

# CHARTBOOK

## Market Comment

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# Market Comment

Markets pulled back early in the week after a rally from the March lows of over 30%. US Federal Reserve Chairman Jerome Powell gave a speech on Wednesday in which he seemed to be less optimistic on the economic recovery than he was a few weeks ago.

*“The recovery may take some time to gather momentum, and the passage of time can turn liquidity problems into solvency problems,”* Powell said.

Insolvencies can *“limit the strength of the recovery when it comes,”* Powell said. He reiterated that the bank will continue to use its tools to mitigate the damage to the economy, and that the government should do the same with future relief packages.

*“Additional fiscal support could be costly, but worth it if it helps avoid long-term economic damage and leaves us with a stronger recovery,”* Powell said.

Governments in the US and Canada continue to work on new fiscal stimulus packages. Prime Minister Justin Trudeau announced new measures this week.

# 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/>

Updates on government relief programs:

- The government is providing \$300 in aid to seniors who qualify for Old Age Security and an additional \$200 to those who also qualify for the Guaranteed Income Supplement;
- The government will provide bridge loans to large employers through the new Large Employer Emergency Lending Facility (LEEFF). The program comes with strict conditions, including maintaining employment levels, environmental assessments, and limits on dividends, buy-backs and executive compensation;
- The Canada Emergency Wage Subsidy program is being extended, it was previously scheduled to end in mid-June.

# Fiscal Stimulus (continued)



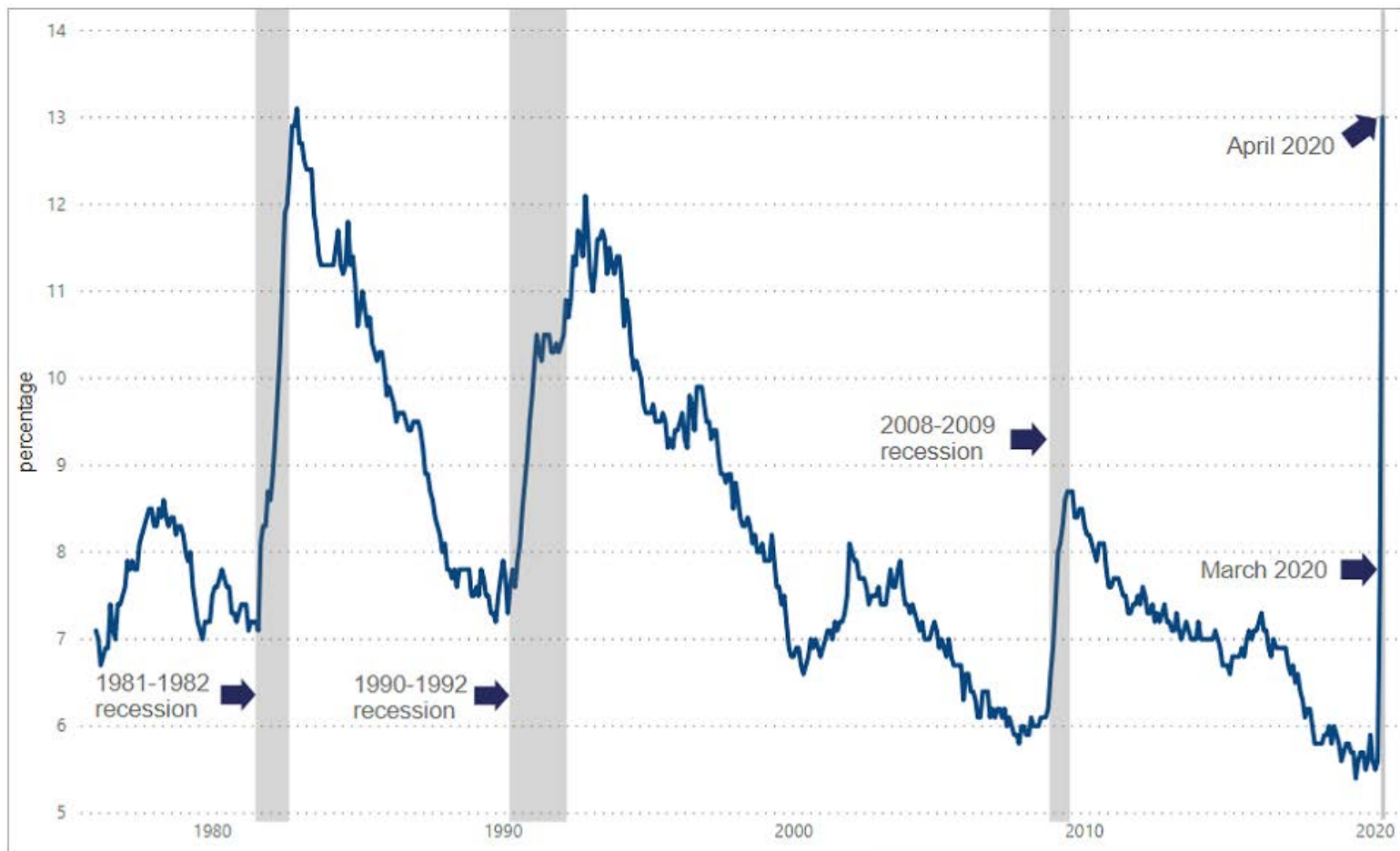
How do we deal with the accumulated debt from deficit spending? Governments have four methods available to them.

1. Cut spending (AKA “austerity”)
2. Debt defaults and restructurings
3. Wealth transfers from the “haves” to “have-nots” (usually through taxation)
4. Devaluing money (by printing new money)

Austerity usually means significant hardship for certain groups, such as those who rely on entitlement programs like CPP. One person’s debt is another person’s asset, so debt defaults are undesirable because they destroy wealth (and perceived creditworthiness). Additionally, these first two methods are both deflationary, and governments want to avoid deflation at all costs, so they are less likely to be the chosen path. New taxation is a possibility but is challenging politically.

A likely path is the devaluation of money. A government can print new money to pay its debts. This decreases the real value of both existing money and debt. This has happened many times in the past. In the US it happened most recently in the 1970’s and the 1930’s before that. Each of those times the US left the gold standard in order to allow its currency to devalue and pay its debt. Deficits had accumulated at those times as a result of the Vietnam war and the Great Depression. In these types of scenarios, cash is a poor store of wealth and it is best to hold wealth in other assets like gold, stocks and foreign currencies (as long as the foreign country is not devaluing its currency as well).

# Employment - Canada



Source(s): Table 14-10-0287-01 (formerly CANSIM table 282-0087).



The unemployment rate rose to 13% in April, the second highest reading on record.

# Employment – Canada (continued)



## Participation rate

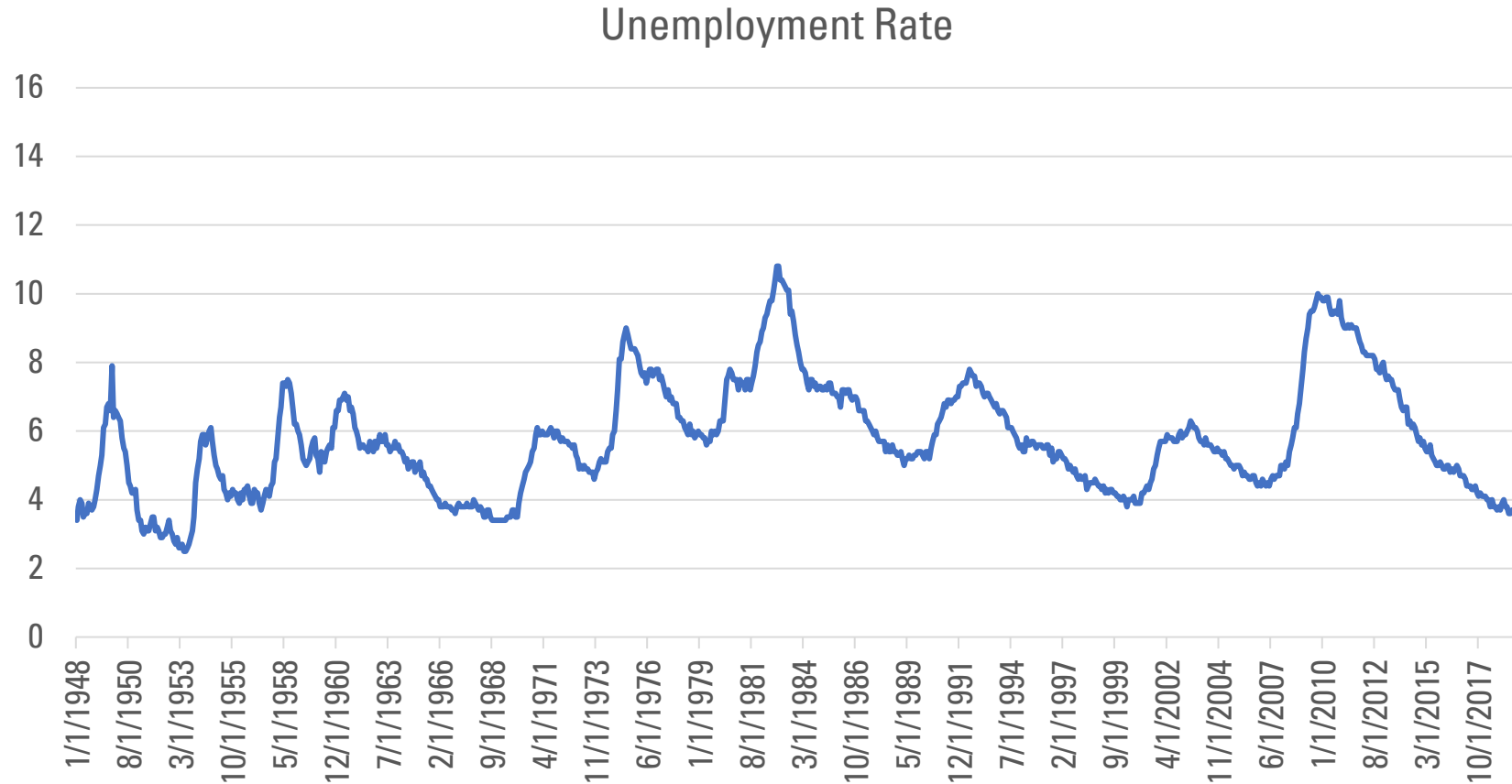
per cent



Source: Statistics Canada, The Canadian Press

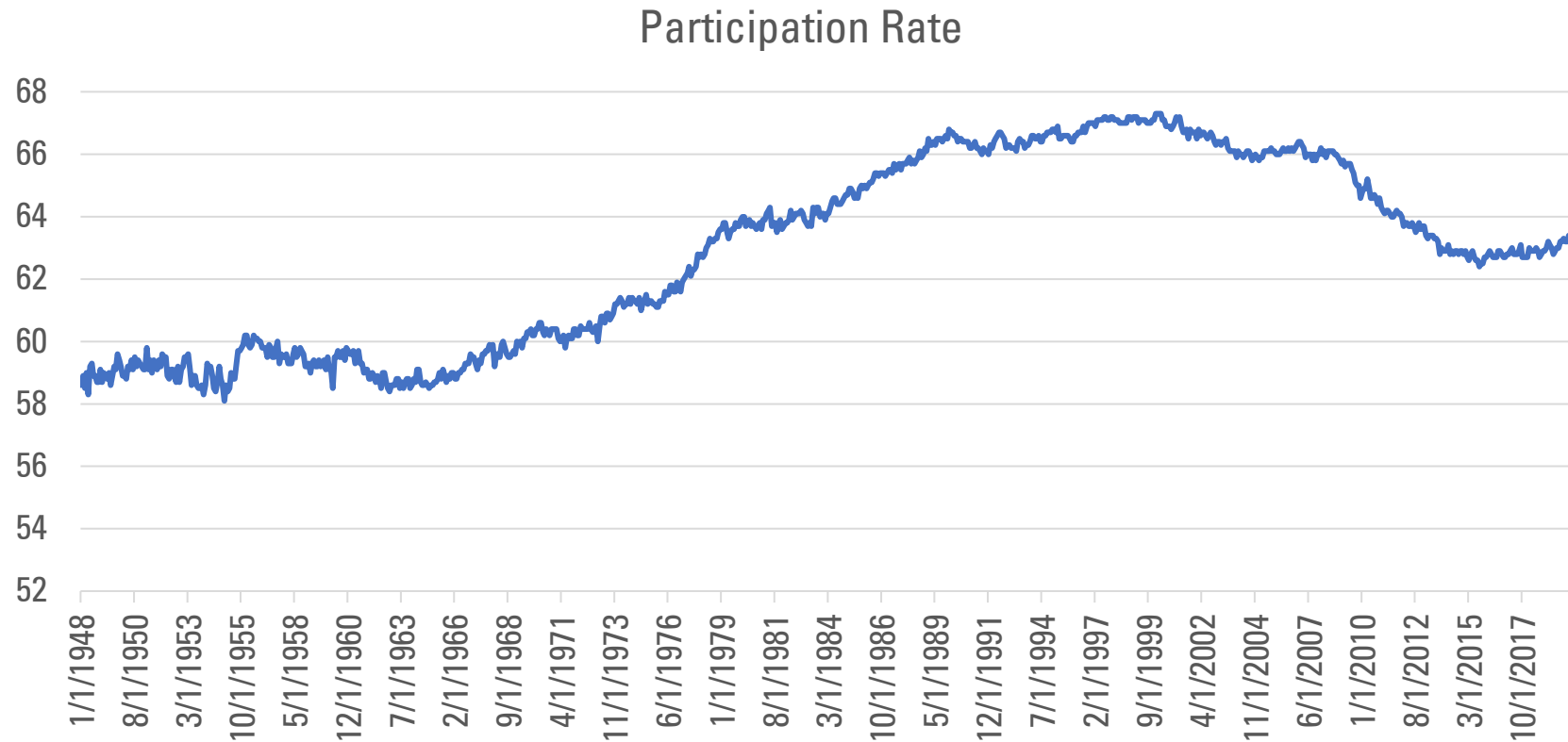
While, the unemployment rate rose to 13%, the participation rate fell 6% to 59.8%. These workers are called “discouraged workers” who are not looking for work and are excluded from the unemployment rate calculation, so this suggests job losses were greater than what is reflected in the unemployment rate alone.

# Employment - USA



The unemployment rate in the USA reached the highest level of any time post-WW2. The duration of unemployment is what is most important now. With government benefits supporting workers in the interim, the economic damage can be limited if people return to work relatively quickly.

# Employment – USA (continued)



The labour force participation rate fell to 60% in the US, the lowest rate since the 1970's.



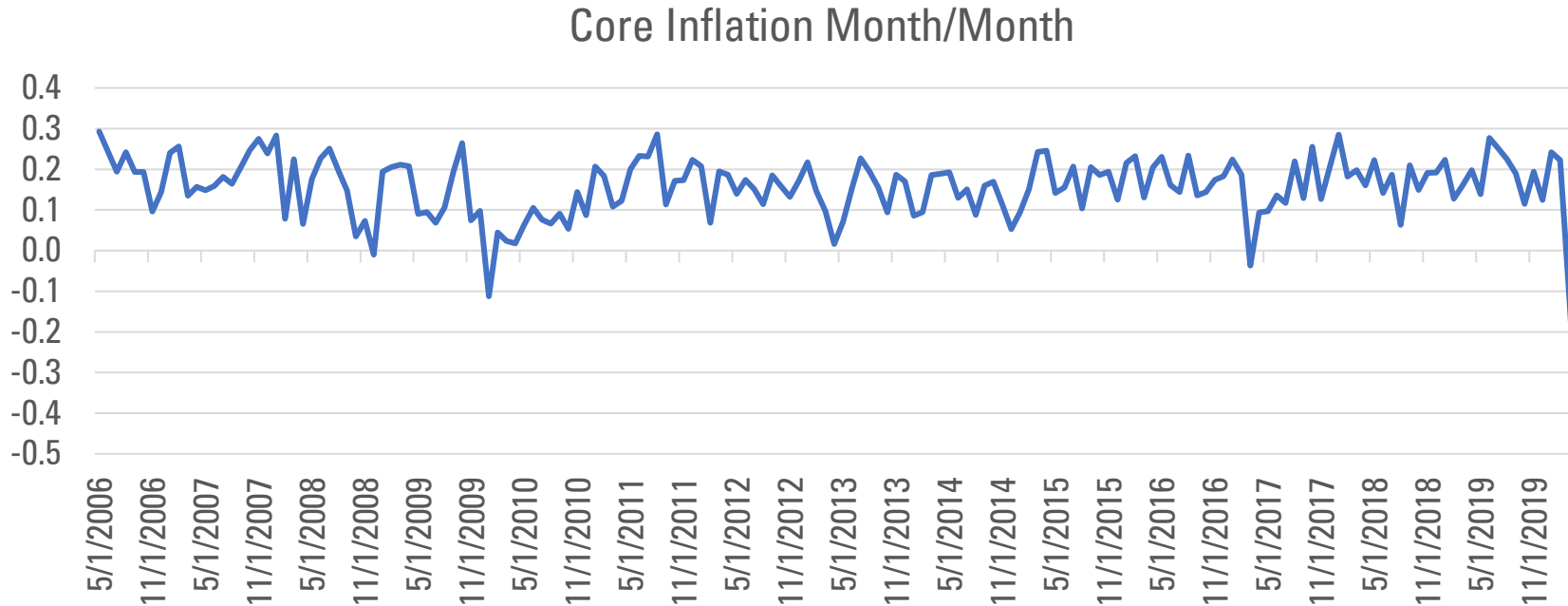
# Employment – USA (continued)



Tracking unemployment insurance claims by state, we see that the hardest hit states have been mostly in the south. As this is historically a right leaning area, this could have some interesting implications in the upcoming election.

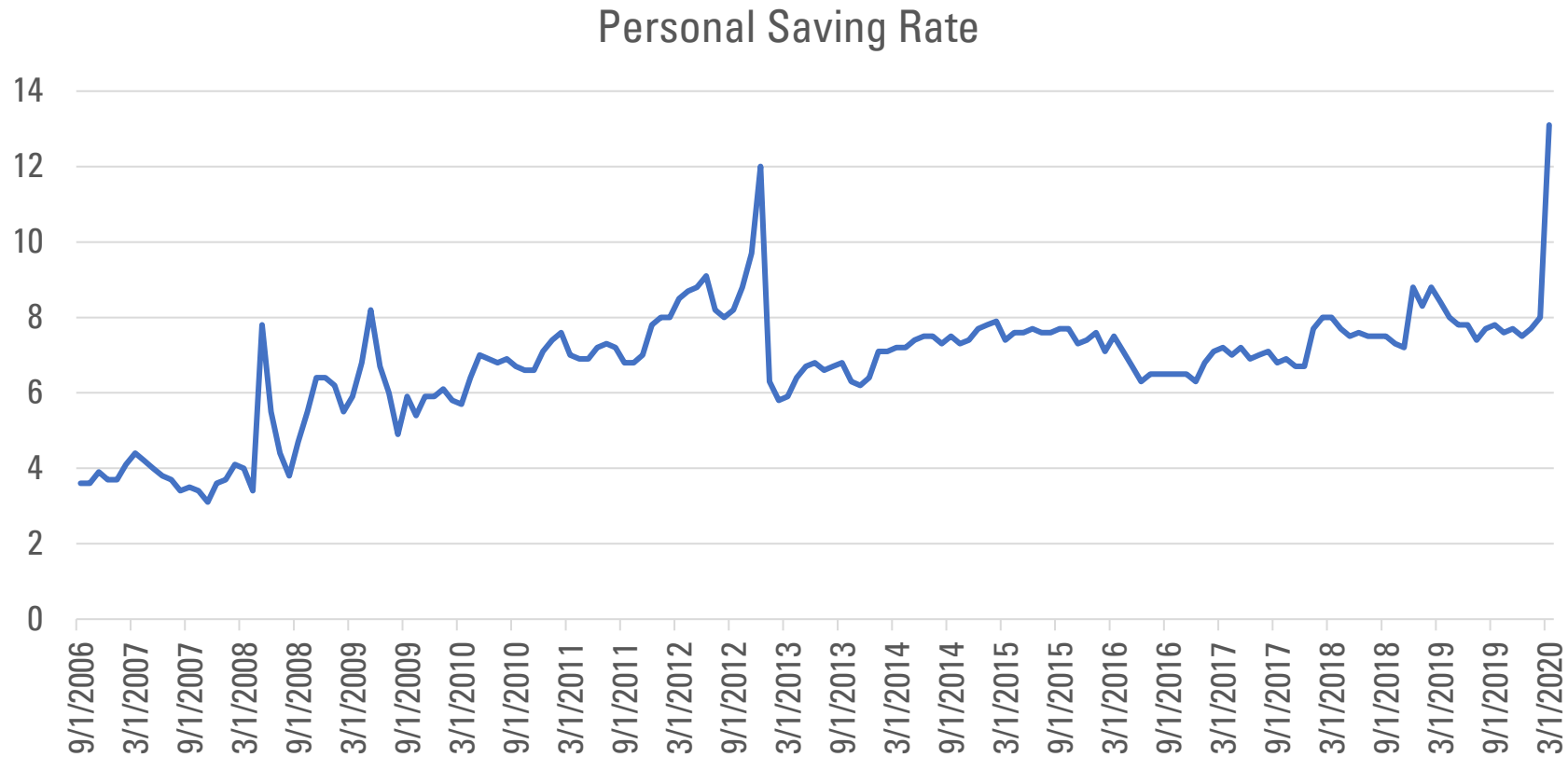
Breaking down unemployment data further, a US Federal Reserve Survey showed a staggering 40% job-loss rate among households earning less than \$40,000 per year. This recession has so far exacerbated wealth inequality between the upper and lower class.

# Inflation - USA



More signs of deflation are showing in the economy, with the month over month core inflation coming in at -0.4% for April. This is exactly what governments and central banks don't want, because in real (ie: 'inflation adjusted') terms, debts and interest rates increase with deflation and decrease with inflation. The last thing heavily indebted governments, corporations and consumers need is for their debts and interest payments to grow.

# Personal Savings - USA



Another characteristic of deflationary environments is an increase in personal savings, which we are now seeing in the data with a spike in March. When the purchasing power of money increases over time due to deflation, people are more inclined to save or defer purchases than spend now. A high rate of savings can also be a contributing cause of deflation, as people save rather than spend, prices of goods tend to fall from lack of demand.

# Consumer Demand - Canada

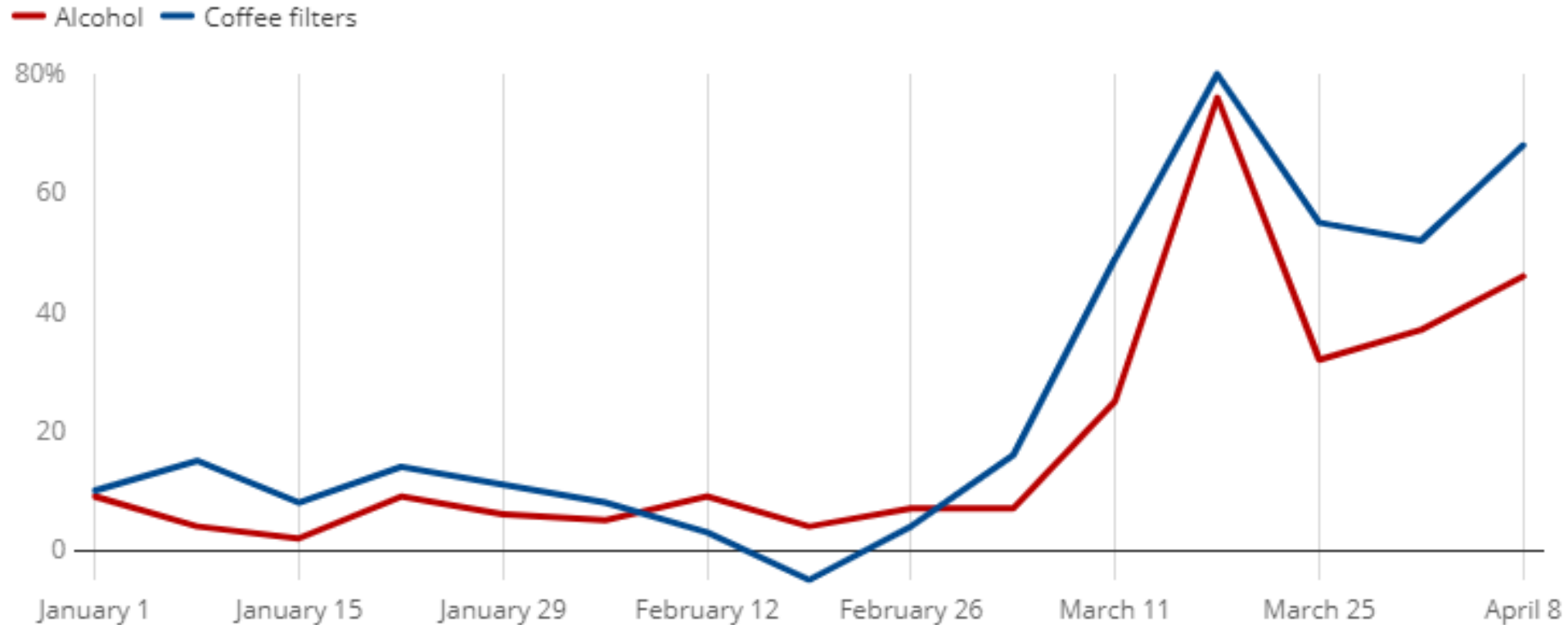
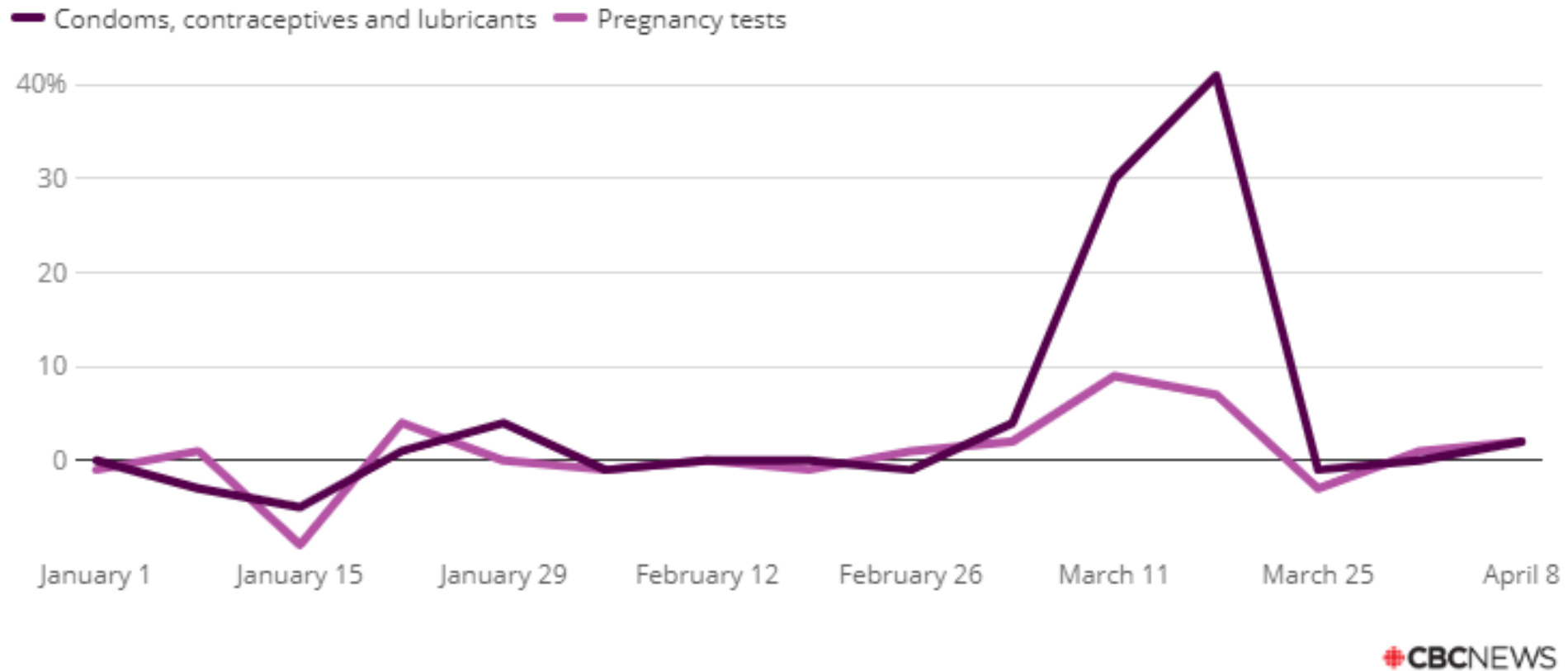


Chart: Pete Evans/CBC • Source: Statistics Canada



Demand hasn't fallen for all products. It appears that people are at home drinking coffee and alcohol all day long. Alcohol sales at grocery stores were 76% higher than normal in the third week of March.

# Consumer Demand - Canada



Demand is also up for family planning products, though it fell back to normal levels in April. Do we see a baby boom in December? There could be an interesting demographic effect of the pandemic.

Source: CBC<sup>12</sup>, Ocean Front Wealth Management

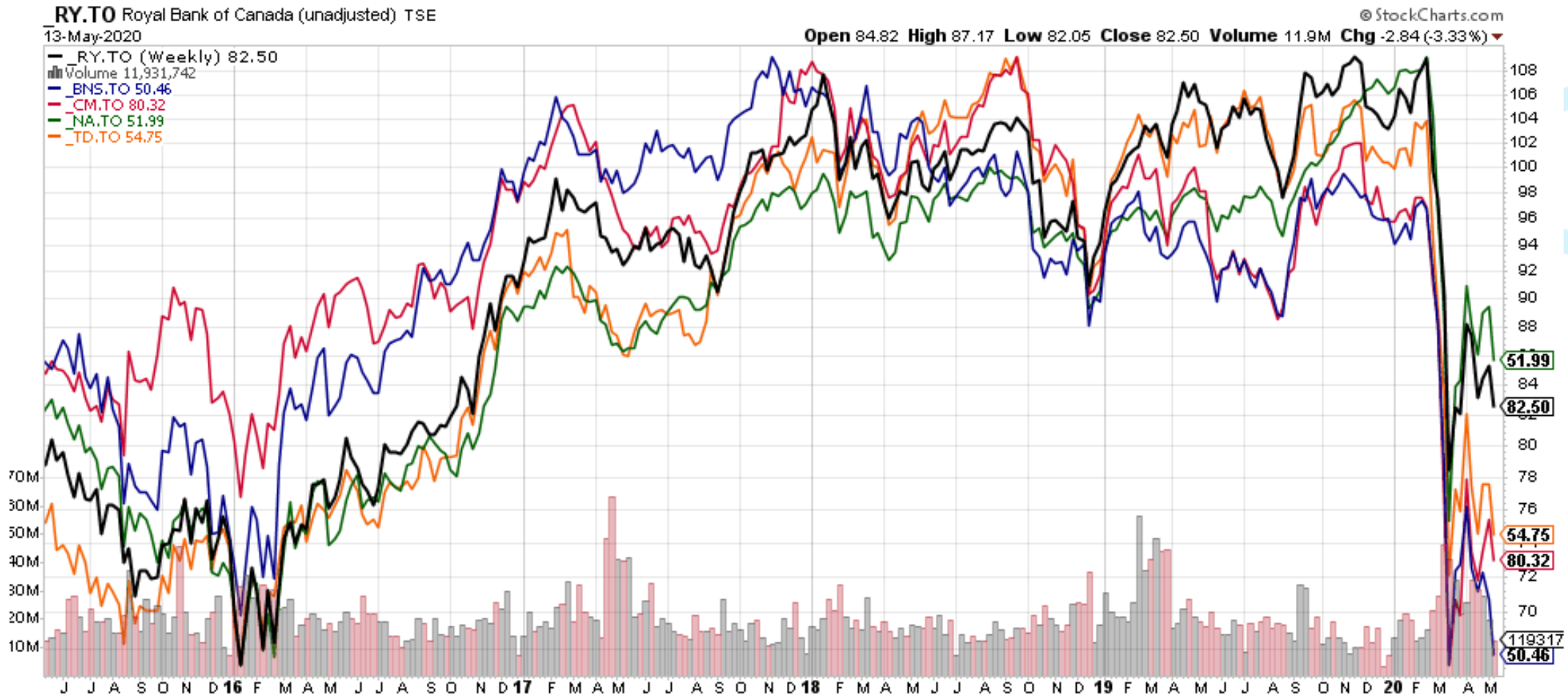
# Canadian Companies by Market Capitalization



Last week Shopify Inc. (red line) surpassed Royal Bank (white line) as the largest Canadian company by market capitalization. This has happened several times before with Nortel Networks (blue), BlackBerry (orange) and Valeant Pharmaceuticals (purple), but unfortunately for those companies their reigns were short. Shopify is a holding in our OFWM Momentum Strategy.

Source: Bloomberg Professional, Ocean Front Wealth Management

# Canadian Banks

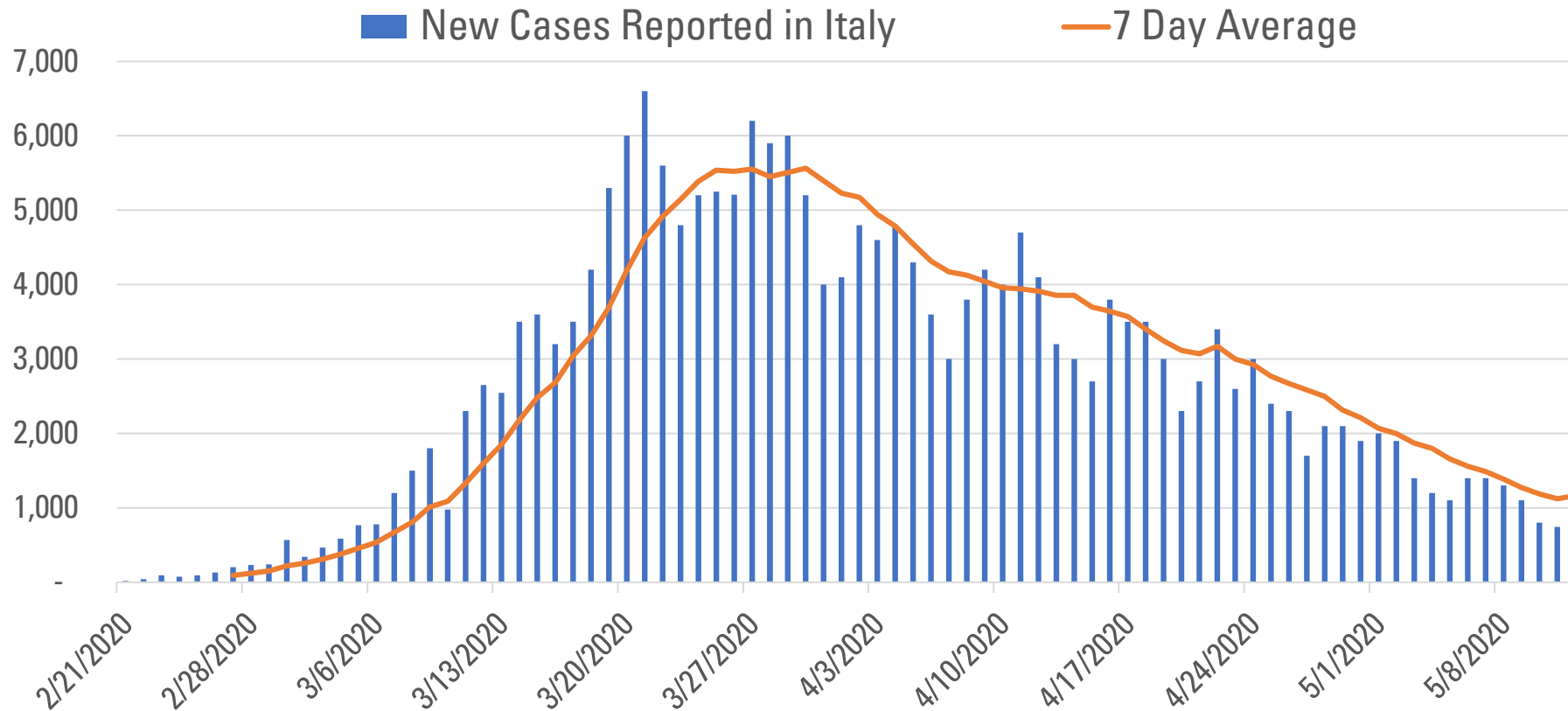


This is a price chart of the 5 largest Canadian banks, Royal Bank, TD, Scotia, CIBC and National. Most of them have nearly wiped out the gains in price dating back to 2016, and financials has been one of the weakest sectors in the market of late. We recently exited all of our bank positions in our Dividend Growth Canadian Equity strategy, and are now holding a significant cash balance rather than new stock positions.

Source: Stockcharts.com, Ocean Front Wealth Management



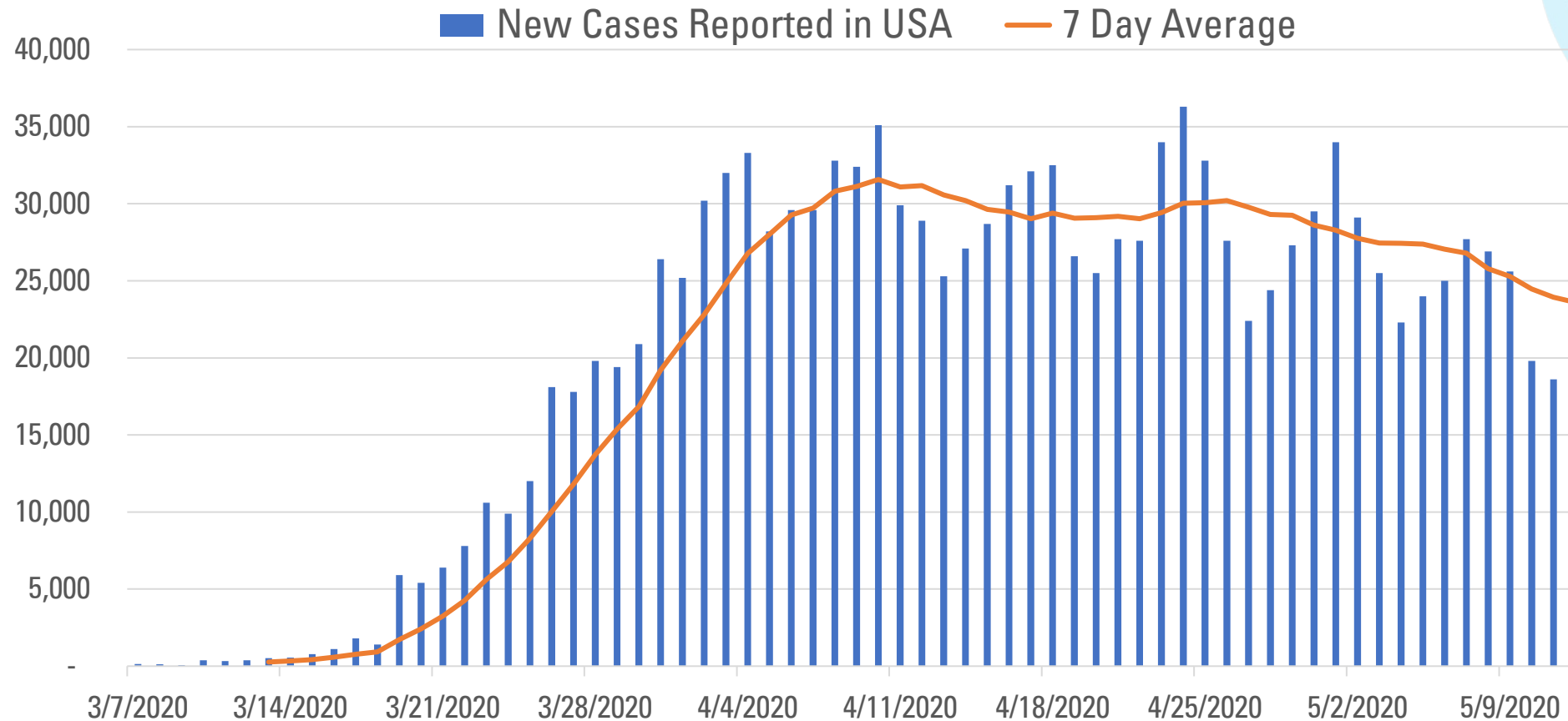
# Spread of COVID-19 in Italy



Italian case growth is still in steady decline. Italy is beginning to reopen.

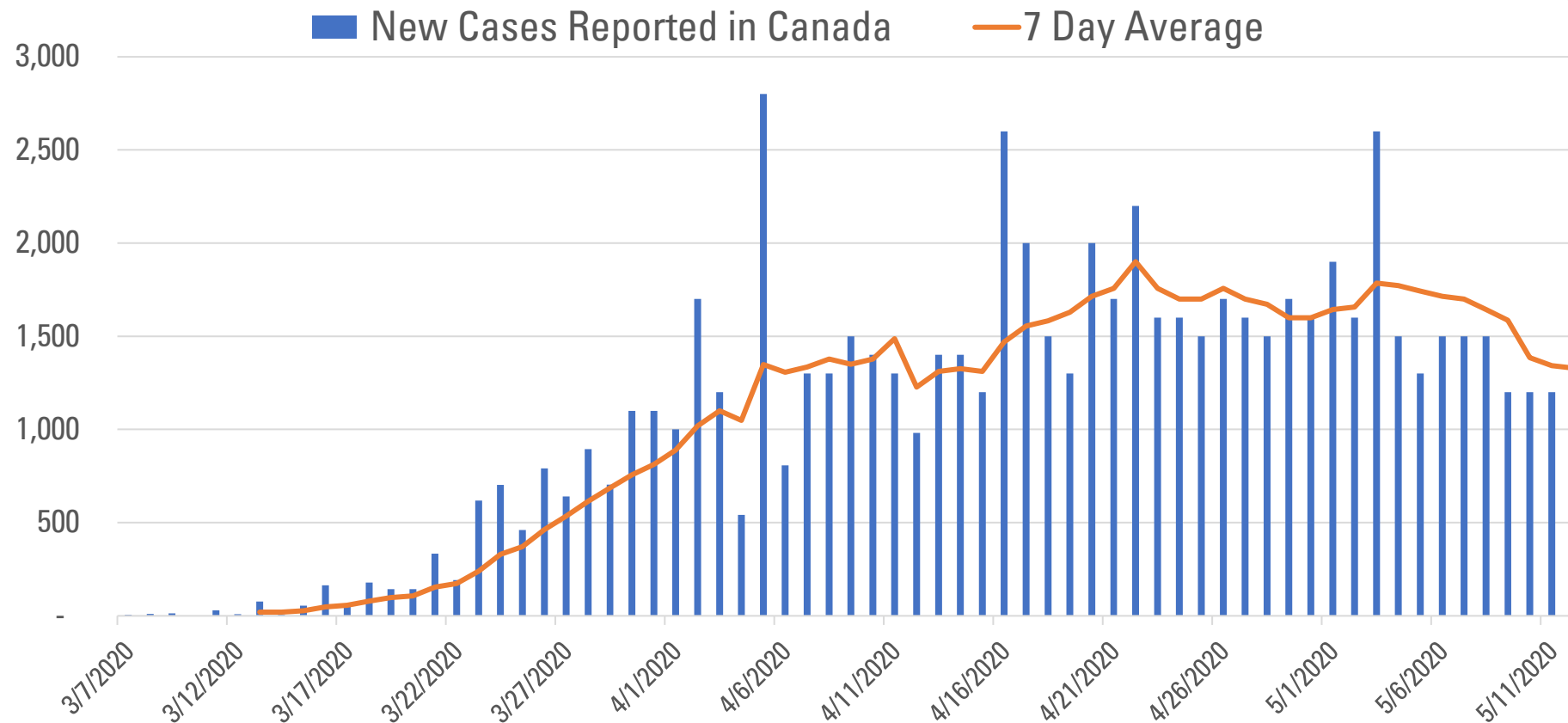


# Spread of COVID-19 in USA



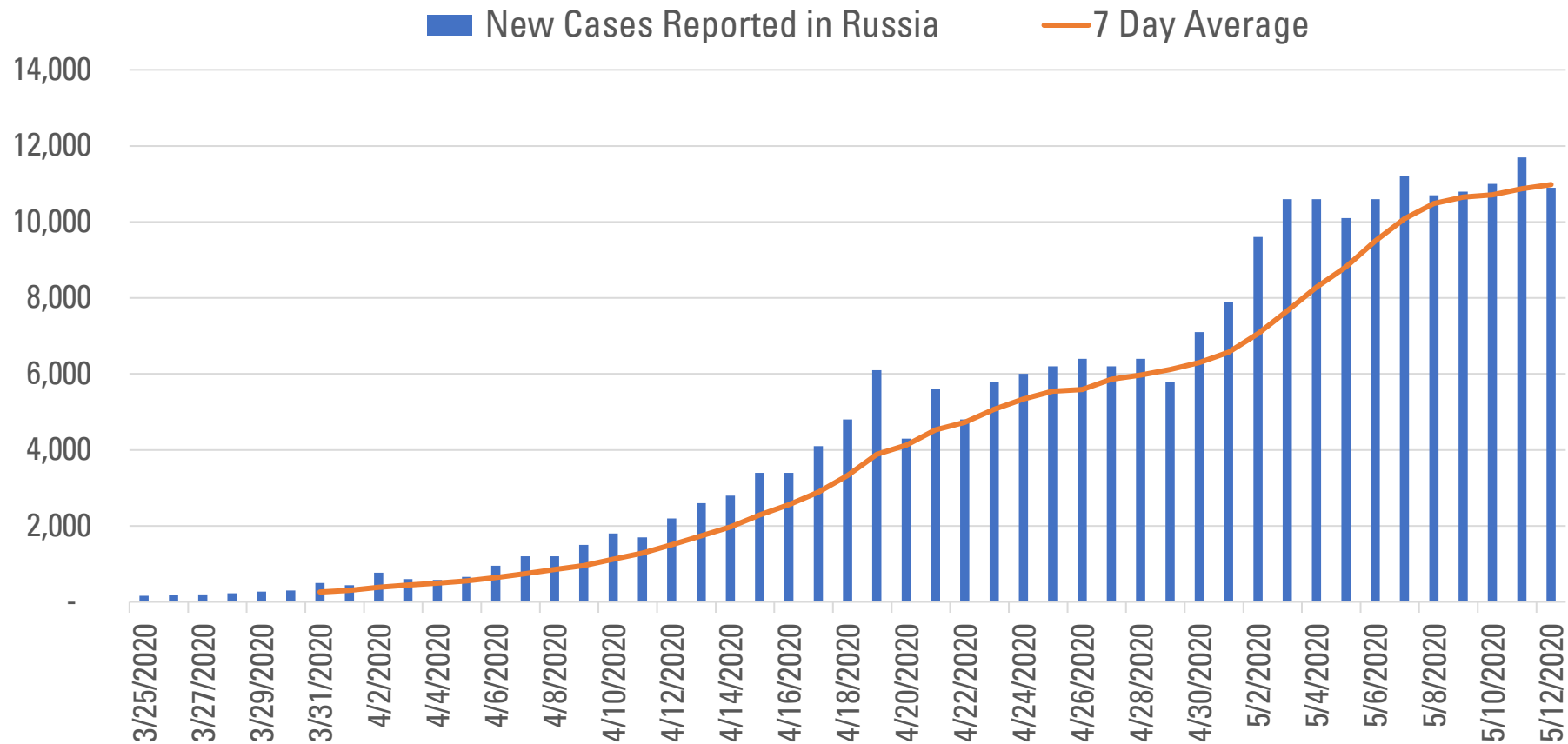
US case growth has gradually declined over the past couple of weeks.

# Spread of COVID-19 in Canada



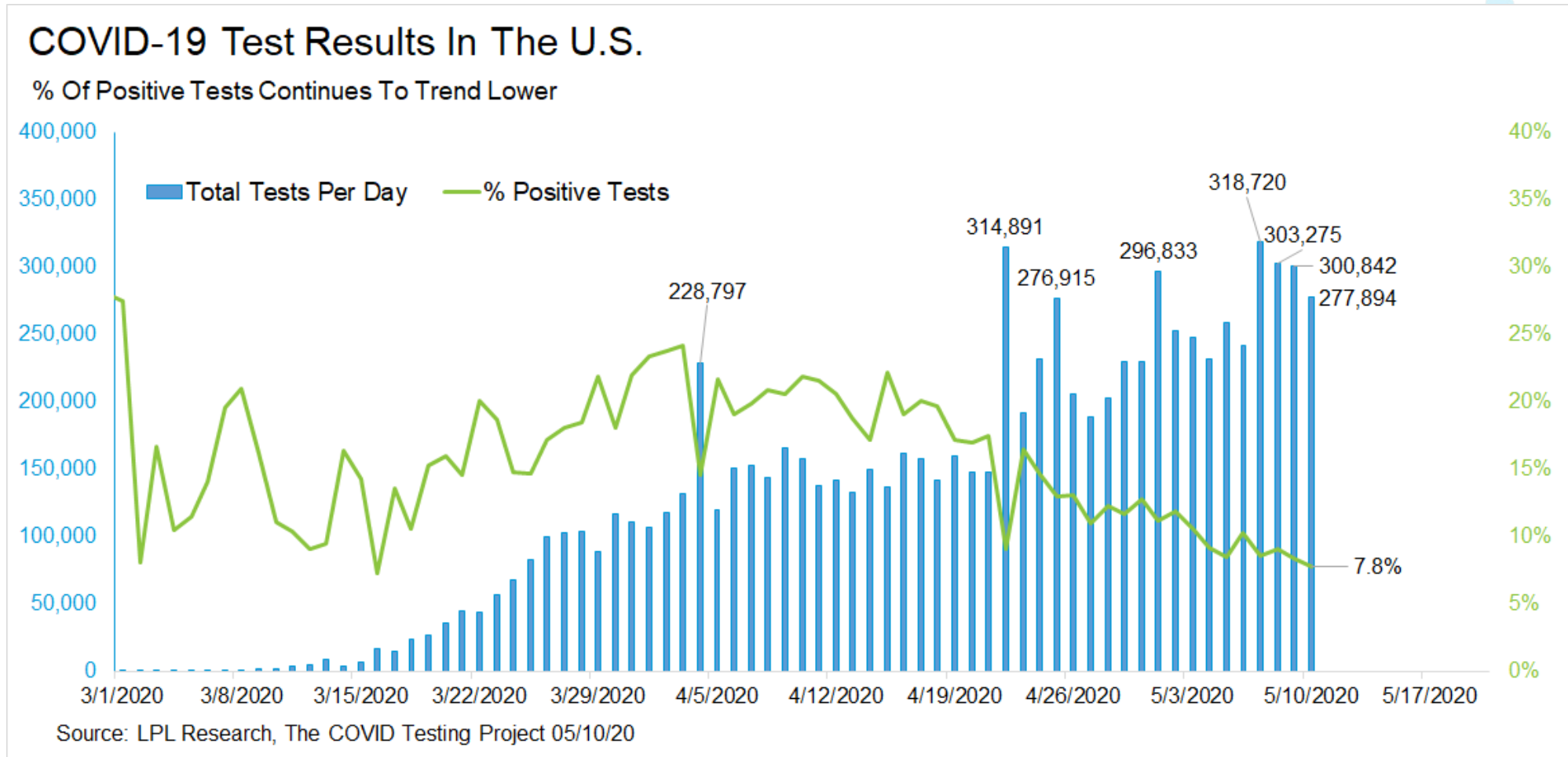
Canadian case growth is in slow decline as the country re-opens.

# Spread of COVID-19 in Russia



Russia is an example of a poor outcome, where growth slowed then re-accelerated. Russia now has the second highest amount of cases behind the US.

# Testing Capacity - USA



An important part of re-opening is being able to test and track virus cases to prevent new outbreaks. The US has ramped up its testing capacity substantially, and the positive test rate has declined.

# Concluding Thoughts

It is hard to imagine a time where there could be more uncertainty in the world and markets than there is today. How successful will the re-opening be? Will there be more outbreaks? How long will it take economic activity to return to prior levels? Will the virus mutate? When will a vaccine be available?

We always focus on risk management, and that is especially important now in this uncertain environment. There is a time to play offence and a time to play defence. We have reduced equity market risk across the portfolios and believe this is not yet the time to get aggressive but, we are looking at attractive opportunities that may yet arise.

Stay safe and healthy, and don't hesitate to call if there is anything you would like to discuss.

*"No amount of sophistication is going to allay the fact that all your knowledge is about the past and all your decisions are about the future."*

- Ian Wilson (former chairman of GE)

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