

March 15, 2020 – Market Update #2

There are three major things at play in the market right now.

1. **COVID-19** – Now being declared a global pandemic and the risk of major quarantines
 - a. We saw major attractions and businesses (like Apple) shut their doors, sports teams postpone seasons, other mass events cancelled and international flight restrictions.
2. **The US election race** – Primarily regarding the Democratic nomination fight between Bernie Sanders and Joe Biden
3. **The ongoing dispute between OPEC (Organization of the Petroleum Exporting Countries) and Russia** – Their talks ended in a stalemate.
 - a. OPEC aims to regulate the supply of oil in order to have a set price of oil on the world market.
 - b. Russia ended a 3-year pact to manage global oil supplies and refused to agree with Saudi Arabia's proposed oil production cuts. What does this mean? It means that Russia wants to increase their oil output to drive the price of oil down further than it has already been impacted by COVID-19.
 - c. This caused a sell off of crude oil shares in the market on March 9th, and we saw the largest 1-day decline of oil since 1991.

The market officially entered a bear market last week, meaning its major indexes saw a 20% drop from its previous market high. This officially marks the end of the longest bull market in Canadian history. When I say the major indexes have fallen more than 20%, this does not mean your investments have necessarily fallen 20% as none of you are holding only the index. This is where the benefit of active management and a balanced portfolio can come into play. Fund managers are managing your portfolios to reduce volatility so that they don't necessarily see the same volatility as the market.

What are the world governments doing to try and minimize the market impact?

- We saw both the Canadian, and US governments cut interest rates outside of their scheduled meetings. Governments will cut interest rates to stimulate economic growth. Lower interest rates can encourage both lending and investing.
- Central Banks/Governments also announced multiple support measures amid employees having to work from home, self quarantine, or take care of children with school closures.
- The US Federal Reserve continues to inject liquidity into the US financial system.
 - o They have announced that more than \$1.5 trillion will be put into the US banking system as it shows signs of struggling.
 - o They have injected money into the repo market (re-purchase market) in which they will buy short term treasuries from banks to inject money into the banking system.
 - o They also announced \$700 billion in a pledge for quantitative easing measures.

What we may look for going forward:

1. Some sort of clear idea of when this COVID-19 situation starts to settle down and we see a decrease in new cases.
 - a. We then may see a return to normal activity which may normalize the markets.
 - b. We have seen in countries like China and South Korea, once their outbreaks were minimized their economic activity has resumed.
2. Continued fiscal response from world governments
 - a. Continued ability for governments to work together to curtail economic effects and the spread of the virus.

What does this mean for you? What can you do?

The best step you can do is focus on progressing towards your long-term objectives/goals. Try not to ride the emotional rollercoaster during volatile periods. Stick to your normal investing behaviours and focus on the long-term. Markets have always risen and fallen; however, they have always come back around. Your dedication to maintaining your behaviour both during the downswings and recovery is important. Having a well diversified, balanced portfolio is important, and during this downturn, at points, we will work together to re-balance your portfolios to appropriate targets to match your goals.

Don't panic and sell.

The difference between people who had investment success versus failure after a period like 2008 often came down to a few key things:

- People sold out of the market and then tried to time their purchase back in
 - o Missing just a few positive days in the market can have a huge effect on the recovery of a portfolio
- People sold out of the market and never went back in.
 - o These people almost certainly would never have recovered the loss they would have seen in 2008

We need to turn this market volatility into an advantage for your portfolios. By investing at regular intervals and dollar-cost averaging into the market at lower prices you can minimize your risk of making a single lump sum deposit into the market and may maximize your recovery potential. This may be an opportunity to buy low and see the returns upon a market rebound, however, you should not be looking to deposit your emergency funds and may want to determine whether you have ample job security during this situation.

I will continue to be available to discuss/review your portfolio if you have any questions or concerns. If you want to talk about what has been going on with your portfolios or want to discuss options for taking advantage of this downturn, please do not hesitate to reach out. This is where you can really take advantage of having an advisor, and where it can really make a difference.

In times of market volatility like this, you may feel panicked, or have the impulse to sell and get out of the market. But this panic often leads to making the wrong decisions. If you have any doubts or any large financial questions/scenarios that you need to make, please reach out so that we can plan together to determine the best course of action for you and your objectives.

Manulife Securities has suggested that advisors limit their face-face meetings with clients. We have many clients who would be at high risk for this virus, so we will be requesting virtual/phone meetings with anyone who has recently traveled or has been in contact with anyone who has recently traveled.

I hope that if you have any questions or concerns that you will reach out to me.

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