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Gestion de portefeuilles / Portfolio management

La voie des Alizés

Navigating the Trade Winds

April 2020

Dear friends,

We will remember for a very long time the year 2020 for the COVID-19 pandemic. To this day, even though the latest readings and projections are encouraging, we remain with a few anxieties for the well being of the entire planet. Obviously, the world economy and the financial markets are impacted. After a 10-year roaring bull market, we just witnessed the quickest bear market on record. The late March rebound, trimmed the S&P/TSX losses to 21.6% for the first 3 months of the year. Down south, the S&P 500 was down 20.0% for the quarter, but stands at -13.4% once converted into Canadian dollars. As clockwork, the green back rallied greatly during this health crisis. The biggest loser by far was the oil with the WTI losing 67% of its value in Q1.

		Closing	Change**	
		31-Mar-20	Quarter	2019
Stock Indices *(% in C$)*				
S&P/TSX		13,379	-21.6%	19.1%
S&P 500		2,585	-13.4%	22.7%
MSCI EAFE*		1,560	-17.1%	12.8%
Currencies				
CAN$ (US$/C$)		0.7112	-7.6%	5.0%
Euro (US$/EUR)		1.1031	-1.6%	-2.3%
Commodities (US$)				
Oil (WTI)	$	20.48	-66.5%	35.1%
Gold	$	1,612	6.0%	18.7%
Volatility Index				
VIX		53.54	+39.76	-11.64

** MSCI Europe, Australasia and Far East (US$)*
*** Changes are expressed in C$ for Stock Indices.*

Due to a rapid and brutal sanitary crisis, we just went through unprecedented volatility in the stock markets. In more or less 20 days, the major indices were down 20% from their highs of February, for the quickest bear market in history. At their lowest points in mid-March, North American indices were down between 30% and 40%. Evidently, the pandemic has major economic repercussions, but for now, it is not a financial crisis like in 2008. Still, the forecasts from economists suggest a drop of the US GDP in the magnitude of 9% to 40% in the 2nd quarter – the latest figure would represent the worst reading since 1948. That said, the government efforts are immense in maintaining the world economies. We are talking about US$2.2 trillion for the United States alone. Even if we see the first annual contraction of the world economy since 2009, the bottom of the stock market precedes the end of the recession by 4 months on average. The market rebounds and clearing rallies are generally important between the market trough and the end of the recession, which could happen in 2020.

Here in Canada, the economic standstill combined to the collapse of the oil price surely triggered the recession as early as in Q1. But, this recession is far from typical and could conceivably be a short one. When we consider that the Russians and OPEC members slashed the world crude production by 10%, a rebound in our economy is possible in the second semester. Even though the virus leaves a trail of death and economic destruction, the pandemic peak seems behind us or close to be in the USA. What shape will the economic rebound take? Will it be a V bottom, U shaped or more like a seesaw W. For certain, a genuine V would be very optimistic. On the other hand, we could witness a more gradual V rebound. Most economists seem in accordance with a solid come back of the world economy in the last quarter. In this case, the market bottom would already be a bad memory and investors would recoup a large portion of the losses before the end of the year. Let's also wish a vaccine will be ready by then.