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Taking Stock with Steele

Your Monthly Newsletter

The purpose of this newsletter is to share insights and expertise. Our goal is to ensure that our clients are well informed of changes affecting local business decisions and our investment recommendations. We believe Knowledge Pays and we want our knowledge to help pay for you.

RE-OPEN FOR BUSINESS? POLITICIANS EAGER TO RESTART THE ECONOMY

Politicians are eager to get their economies up and running again to stem the economic losses incurred by the various levels of government during the COVID-19 lockdowns. US President Trump is unsurprisingly one of the most motivated, facing an upcoming US presidential election in November. Canadian PM Trudeau on the other hand is much more guarded, recently stating "***Normality as it was before will not come back full-on until we get a vaccine for this. That will be a very long way off.***"

Rapidly restarting the economy comes with significant risks. Health officials around the world are unanimous in their concern that opening the economy too early will result in a significant second wave of COVID-19 infections and an extended lockdown.

Economic forecasts are beginning to incorporate our current reality a bit more. ***The International Monetary Fund (IMF) revised its 2020 global GDP growth forecast to -3% from +3.3% in January.*** A 3% decline in 2020 global GDP growth would be the biggest since the Great Depression. The IMF expects global GDP growth to rebound to +5.6% in 2021 ***if*** the pandemic fades in the second half of 2020, additional infection "wavelets" are well contained and if governments can prevent widespread bankruptcies and extended unemployment. The IMF notes that the risk to its forecast is to the downside as their assumptions capture a somewhat optimistic scenario.

Equity markets appear to have shrugged off the biggest recession in 90 years with the S&P 500 down as little as 16% from the all-time highs of February 2020. ***The S&P 500 is now trading at about the same level as October 2019, when recession odds were very low***. It is tough to fathom how the recent 30%+ rally is justified but it also not abnormal for equity markets to rally this strongly following a major market decline.

The S&P 500 has "retraced" a little over 50% of the 34% peak-to-trough decline in 2020. A 50%+ retracement is very common following the first major decline during an extended bear market decline. During the 2008, 2000, 1973 and 1929 market downturns, 50%+ retracements occurred following the first major initial declines of ~20%, ~30%, ~20% and ~45%, respectively. ***As we know in hindsight, future realized returns after those bear market rallies were incredibly poor***. With these historical precedents in place, we urge caution now.

While it is nice to see the stock market find its legs, at least temporarily, it is important to keep history in mind and not assume that all is well because the market rallied. Now is a perfect time to reevaluate your own risk tolerance and make adjustments if needed. One's willingness to accept risk varies with time and can change based on your experiences. It is important not to let recent experiences drive long-term decision-making but it is also important not to ignore feelings of discomfort related to your investments.

Current Rates & Data

Govt of Canada

90 day	0.24%
1 year	0.36%
2 year	0.32%
5 year	0.45%
10 year	0.66%
30 year	1.33%

U.S. Treasury

90 day	0.12%
1 year	0.19%
2 year	0.20%
5 year	0.38%
10 year	0.69%
30 year	1.33%

Canada Prime Rate

2.45%

U.S. Prime Rate

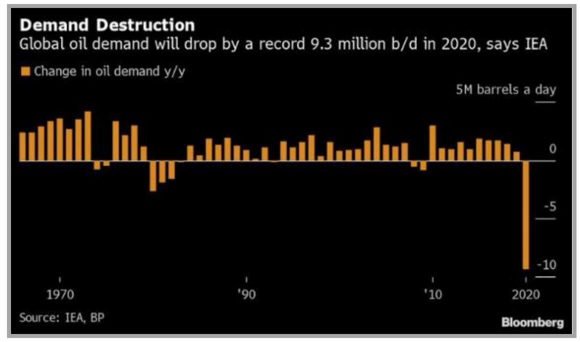
3.25%

Exchange Rates

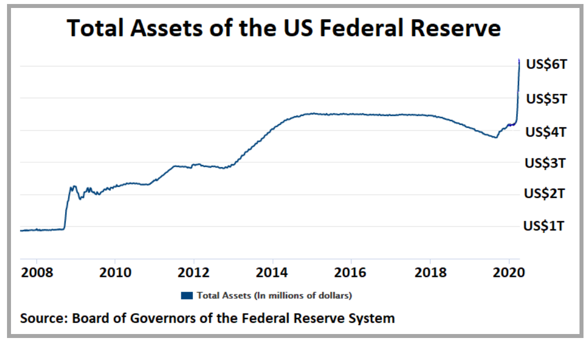
CAD/USD	0.709
USD/EUR	1.091
JPY/USD	107.4

ECONOMIC TIDBITS HISTORIC OPEC+ DEAL FALLS SHORT & THE US FED STEPS IN TO SAVE CREDIT MARKETS

- OPEC+ agreed to cut oil production by 9.7 and 7.7 million barrels/day in May/June and for the rest of 2020, respectively. While this production cut is the largest in history, oil prices fell after the agreement, as it does not offset the decline in oil demand due to COVID-19. The International Energy Agency predicts oil demand will drop 9.3 million barrels/day in 2020 at a time when the oil market is already in surplus.



- With credit markets in turmoil, the US Federal Reserve began to buy an unprecedented amount of government and corporate debt. The Fed will also start to buy high yield debt and bonds issued to struggling small businesses as part of the US stimulus package. The Fed's balance sheet rose to $6.1 trillion from $4.2 trillion in February and is expected to rise to as much as $10 trillion by 2021.



LE JIT A "JUST-IN-TIME" RUNDOWN OF OUR CURRENT INVESTMENT THEME

A Big Market Rebound Makes Buying Bargains Tougher but There Is Still Plenty of Value to Be Found

- Equity markets have split into two groups – Stocks that will benefit from the COVID-19 outbreak and stocks that will struggle due to the COVID-19 outbreak.
- One area of investment that is under the radar are stocks that will not directly benefit from the COVID-19 outbreak but instead service the companies that stand to benefit.
- **Canadian real estate investment trusts (REITs) like SmartCentres (SRU.UN) and First Capital Realty (FCR)** declined over 50% during the market rout and are still down ~35% despite the fact that well over half of their tenants consist of grocery stores, pharmacies, medical services, hardware stores and liquor stores, all businesses that will withstand if not thrive during the COVID-19 era. It is silly to see the stocks of grocery stores, pharmacies, hardware stores and other essential retail perform well while the REITs that house those retail businesses perform poorly. This inconsistency seems like an opportunity.
- **Consumer staples stocks have found some support lately but still trade at very reasonable valuations as a group.** If the trend of the next year or so is less food consumption at restaurants and more at the grocery store, and that there may be supply disruptions for some fresh products, it is fair to assume that the companies that stock those aisles in the middle of grocery stores will do fairly well. Stocks like JM Smucker (SJM-US) and General Mills (GIS-US) are two that focus heavily on those middle aisles.

  Key risk points: All stocks are volatile these days and all stocks have a chance of loss in the near-term and long-term. The ideas above look like they offer above average returns with moderate downside potential.

JEANNINE'S TIP O' THE MONTH Client Online Access

Self-isolated at home? Looking to do something super-duper productive that meant a long time ago? Sign up for client online access today if you have not done so already! Here. A link! https://client.raymondjames.ca/

Having online access does not mean you will lose paper statements and documents. What it does mean is you will have access to a password protected and secure website to review and retrieve your documents.

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