TD Wealth

Spring 2020

Despite carrying 2019's market strength into early 2020, the COVID-19 pandemic and the drastic actions taken to slow its spread have redefined the year's narrative. The financial ramifications have been massive and markets' reactions reflective of significant uncertainty. The decline went beyond typical risk-off trading, morphing into what appeared to be liquidity and fear driven market action into late March. The decline took the S&P/TSX Composite Index and S&P 500 from historical highs on February 19th down by more than a third in just 23 trading days. Adding in the pre-February 2020 gains still left equity indices trading significantly lower in Q1 (adjusted to Canadian dollars): S&P/TSX Composite Index -20.9%, S&P 500 -12.18%, U.K. London FTSE -21.8%, German DAX -19.69%, MSCI Japan -8.94%, China Shanghai Comp -3.35%, MSCI EAFE -15.59%, MSCI Emerging Markets -16.52%, and MSCI World Index ex-USA -16.19%.[1] Cushioning the U.S. and Japan's relative declines were meaningful gains in their currencies; 8.44% and 8.61% respectively. As is typical with declines of this nature and size, correlations moved towards one and all sectors traded lower. Within Canada, a handful of sectors' declines didn't quite reach double digits while all of the U.S.'s did in Q1. The worst of which were the financial and energy sectors, while technology fared the best on both sides of the border.

The shuttering of the global economy has been accompanied with unprecedented amounts of liquidity and stimulus/relief packages from central banks and governments around the world. For its part the U.S. Federal Reserve cut rates to nearly zero and expanded on their 2008-era quantitative easing programs to include the purchase of corporate debt. Also unprecedented was coordination with the American government which has committed trillions of dollars of relief for individuals, business, and government support through the Corona Aid, Relief and Economic Security (CARES) Act. With Federal Reserve Chair Powell stating that “We will continue to use these powers forcefully, proactively, and aggressively until we are confident that we are solidly on the road to recovery,” we don't expect that the commitments announced to date are the end of the stimulus with the U.S. Federal Reserve preferring to risk erring with too much than too little. With that in mind, we don't believe the FOMC will be in a position to raise rates for a considerable period. Nor do we think the U.S. Treasury would want to see higher rates given the associated increased cost of servicing their debt load.

In similarly coordinated fashion, the Bank of Canada (BoC) and Federal Government of Canada stepped in to provide the financial system and economy with liquidity and fiscal support. The BoC matched the FOMC's 150bps of rate cuts which leaves their overnight benchmark rate at 0.25%. They also followed suit with expanded quantitative easing which included the purchase of provincial and corporate debt, while the government allocated aid/financial relief packages representing 8% of Canada's GDP.[2] The most recent BoC meeting was the last for Governor Poloz whose seven-year term ends in June. Former Senior Deputy Governor during Mark Carney’s term, Tiff Macklem has been tapped as Poloz’s successor. We don’t expect this to result in a change in policy in the near-term with Macklem deeming recent policy action to be appropriate at his introductory press conference.

Until the central banks provided liquidity via quantitative easing (QE), not even the typical safe haven treasury bond trade was working as normal in mid-March. After the restart of QE, that trade returned and short and medium-term rates on treasury bonds followed the central bank benchmarks lower. Both the two and five-year treasury yields in Canada and the U.S. are yielding just a few basis points above the lowered central bank benchmark rates. Even the 10-year yields are trading well below 1.00%, at 0.62% and 0.56% for the U.S. and Canada, respectively.[3] Given that back drop, our

Ottawa Wealth Advisory Group
TD Wealth Private Investment Advice
360 Albert St., Suite 1600, Ottawa ON K1R 7X7
T: 613 783 4000 | Toll-Free: 1 877 275 5953 | F: 613 783 4075

TD

preference within fixed income is to align with the central banks by owning the areas to which they are providing support, such as investment grade corporate bonds and agency backed mortgages.[4]

Adding to the uncertainty has been a collapse in the price of oil. While disagreement between OPEC and Russia on expected production cuts sent the price of oil lower in early-March, a lack of demand and a lack of available storage capacity has left oil without much of a bid. So much so that the May futures contract traded in negative territory in the days leading up to its recent expiry. With weak prices and no place to put the product, Russian and OPEC got back together and agreed to production cuts starting May 1. While those cuts along with slashed drilling and exploration budgets should reduce supply in the coming months, the underlying issue is the lack of demand/consumption. As that demand can't return until travel restrictions are lifted, we expect the smaller players to struggle which should result in consolidation within the industry.

As is typical during times of uncertainty, funds have flowed towards the U.S. dollar in 2020, with the U.S. Dollar Index being up more than 6% in mid-March before settling back towards a 3.5% increase on the year, as of April 28.[2] Add in the decline in oil and it was a double whammy for the Canadian dollar. On a 2020-to-date basis, the Loonie has traded back to -7.5% after being down 11.5% near its 2016 lows when the U.S. dollar was at its mid-March high.[2] The nature of the Canadian economy being more cyclical and interest rate sensitive makes for a more difficult economic outlook and therefore we expect the Canadian dollar to remain at these low levels.

In the weeks since the central banks stepped in with support for the financial markets and governments formalized relief programs and distributed capital to individuals and businesses, equities in general, except for the energy sector, have found traction with the S&P 500 recently reaching the halfway point of the peak to trough decline. We are encouraged that the market seems to be looking past the awful economic data being released recently, as it seems to indicate that what the economy is currently experiencing has been discounted. While there is much to be determined with how and when the economy starts to “re-open", we do believe that the U.S. equity market is better suited than Canada or Europe for a changed economy where we expect technological trends to accelerate. Additionally, we expect the capitalization of large cap companies has them in a better position to weather this storm and gain share during the re-opening.

Sources:
1.Bloomberg Finance L.P. as at March 31, 2020. Total Index returns. Index returns calculated in C$.
2. https://www.statista.com/statistics/1107572/covid-19-value-g20-stimulus-packages-share-gdp/
3. Thomson ONE
4. https://www.federalreserve.gov/newsevents/pressreleases/monetary20200323b.htm

Interest Rates as of April 29, 2020

Fixed Income Securities	1 year	2 years	3 years	5 years	10 years	20 Years	30 Years
GICs**	1.71%	1.76%	1.76%	2.07%			
Canadian Treasury Bonds*	0.35%	0.32%	0.32%	0.42%	0.56%	0.94%	1.14%
U.S. Treasury Bonds*	0.16%	0.19%	0.25%	0.34%	0.58%	1.00%	1.18%

* Rates provided by TD Securities
** Rates provided by TD Wealth

Chris Martin
Vice President & Investment Advisor

Dan Soublière
Vice President & Investment Advisor

Alex Anderson, CFA
Vice President & Portfolio Manager

Dawn Cameron
Associate Investment Advisor

Carol Williams
Associate Investment Advisor

Lesley Gover
Client Service Associate

Gloria Stewart
Client Service Associate

Ottawa Wealth Advisory Group

TD Wealth Private Investment Advice
360 Albert St., Suite 1600, Ottawa ON K1R 7X7
T: 613 783 4000 | Toll-Free: 1 877 275 5953 | F: 613 783 4075

The information contained herein is current as of April 29, 2020. The information contained herein has been provided by the Ottawa Wealth Advisory Group and is for information purposes only. The information has been drawn from sources believed to be reliable. Graphs and charts are used for illustrative purposes only and do not reflect future values or future performance of any investment. The information does not provide financial, legal, tax or investment advice. Particular investment, tax, or trading strategies should be evaluated relative to each individual's objectives and risk tolerance. Certain statements in this document may contain forward-looking statements (“FLS”) that are predictive in nature and may include words such as “expects”, “anticipates”, “intends”, “believes”, “estimates” and similar forward- looking expressions or negative versions thereof. FLS are based on current expectations and projections about future general economic, political and relevant market factors, such as interest and foreign exchange rates, equity and capital markets, the general business environment, assuming no changes to tax or other laws or government regulation or catastrophic events. Expectations and projections about future events are inherently subject to risks and uncertainties, which may be unforeseeable. Such expectations and projections may be incorrect in the future. FLS are not guarantees of future performance. Actual events could differ materially from those expressed or implied in any FLS. A number of important factors including those factors set out above can contribute to these digressions. You should avoid placing any reliance on FLS. Index returns are shown for comparative purposes only. Indexes are unmanaged and their returns do not include any sales charges or fees as such costs would lower performance. It is not possible to invest directly in an index. FTSE TMX Global Debt Capital Markets Inc. 2016 "FTSE®" is a trade mark of FTSE International Ltd and is used under license. "TMX” is a trade mark of TSX Inc. and is used under license. All rights in the FTSE TMX Global Debt Capital Markets Inc.'s indices and / or FTSE TMX Global Debt Capital Markets Inc.'s ratings vest in FTSE TMX Global Debt Capital Markets Inc. and/or its licensors. Neither FTSE TMX Global Debt Capital Markets Inc. nor its licensors accept any liability for any errors or omissions in such indices and / or ratings or underlying data. No further distribution of FTSE TMX Global Debt Capital Markets Inc.'s data is permitted without FTSE TMX Global Debt Capital Markets Inc.'s express written consent. Ottawa Wealth Advisory Group is part of TD Wealth Private Investment Advice, a division of TD Waterhouse Canada Inc.TD Waterhouse Canada Inc. is a subsidiary of The Toronto-Dominion Bank. TD Waterhouse Canada Inc. Bloomberg and Bloomberg.com are trademarks and service marks of Bloomberg Finance L.P., a Delaware limited partnership, or its subsidiaries. All rights reserved. All trademarks are the property of their respective owners. ® The TD logo and other trade-marks are of The Toronto-Dominion Bank.