

# CHARTBOOK

## Market Comment

### Portfolio Managers

Scott Keast, B.Comm, CIM, CFP®

Shane McMahon, CIM, CFP®

### Investment Advisors

Brendan Leathem, CFP®, CLU

[oceanfrontwealthmanagement.com](http://oceanfrontwealthmanagement.com)

HollisWealth®

 OCEANFRONT  
WEALTH MANAGEMENT

# Market Comment

Stock markets stalled to begin the week following big gains from the week prior, while bonds saw strong gains. Bond markets have rallied back near their highs in recent weeks following announcements from the Bank of Canada and US Federal Reserve that they are initiating quantitative easing programs, which is a fancy way of saying they are buying bonds, including bond ETFs, with the Fed even buying certain high yield bonds. This is a gamechanger for the bond market and markets in general, because these institutions have unlimited money.

Some bleak economic forecasts have been emerging as the impact of the virus shutdown begins to be realized. The Bank of Canada estimates that Canadian GDP will fall 15%-30% in the second quarter compared to the fourth quarter of 2019. Statistics Canada estimates that the economy contracted 2.6% in the first quarter.

The International Monetary Fund is predicting the worst recession since the Great Depression, with a decline in global GDP of 3%, which would be worse than the decline in the Global Financial Crisis. In its earnings report on Tuesday, JP Morgan CEO Jamie Dimon warned of a “fairly severe recession” and announced they had built a reserve of \$US6.8B to account for expected credit losses.

Despite all the bad news (or perhaps because of it) opportunities abound in markets, notably in gold and high yield bonds, and we have been busy. More on that below.

# Fiscal Stimulus - Canada

For information on the benefit programs and to see if you qualify, please visit the resource page on our website: <https://oceanfrontwealthmanagement.com/covid-19/resources/>

The Canadian government continues to announce new measures to provide relief for individuals and businesses.

- The government expanded access to the Canada Emergency Response Benefit (CERB) by:
  - Allowing people to earn up to \$1,000 per month while on the program
  - Extending the CERB to workers who have recently used all their EI benefits but are still unemployed
  - Allowing a top-up measure for essential workers
- Previously announced benefits for employers, including the 75%, 12-week wage subsidy were approved and signed into law over the weekend.

# Fiscal Stimulus

We have said that the next thing we are watching with regard to fiscal stimulus is how quickly it actually gets into the hands of those who need it. Some of the first reviews are coming in, here are testimonials from people that applied for the Canada Emergency Response Benefit, from the Financial Times:

*“It’s so easy I thought it was fake,” another applicant told the Post, explaining that all he had to do was log into his Canada Revenue Agency account, click on the appropriate link and answer three questions before getting an approval message from the CRA saying the \$2,000 benefit would be in his account within three days.’*

This is good news, because all the stimulus in the world won’t help if individuals and businesses can’t access it in time.

# Recession versus Depression

Certain analysts and members of the media have speculated on whether we are headed for, or already in, an economic depression. This begs the question, what is a depression, and what makes it different than a recession?

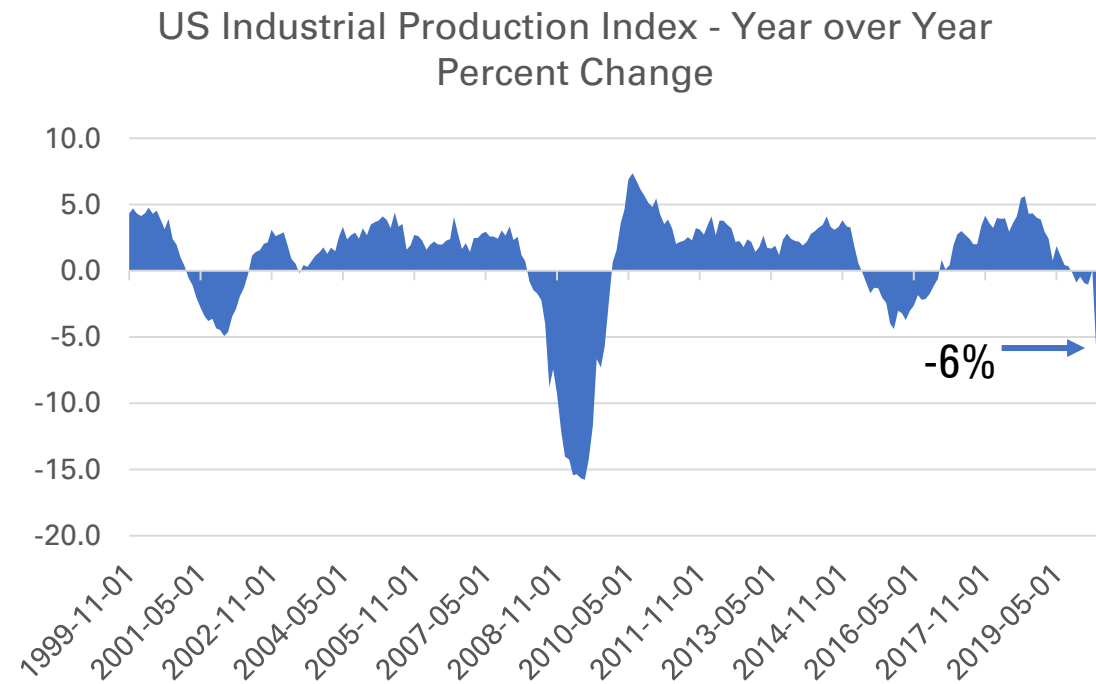
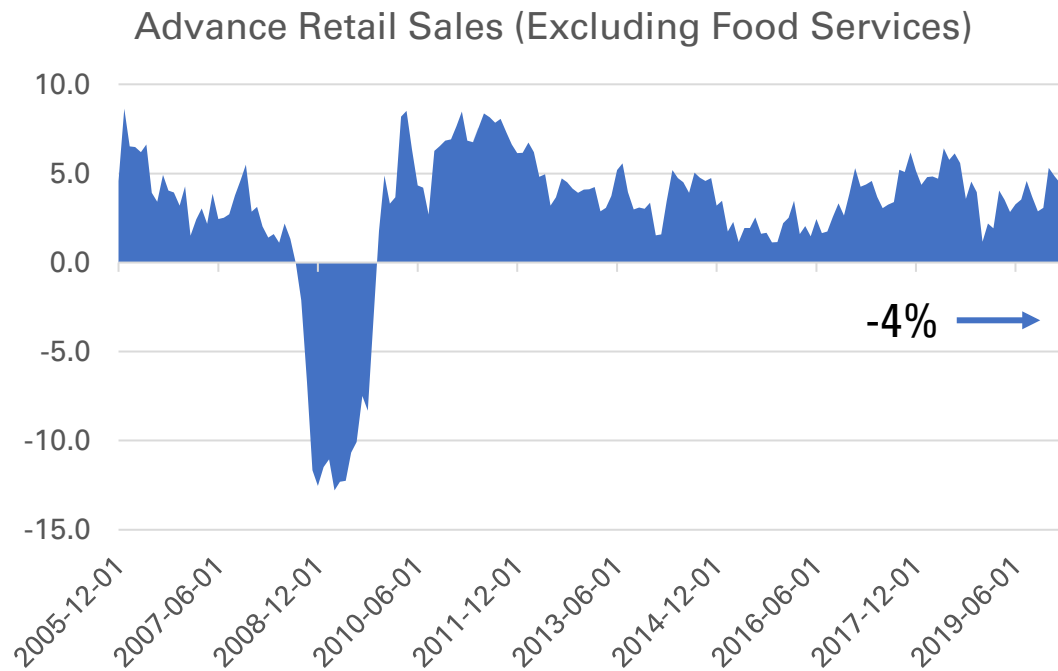
The answer is: it depends who you ask. The generally accepted definition of recession is two consecutive quarters of negative Real Gross Domestic Product growth, which means the economy shrinks for two quarters, but there is no such generally accepted definition of depression. Definitions vary, but the common theme among them is that depressions are more severe than recessions in terms of the size and/or length of the contraction in the economy, and they are rarer. Some definitions say that recessions last a matter of months, while depressions last years.

Recessions have occurred once every five or ten years over the past several decades in the US, while there has not been a depression for almost 90 years. Prior to that, however, depressions were more commonplace. According to the US Federal Reserve, there were depressions in 1808, 1819, 1826, 1841, 1860, 1867, 1874, 1884, 1896, 1913 and 1920. Important to remember is that like recessions, depressions come in different shapes and sizes. The Great Depression got its name because it was worse than those before it. In the 1920-1921 depression, the Dow Jones fell 41% on a month-end basis, far less severe than the decline during the Great Depression.

It's not clear why the US economy has gone so long without a depression, but there are several possible explanations. As an economy grows mature and stable perhaps it is less prone to severe contractions, perhaps the creation of the US Federal Reserve in 1913 and its intervention in markets plays a role, as does government stimulus and programs like Unemployment Insurance in the US and Canada, which were both created in the Great Depression.

# Evidence of Recession

As March economic data begins to be released, we are seeing evidence of a recession emerging.



Source: US Federal Reserve Bank of St. Louis, Ocean Front Wealth Management

# A Brief History of the Business Cycle

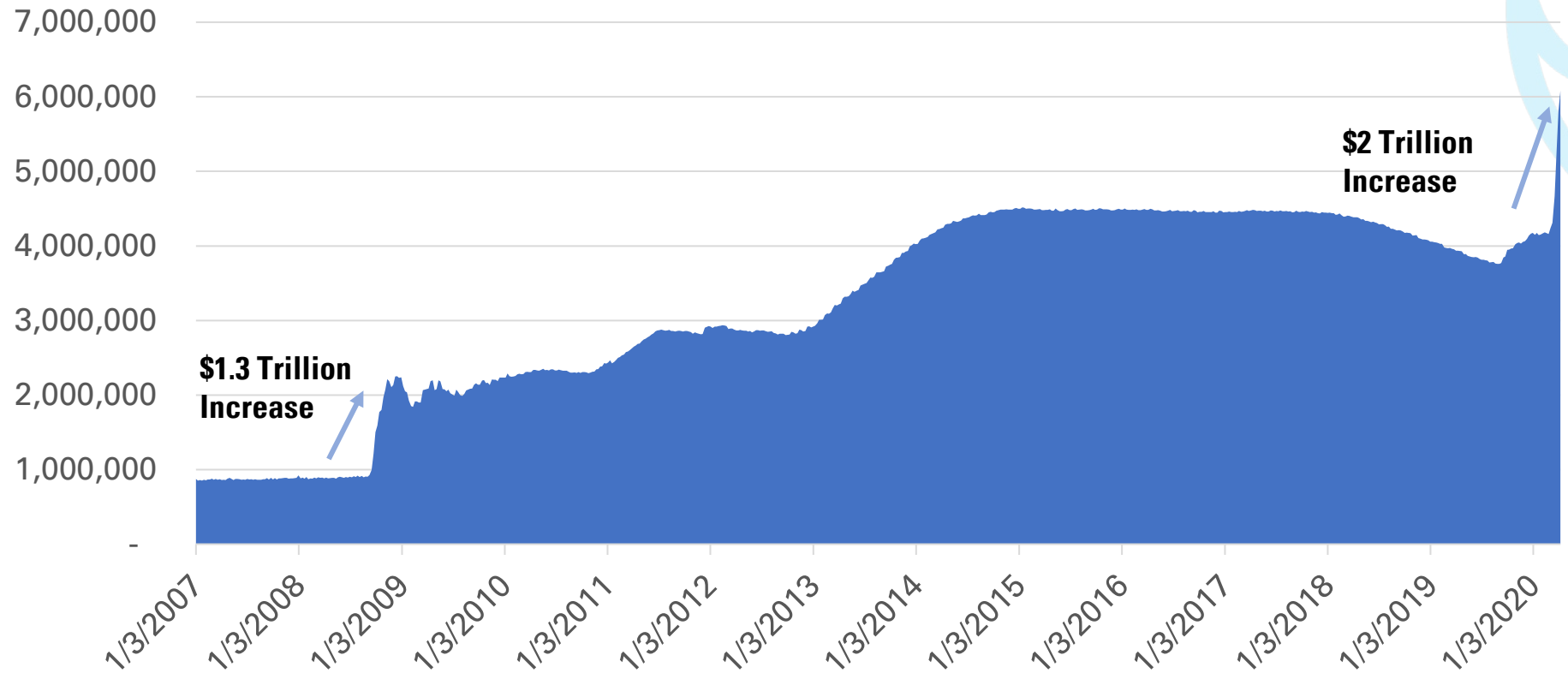


<b>United States</b>	<b>Average Length of Contraction Phase (Months)</b>	<b>Average Length of Expansion Phase (Months)</b>
1854-2009 (33 cycles)	17.5	38.7
1854-1919 (16 cycles)	21.6	26.6
1919-1945 (6 cycles)	18.2	35.0
1945-2009 (11 cycles)	11.1	58.4

Throughout human history there have always been economic or “business” cycles in which there is a prosperous “boom” phase where the economy expands followed by a recessionary “bust” phase when it contracts. You can see in the data above that over time the expansion phase of the economy has lengthened, while the contraction phase has shortened, especially in the post-WW2 era. This is cause for optimism that whatever we go through during this contraction period will be relatively short-lived before we enjoy a new period of growth.

# Monetary Stimulus

Federal Reserve Balance Sheet (in Millions of USD)



The Federal Reserve has the ability to create money from nothing in order to lend or purchase certain assets. They often do this in times of crisis in order to support the economy and institutions by providing liquidity. The size of their balance sheet (above) shows the amount of assets they own (including bonds, loans and others). When the blue area is rising, they are buying assets. This is a way of looking at how much stimulus they are providing to the economy and markets. This year their balance sheet has increased from US\$4.1 trillion to US\$6.1 trillion, meaning they have bought or loaned US\$2 trillion, which exceeds the change in 2008 where it increased from US\$0.9 trillion to US\$2.2 trillion. Whenever we reach the end of this crisis there should be a substantial amount of stimulus acting as a tailwind to the markets.

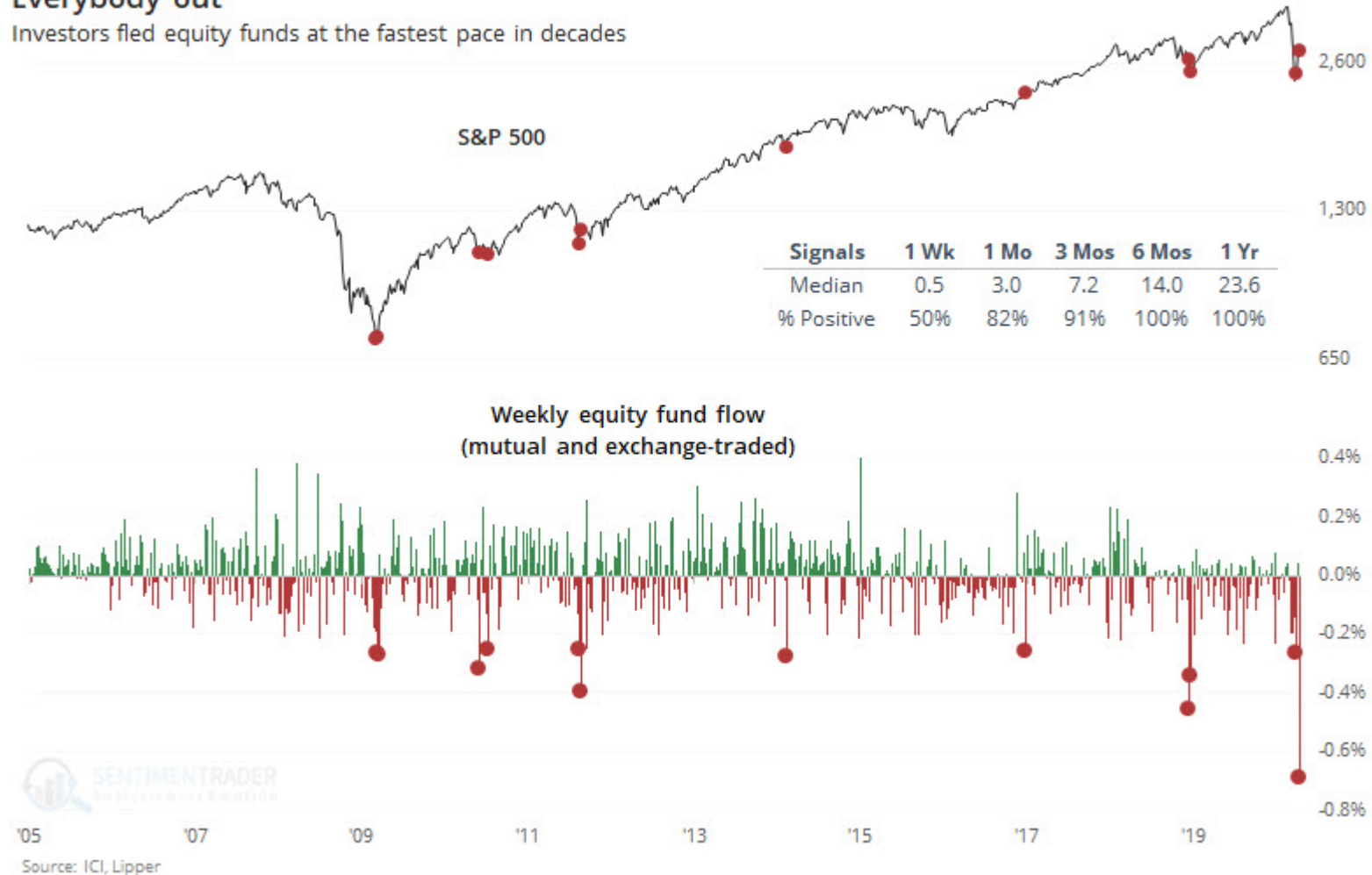
Source: Federal Reserve Bank of St. Louis, Ocean Front Wealth Management



# Equity Fund Flows

## Everybody out

Investors fled equity funds at the fastest pace in decades



During the week of April 5-10, investors sold out of US equity mutual funds and ETFs at the highest rate in years, including the financial crisis. This is a contrarian signal, meaning that it is often a positive sign for future returns.

# Volatility Index

\$VIX Volatility Index - New Methodology INDX

14-Apr-2020

© StockCharts.com  
Open 40.24 High 40.57 Low 37.31 Close 37.76 Chg -3.41 (-8.28%)



By this measure, the VIX actually exceeded the heights it reached in the financial crisis during March. The good news is that the VIX reaching a high and then receding (as it may be) has historically been a sign of a bottoming process. We want to see the VIX continue to decrease.

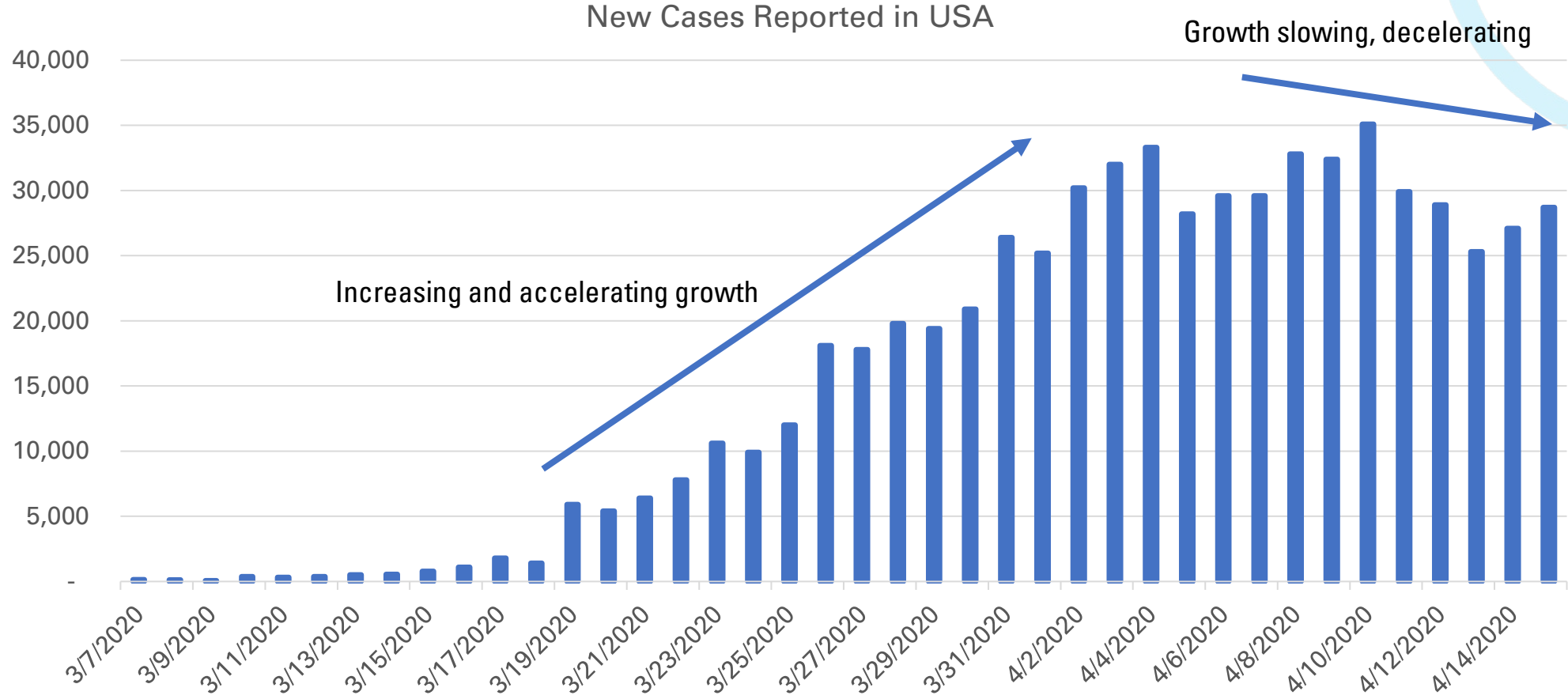
# Vaccine Progress



According to Bloomberg media, there are 70 coronavirus vaccines in development, three of which are already in the human trial phase. Drugmakers Cansino Biologics, Moderna Inc., and Inovio Pharmaceuticals have managed to get their experimental vaccines rushed through the animal testing phase by regulators.

They are hoping to get a vaccine to market within the next year, which would be a massive rush on a process which usually takes 10-15 years. Other pharmaceutical companies with vaccine candidates include Pfizer and Sanofi.

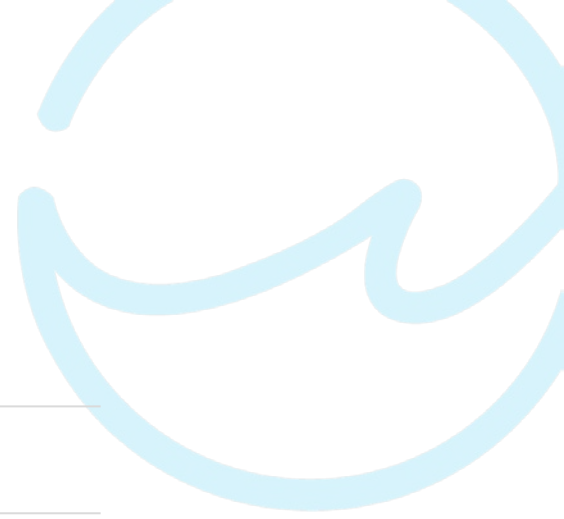
# Spread of COVID-19 in USA



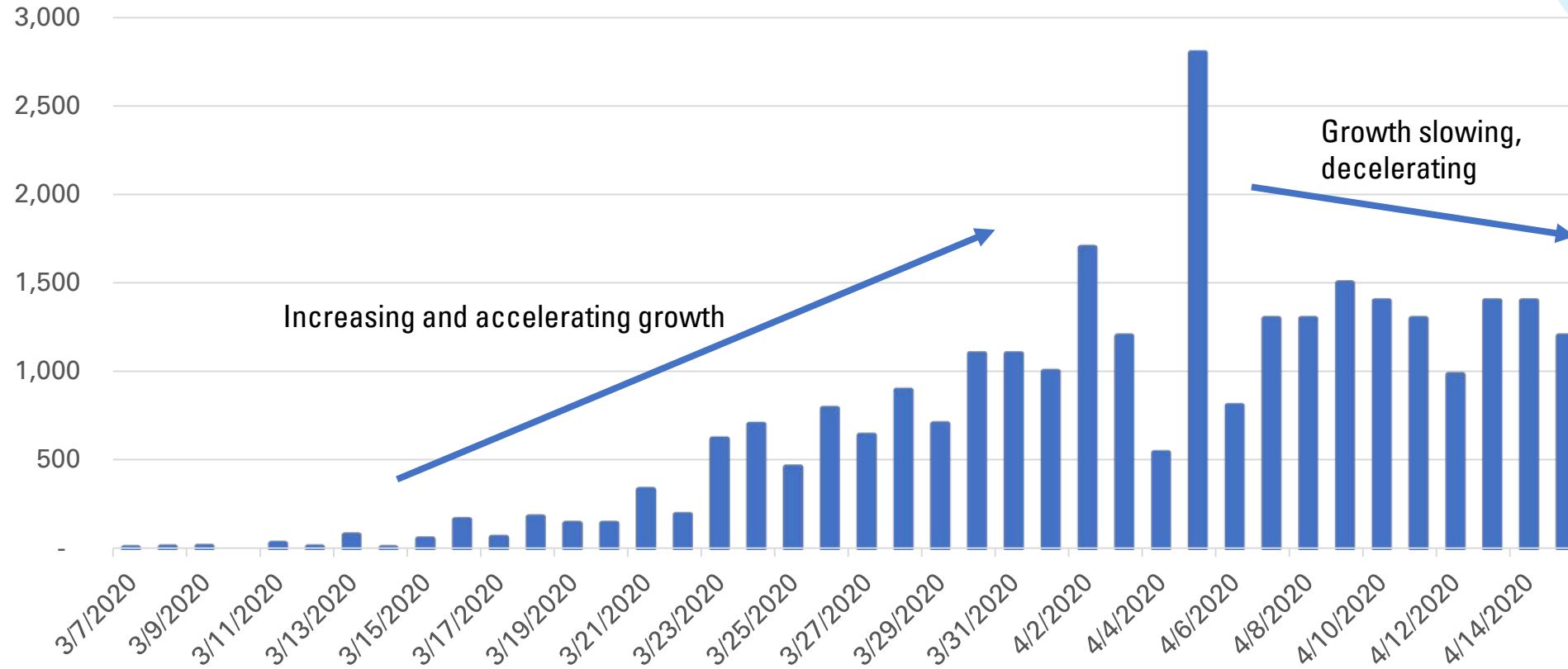
US case growth has consistently slowed over the past few weeks.

Source: Johns Hopkins University, Ocean Front Wealth Management

# Spread of COVID-19 in Canada



New Cases Reported in Canada



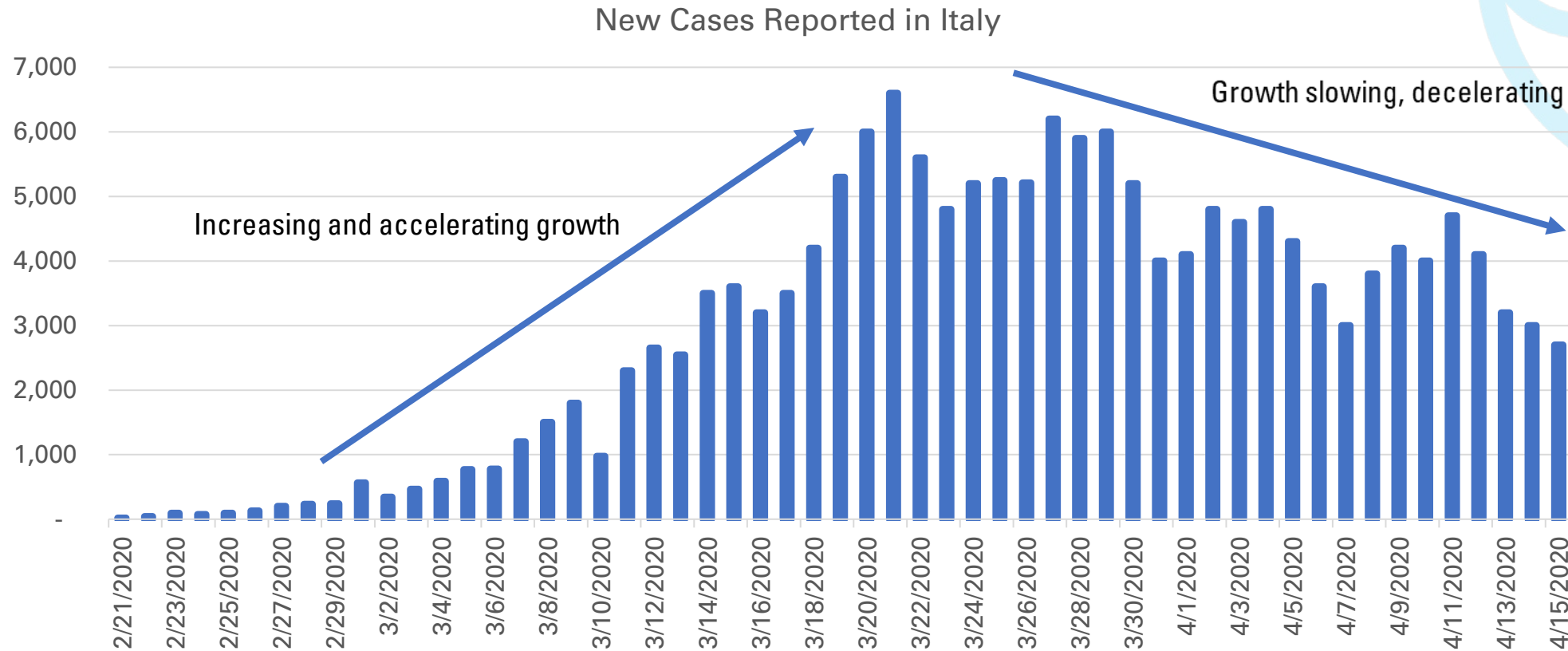
Increasing and accelerating growth

Growth slowing, decelerating

Growth is also slowing in Canada.

Source: Johns Hopkins University, Ocean Front Wealth Management

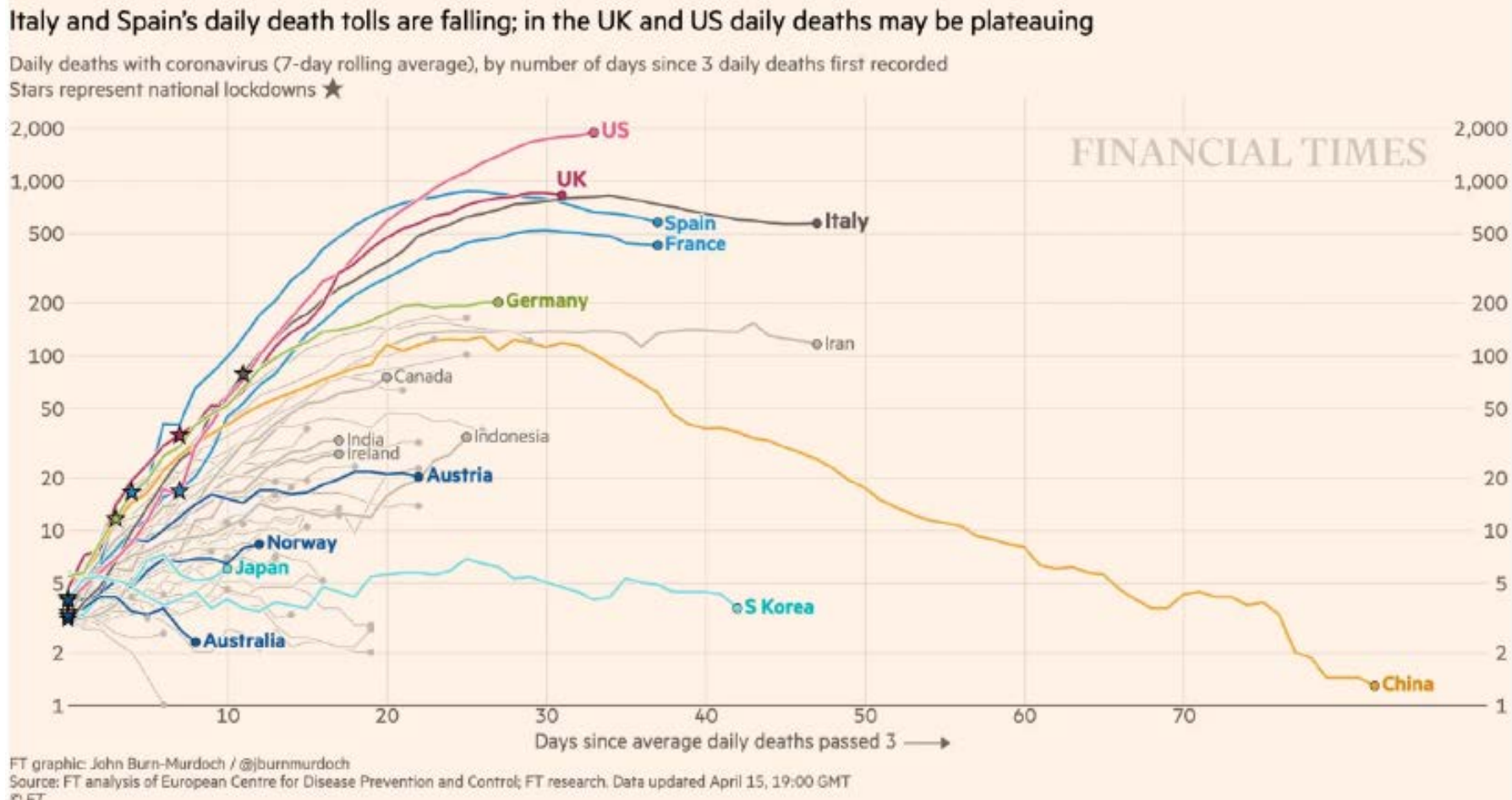
# Spread of COVID-19 in Italy



Italian case growth has been in steady decline for weeks now. North American countries were about 2-3 weeks behind Italy in instituting strict isolation policies. We are likely now entering the next phase of the pandemic where countries will be opening back up and figuring out how to prevent new outbreaks until a permanent solution like a vaccine is available.

Source: Johns Hopkins University, Ocean Front Wealth Management

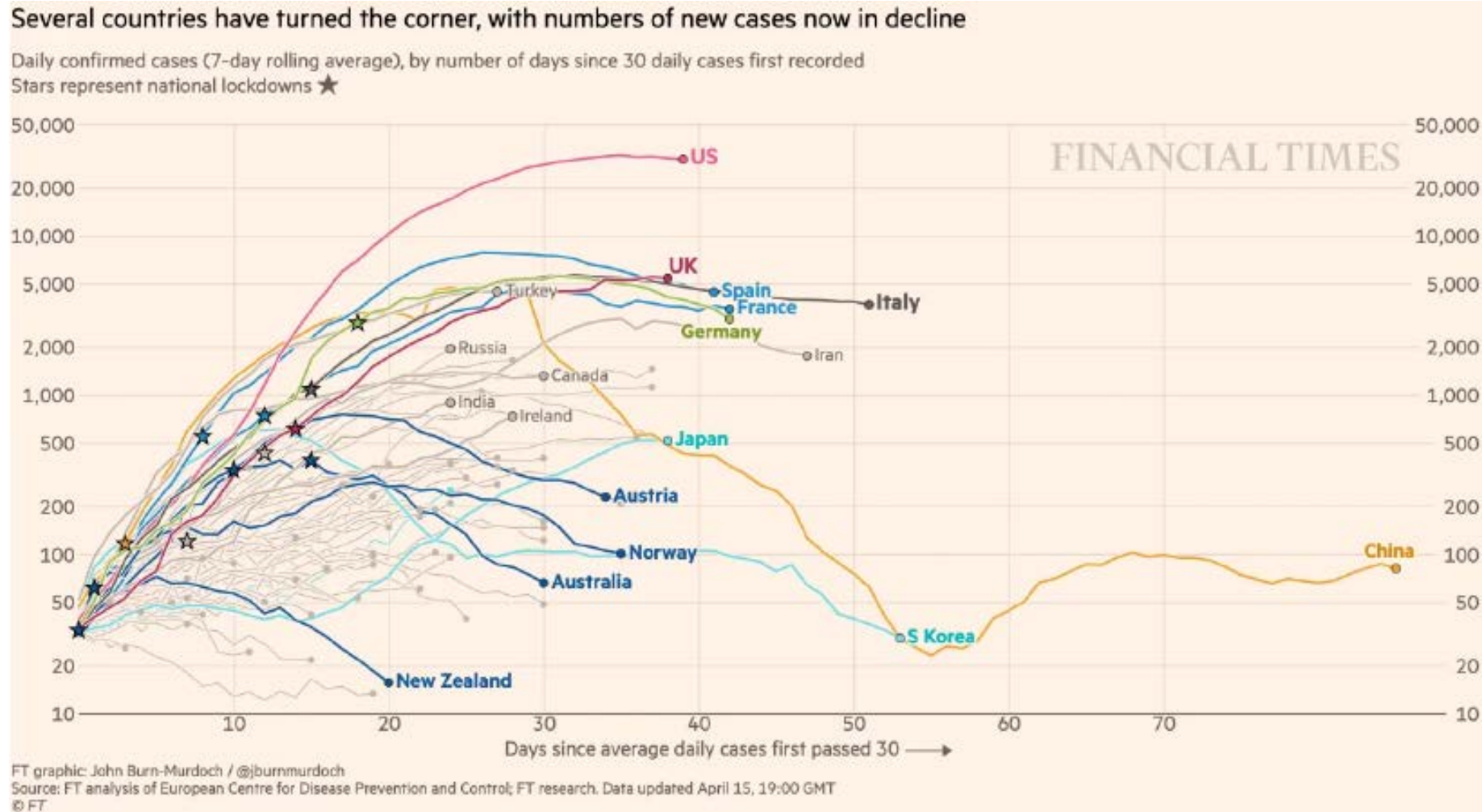
# Looking for the Curve to Flatten - Deaths



Daily death tolls are rolling over in Italy and Spain, an excellent sign of progress, and may be peaking in the US and UK. These numbers lag the new infection numbers, meaning they peak after infections do.

Source: Financial Times <https://www.ft.com/coronavirus-latest>, Ocean Front Wealth Management

# Looking for the Curve to Flatten - Infections



Daily new cases are now declining or decelerating in most countries, including the major hotspots of Italy, Spain, and USA. New infections in China recently increased, which is something to monitor.

Source: Financial Times <https://www.ft.com/coronavirus-latest>, Ocean Front Wealth Management



# Potential Opportunities – High Yield Bonds

## High Yield Bond Spreads

Bloomberg Barclays US Corporate High Yield Average OAS



This chart shows the amount of extra yield an investor receives by owning high yield versus government bonds. The recent spike in yields represents a potentially good value buying opportunity. On this chart, if you buy and the yield moves back down to the historical average, you are making money.

# High Yield Bonds – Investment Plan Update



1. Part 1 of our plan to enter this asset class will be through a mutual fund managed by a top active manager. This is the Phillips, Hager & North High Yield Bond Fund managed by Hanif Mamdani.
  - i. Update: We have now executed Part 1 and added this fund to all of our portfolios which have a fixed income component. The fund is closing again on Friday after a brief re-opening, but existing holders of the fund will still be allowed to add to their investments.
2. Part 2 of our plan is to allocate to this asset class via an exchange traded fund (ETF) in which we will own an index or universe of bonds. We will be preparing to do this if/when spreads reach an even more attractive level, at which time the entire universe of high yield bonds would be quite attractive.
  - i. We will be closely monitoring this market for an attractive opportunity to move on Part 2 of our plan. At this time, only certain areas of the high yield market (like energy) have reached an extreme level, and until that happens we believe it is best to be allocated to high yield bonds via the active fund in Part 1.

The US Federal Reserve is now buying US high yield bonds, which should be a big boost to this asset class.

# Recent Trade– Gold Bullion



In recent weeks we added gold bullion to all model portfolios except equity-only or cash-only mandates. This trade has been working so far, as the price of gold is up over US\$100 since we entered, and recently reached a seven-year high. As of this writing, gold is up 14% this year while the TSX is down 18%. It has been an effective portfolio diversifier. We expect all of the money printing and stimulus to increase the relative value of gold, which seems to have been the case so far.

Source: Ocean Front Wealth Management, stockcharts.com

# Recent Trade– Newmont Goldcorp

NGT.TO Newmont Goldcorp Corporation TSE

15-Apr-2020

— NGT.TO (Daily) 81.93

▒ Volume 200,299

© StockCharts.com  
Open 82.70 High 84.05 Low 80.63 Close 81.93 Volume 200.3K Chg -0.83 (-1.00%)



This recent gold-miner position in our Dividend Growth Canadian Equity strategy has been working very well since our purchase on March 20. While most of the market has had a challenging 2020, gold-miners have been one of the strongest groups and are making new highs during the market turmoil.

Source: Ocean Front Wealth Management, stockcharts.com

# OFWM Momentum Strategy Update

Our momentum strategy raised cash in the portfolio as the market sold off, and briefly held about 50% cash in March. Since then it has rotated into some new holdings and is now about 84% invested with 12 holdings as of this writing.

The strategy has found strong trends in gold miners and gold royalty companies including Barrick Gold, Wheaton Precious Metals, and Franco-Nevada Corporation. Many technology companies also remain strong, including portfolio holdings Shopify, Real Matters and Kinaxis.

As you can see on the charts to the right, these six stocks are at or near new highs despite the market correction.



# Concluding Thoughts

We hope you enjoyed an unusual Easter holiday weekend this year like we did. Stay safe and healthy and don't hesitate to reach out to us with anything you would like to discuss.

In these challenging times in markets (as well life in general) we try to look to all the new opportunities and innovation that will come from the crisis.

“When the time comes to buy, you won't want to.”

- Walter Deemer

[oceanfrontwealthmanagement.com](https://oceanfrontwealthmanagement.com)

[Second Opinion Service™](#)

# References

<https://business.financialpost.com/news/economy/so-easy-i-thought-it-was-fake-cras-cerb-system-gets-stellar-reviews-in-first-days-of-operation>

<https://www.canada.ca/en/services/benefits/ei/cerb-application.html>

<https://www.canada.ca/en/department-finance/news/2020/04/covid-19-emergency-response-act-no-2-receives-royal-assent-to-help-businesses-keep-canadians-in-their-jobs.html>

<https://www.frbsf.org/education/publications/doctor-econ/2007/february/recession-depression-difference/>

[https://fraser.stlouisfed.org/files/docs/publications/1943chart\\_busibooms.pdf](https://fraser.stlouisfed.org/files/docs/publications/1943chart_busibooms.pdf)

<https://www.ssa.gov/>

<https://www.historymuseum.ca/>

<https://fraser.stlouisfed.org/title/booms-depressions-104>

<https://data.nber.org/cycles/cyclesmain.html>

<https://fred.stlouisfed.org/series/WALCL>

<https://fred.stlouisfed.org/series/INDPRO#0>

<https://ca.finance.yahoo.com/news/bank-of-canada-meeting-april15-140700373.html>

<https://ca.finance.yahoo.com/news/bank-canada-expands-purchases-provincials-144237141.html>

<https://abcnews.go.com/Business/coronavirus-economic-updates-imf-predicts-worst-recession-great/story?id=70138583>

<https://ca.finance.yahoo.com/news/jpmorgan-q1-earnings-during-covid19-pandemic-111708844.html>

## Disclaimer

This information has been prepared by Scott Keast and Shane McMahon who are Portfolio Managers for HollisWealth® and does not necessarily reflect the opinion of HollisWealth®. The information contained in this presentation comes from sources we believe reliable, but we cannot guarantee its accuracy or reliability. The opinions expressed are based on an analysis and interpretation dating from the date of publication and are subject to change without notice. Furthermore, they do not constitute an offer or solicitation to buy or sell any of the securities mentioned. The information contained herein may not apply to all types of investors. HollisWealth® is a division of Industrial Alliance Securities Inc., a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada.