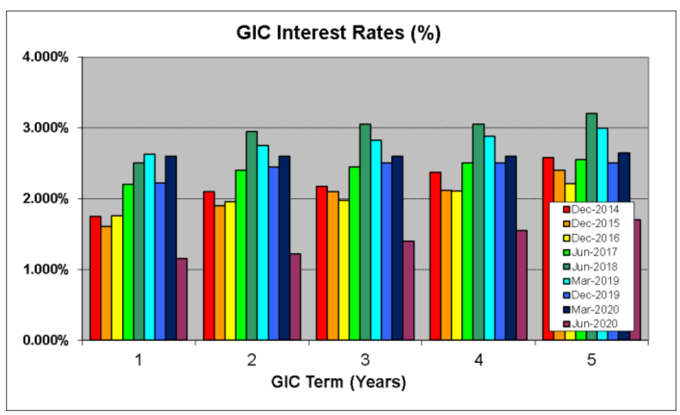
In the graph at right, you can see the FED's bond holdings increased by over $3 Trillion since February – a money supply stimulus amount equal to the total of all of the stimulus applied in the 5 years following 2008. Being a buyer of bonds bids up bond prices, thereby reducing the yield.



The second graph shows the downward trend in the US Government 10-year bond yield over the past 25 years since the high-inflation era that ended in the 1990s. The 10-year yield is now under 1%. There is a risk that all this monetary stimulus will stoke inflation, and in that case bond investors will demand higher yields to offset higher inflation, sinking bond prices. On the other hand, a spike in business bankruptcies and loan defaults could offset the inflationary pressure. Either way, there is not much yield in 'safe' bonds even though they could produce losses.

One area of opportunity is with corporate bonds where yields are much higher than government debt. We have already seen this yield spread narrow as economic uncertainty gradually reduces, and expect further upside in these sectors.

GICs can be a good alternative to bond holdings to protect capital with shorter time horizons. GIC rates have reflected moves in the bond market, with 1-Year terms barely offering 1% and 5-Year rates just under 2% (Rates from Cannex). While these interest rates are the lowest we've seen in our lifetimes, GICs still yield more than government bonds, and can qualify for government-backed deposit insurance through Canada Deposit Insurance Corporation (CDIC).



Feedback

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