It is astounding to believe how much our world has changed in the past six weeks. Equity markets around the world were at or approaching all-time highs. North American markets were anticipating a rebound in growth, employment numbers were at record levels on both sides of the border and both Main Street and Bay Street were optimistic about the future. What was looming on the horizon, as seen in news coming out of China, was largely ignored or looked past.

Black Swans have historically appeared suddenly, catching people off-guard, and only seen as predictable after the fact. This one was so monumental that it will affect how we approach investing, and how we interact with one another for years to come.

The spread of the virus is a testament to how interconnected the world has become. The global markets are a reflection of this. The North American markets topped out on February 12, 2020 with the Dow Jones Industrial Average reaching 29,968. At that time there were only 15 cases of COVID-19 in the United States, all from travelers arriving from China. At the time it was thought that the virus could be contained.

As cases in Europe, especially in Italy and Spain, expanded exponentially, we began to see healthcare systems struggle. As the first community spread was reported in California on February 26, it became apparent that the virus would not be contained and that drastic measures would have to be taken to mitigate the pace of spread. The Markets began to reflect the fear felt by the global population and retreated at an historic pace of retrenchment. By March 23, the Dow Jones Industrial bottomed at 18,293 a fall of 39.8% from the peak and the TSX reflected this by dropping 38% at the low as did markets around the globe.

Bond yields fell in the U.S. to record lows and the U.S. Dollar soared as investors from around the world sought a safe haven. In the first quarter of 2020 the U.S. Dollar appreciated by 9.21% against the Canadian Dollar.

Markets have begun to rebound recently and appear to be searching for the appropriate value to correspond to the pandemic. We have seen historic fiscal and monetary stimulus measures implemented around the globe. Although imperfect, they are being enacted swiftly and flexibly in order to mitigate the long-term ramifications of a global shutdown. The Canadian response appears to have been more coherent and targeted with public health interventions taking place sooner and public distancing measures being adhered to. Our politicians have now joined together in a Team Canada approach to attack the spread of the virus and mitigate what could have been catastrophic consequences. This approach seems to differ from the approach taken by politicians south of the border. The United States' approach has been disjointed with the various States largely acting independently to conquer the pandemic. The wavering of the message from the President has also caused confusion and will likely make their experience different from ours.

Even though the Canadian response has been sound the results of the global shutdown will affect our economy. The demand for resources has decreased while at the same time we have been faced with combination of increased oil production by Russia and Saudi Arabia. This combined with shut down of industry and stay at home orders has caused a glut of oil supply and has pushed prices for Western Canadian Select to all time lows. There are now signs that the tension between the OPEC nations is easing and global oil producers will attempt to work together to establish a floor, but a great deal of damage has been done.

Last week has brought some hope. There are now signs that the virus has run its course in China and the economy is beginning to start up again. In Europe, infection rates appear to be leveling. In the United States the hardest hit region of New York is seeing signs of the curve flattening. Earlier hit Washington State and California are shipping surplus respirators to New York as their infection rates begin to fall. As a result of the positive signs markets are rebounding with some sense that we are moving beyond the worst case scenarios towards focus on a return to some sense of normalcy down the road. Global markets have bounced back and are over 20% above the March lows.

In time the world will recover from COVID-19, the virus will be contained and a cure and/or vaccine will be found. That said, the impact to the global economy will most assuredly result in a global recession. The global economy should recover as demand begins to return and people get back to work. As investors look beyond the relief that the disease is abating, they will begin to focus on the damage done by shutting down. How quickly the world can get back to work, what the new work world will look like, and how supply chains may be impacted is yet to be seen. What the impact will be of massive stimulus and monumental deficits is unknown and how the developing world will cope with the fall-out is unsure. Global markets react negatively to uncertainty and although there is optimism and hope for the future, there will still be a great deal of volatility ahead.

Moving forward, we believe that most dividends are secure. Canadian Financials are well capitalized, diversified globally and are in much better shape than they were going into the 2008-2009 financial crisis. The major pipelines are North American based and have contracts with the major producers that should continue to pay them even if pipes are flowing at reduced capacity. The power utilities are well protected. Technology companies should benefit as we move to cloud based applications and more people learn how to telecommute. Consumers are still spending at a reduced capacity, however there will be pent-up demand as we move forward toward recovery.

Historians will debate the opportunities lost to mitigate the spread of COVID-19. It will be remarked how we played politics on both sides of the border and how science was looked past as being too alarmist. We have learned some valuable lessons and even though we are in uncharted waters we can look to the past for some clues as to what the future will hold. History has shown time after time that selling when markets are hit with record liquidations is a mistake. A better strategy is to hold until valuations stabilize. Markets by their very nature are forward looking and have always advanced towards new highs with temporary declines that we learn from, gain strength and ultimately move ahead. As long as you hold quality securities, with solid earnings and a sound future, staying the course has always been rewarded. It is an investor's behavior, not the markets themselves, that ultimately makes the difference.

Please contact us with any questions. We're here to help!

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