

## 2020, so far

The COVID-19 (novel coronavirus) outbreak is having near-term economic consequences as investors are pricing in the risk of the infection continuing around the world, for the time being. At first, investors didn't pay a lot of attention as news of the coronavirus dominated headlines in the early weeks of this year. But when cases of the virus were reported in Italy, they sat up and took notice, and started looking at the potential financial risks associated with the outbreak.

Economic disruption is being taken into account across equity and fixed-income markets. World equity markets dropped as investors priced in the increased economic risk of the coronavirus. The S&P 500 Index, S&P/TSX Composite Index, and MSCI EAFE Index are each down from their recent highs. Commodities such as oil and copper have fallen from their respective highs as well. Bond markets that had been pricing in risk since before the start of the year rallied with the U.S. 10-Year Treasury Yield, making a new all-time low. The recent U.S. Federal Reserve and Bank of Canada rate cuts (50 basis points each) have added to market volatility.

Before the news of the coronavirus, a mid-single digit or below-average return with average risk was in the cards. Equity markets were — still are — overpricing earnings growth expectations that were highly unlikely in the first place. Now, markets are faced with the economic disruptions of the coronavirus on both supply and demand as consumers limit their spending, travel less, spend more time at home, etc. The economic impact of the coronavirus can only add to the risks.

On March 9, 2020, markets fell mainly on the news that Saudi Arabia intends to increase oil production and offer deep discounts on its production to clients across Asia and Europe. This news comes as a breakdown in talks occurred last week between OPEC members and Russia, where Russia backed out of its commitment to cut production meant to support the price of oil. Both Saudi Arabia and Russia look as if they're going to produce as much oil as possible, which isn't particularly good for either side. It could flood the market with oversupply, leading to a full-blown oil price war.

## So, where does that leave us?

The U.S. economy may be less affected by the economic fallout of this virus than other parts of the world. That doesn't mean that the U.S. economy will be firing on all cylinders. Fourth-quarter GDP growth for the U.S. was at an annualized rate of 2.1%, as measured by the U.S. Bureau of Economics, but that number doesn't matter given today's situation. Manufacturing activity that showed a modest rebound in January will likely continue to slow.

Before the outbreak, the estimated price of crude for this year suggested positive earnings demand, the opportunity set for Canada has probably been delayed by at least one or two quarters of growth for the S&P/TSX Composite Index through 2020. As a result of the disruption in oil.

In Europe, countries have closer economic ties to China. Given the increasing number of cases in countries such as Italy, the economic consequences may be similar to Asia's. In January, industrial production in Europe continued to slow with an already slower Chinese economy. The strain on the markets from the U.S./China trade war in December and the current supply chain disruptions will only

delay the recovery. A rebound in Europe depends on a rebound in China. In the meantime, the German economy will be susceptible to recession, and earnings growth, overall, will continue to be modest, at best.

Investing is a long-term commitment. And although everyone has a view on which direction the markets will go, no one can predict risk or predict what will drive the markets through a correction. All anyone can do is manage risk. While the current volatility is not expected to be a full-blown bear market, you may not want to follow the “buy the dip” idea that market speculators have used through the many corrections of the last 10 years, as the current economic and market conditions need careful consideration.

### **How can you weather the turmoil?**

Investing during volatile times can challenge your discipline and commitment, but there are principles for your investment strategy that can help ease your mind and keep you focused on the long term:

- Diversify across various economies, businesses, countries, and popular investment classes to help spread risk, remain more consistent, and reduce potential for underperforming assets to impact your portfolio.
- Stay disciplined and committed to your long-term investment plan — don’t ride the emotional rollercoaster.
- Don’t jump ship. The difference between investment success and disappointment can boil down to a few days of being in or out of the markets.
- Take a long-term perspective. Accept that markets rise and fall but, over time, markets have always moved higher.
- Turn market volatility into your advantage. By investing a specific amount at regular intervals, dollar-cost averaging can help you buy more units of an investment at lower prices and fewer at higher prices. This helps take the worry out of making a single lump-sum investment at the wrong time.

In times of unusual volatility, you may sometimes feel an impulse, large or small, to push the panic button. But panicking often leads to wrong decisions. Talk to us. We can help you determine how to weather the turbulence — it’s what we do.

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