

# CHARTBOOK

## Market Comment

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# Market Comment

Saturday was Berkshire Hathaway's Annual General Meeting of Shareholders and many investors were interested to hear comments from CEO Warren Buffett on the state of the economy and markets. Berkshire Hathaway is currently holding US\$137 billion in cash, which has increased by US\$10 billion since December, and only made small stock purchases in the first quarter. Investors have watched this number closely to gain insight into Buffett's view on the market.

The large amount of cash may be seen as pessimism on Buffett's part, especially after the recent 30%+ decline in price apparently wasn't enough for him to find an attractive opportunity to invest in a significant way.

Buffett spoke very highly of the Federal Reserve and the quick and decisive intervention it has made in markets, and specifically credit markets, allowing credit to keep flowing to firms in need of it. This seemed to imply that he thought the crisis would be much worse in markets were it not for the actions of the Federal Reserve.

He said his cash reserve is larger than he needs, but that Berkshire Hathaway prepares prudently to ensure it doesn't need to rely on the Federal Reserve or anyone else in a crisis. Even so, it's notable that Buffett hasn't bought stocks yet.

Berkshire Hathaway hasn't been buying, but has sold all of its airline stocks. Famous for being a long-term investor, this is particularly interesting because it implies that Buffett has a negative view on this industry even over the long-term.

# 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:

- Families receiving the Canada Child Benefit can now receive an extra \$300 per child in May
- The government will provide \$252 billion in aid to the agriculture industry, which includes \$50 billion to purchase surplus supplies of food due to the loss of demand from restaurants and other buyers
- CBC reported that many Canadians are receiving the Canada Emergency Response Benefit even though they may not qualify. Government officials said they knew this was a risk, but it was one they were willing to take to ensure that the aid got into the hands of those who did need it quickly. We expect many audits and clawbacks in the coming years.

# Fiscal Stimulus, continued:

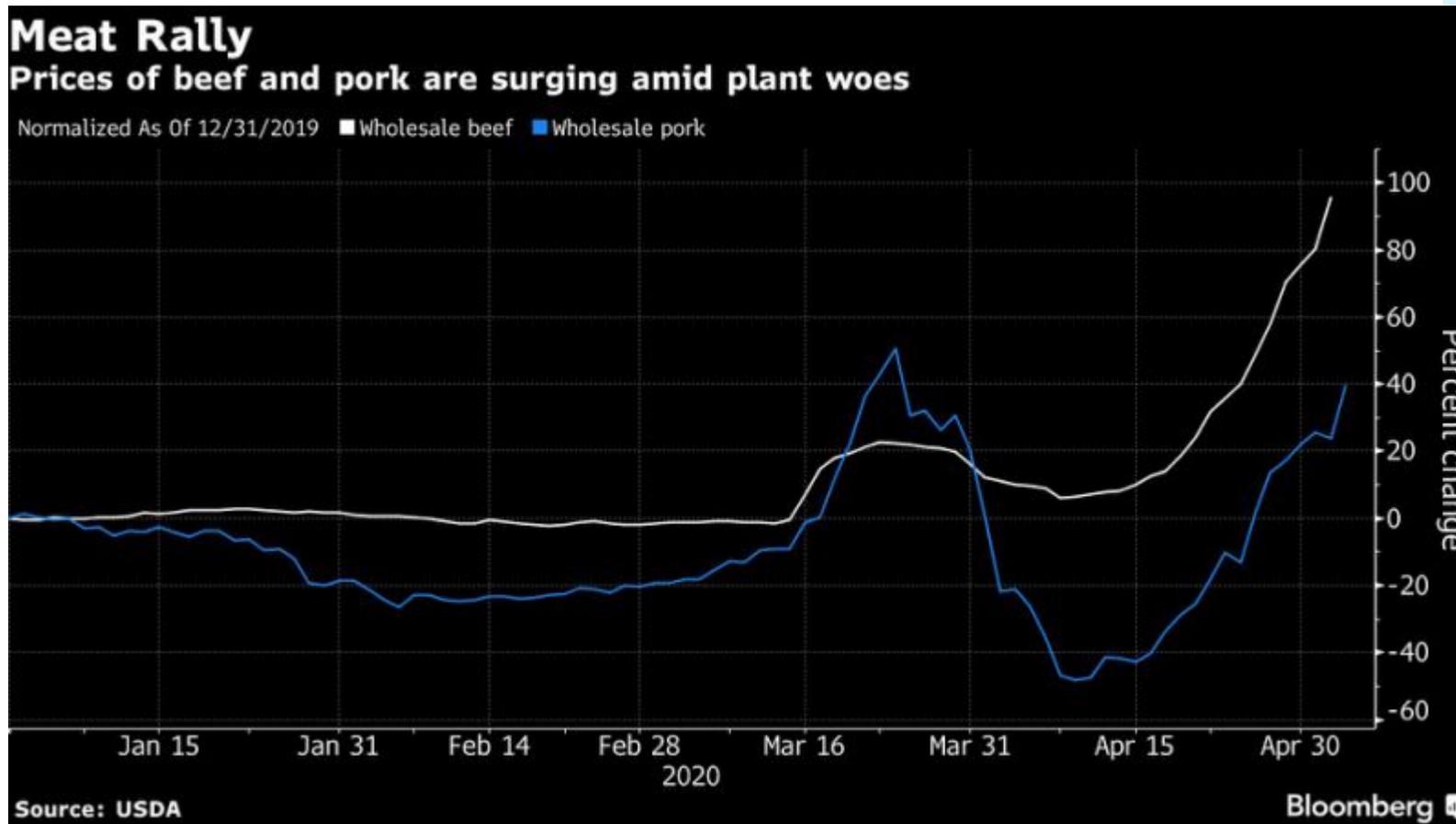
What will the consequences of this money printing and indebtedness be?

This has been a major focus of our research. There are many possibilities, and there is a lot of uncertainty as to how things will play out. At this time, the government is attempting to counteract the deflationary forces of the virus' impact with inflationary policies and money printing. Deflation can be very damaging to an economy, as it increases real interest rates and debt, and encourages people to hoard cash rather than spend. Despite the efforts of the government, inflation has been slowing, but is not yet in negative (deflationary) territory.

One of the possible outcomes is a substantial increase in inflation. Should the virus become contained and the economy return to a relatively normal state, removing the deflationary forces, we could be left only with the inflationary effects. A period of high inflation would likely be negative for bonds and positive for gold. The most common way central banks fight inflation is by raising interest rates. Central banks could find themselves in a difficult position of having to choose between allowing inflation to run high or raising rates and potentially hurting economic growth during the recovery.

A long-term consequence of deficits, debt and money printing is often currency devaluation. Extreme cases in the past have seen currencies become almost worthless. Examples include Zimbabwe and Venezuela (most recently), Weimar Germany after WW1, and the US Continental currency used to pay for the Revolutionary War. This is a larger concern for countries if their debts are denominated in foreign currencies. In periods of high inflation, it is usually beneficial to store wealth in alternative stores of value, like gold, or foreign currencies which are experiencing lower inflation.

# Inflation in Meat Prices



While on the whole the effect of the virus has been deflationary, there are some areas of the economy seeing significant inflation. Outbreaks at many meat processing plants are causing substantial inflation in meat prices, approaching a 100% increase for US beef. Wendy's has even removed burgers from some of its menus.

# Global Stimulus



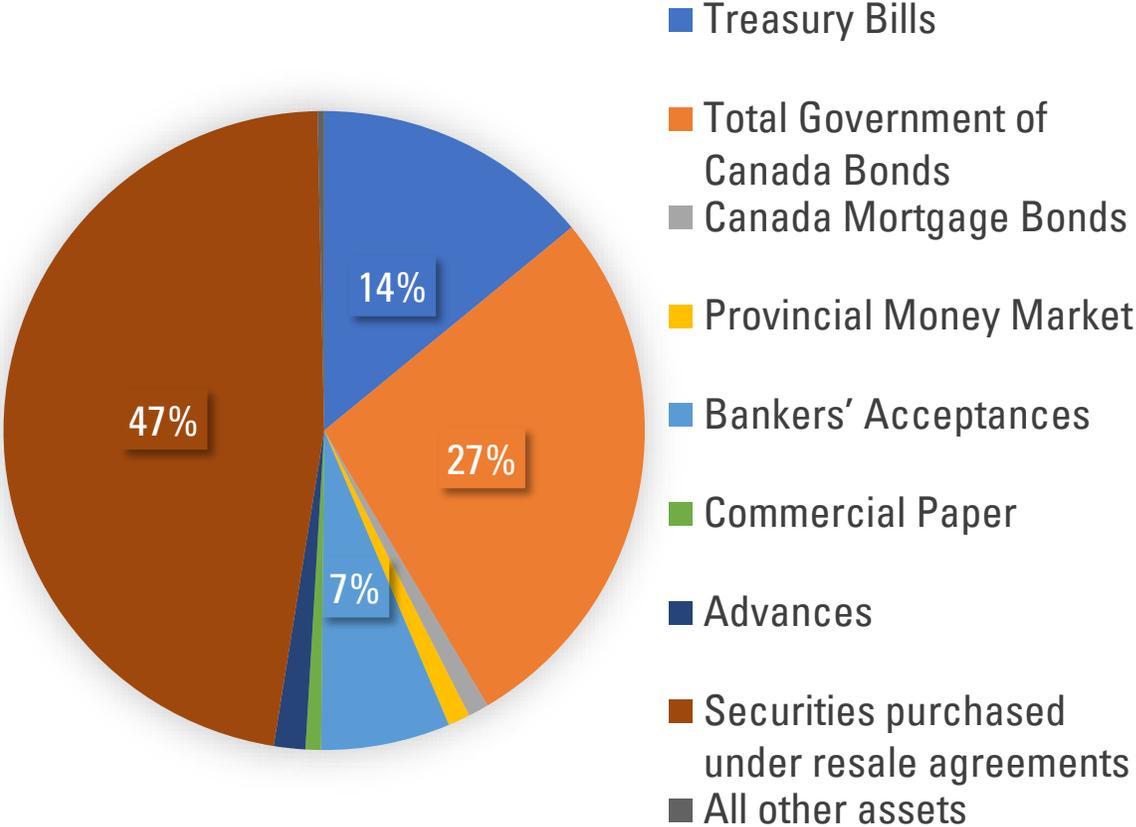
	Monetary Policy	Fiscal Policy
<b>U.S.</b>	Rates cut to 0-0.25%. Unlimited asset purchases.	\$2.9 trillion stimulus (15% of GDP).
<b>Japan</b>	Short-term rate at -0.1%; 10-year yield target at 0%, with no limit on JGB purchases. REIT and ETF purchases doubled. CB and CP purchases more than tripled.	¥117 trillion yen stimulus (22% of GDP). Package includes existing measures.
<b>Germany</b>	ECB deposit rate at -0.5% already testing effective lower bound.	€156 billion stimulus (4.5% of GDP).
<b>France</b>	Asset purchases expanded by €120 billion by year end.	€45 billion stimulus (1.8% of GDP).
<b>Italy</b>	Pandemic Emergency Purchase Program to buy €750 billion of bonds.	€20 billion stimulus (1.2% of GDP).
<b>U.K.</b>	Rates cut to 0.1%. Purchase of £200 billion in bonds.	£68 billion stimulus (3% of GDP).
<b>Canada</b>	Rates cut to 0.25%. Program to buy C\$5 billion a week of government bonds.	C\$260 billion stimulus (11% of GDP).

**Note:** **Green** = adequate policy response  
**Orange** = partial policy response  
**Red** = so far policy response insufficient  
 Colors based on Bloomberg Economics' judgement, noting limited space for conventional monetary response.

This is a summary from Bloomberg of stimulus measures taken by governments and central banks around the world.

The asset purchases and bond buying mentioned in the Monetary Policy column are often the central banks buying their own government's bonds to help finance the stimulus spending in the Fiscal Policy column.

# Assets Held by the Bank of Canada

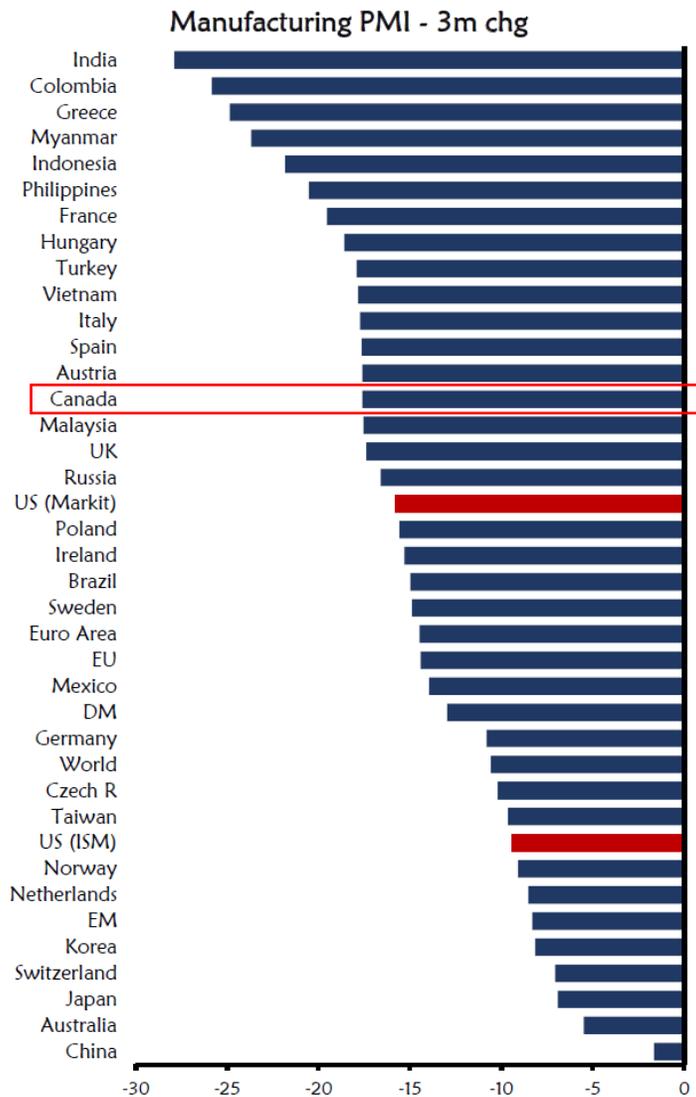


The Bank of Canada holds \$384 billion of assets, including \$162 billion in bonds issued by the Government of Canada. This is one way governments finance their deficit spending.

Almost half of the bank's holdings are Purchase and Resale Agreements ("Repos") which are used to provide short-term liquidity to banks and other corporations.

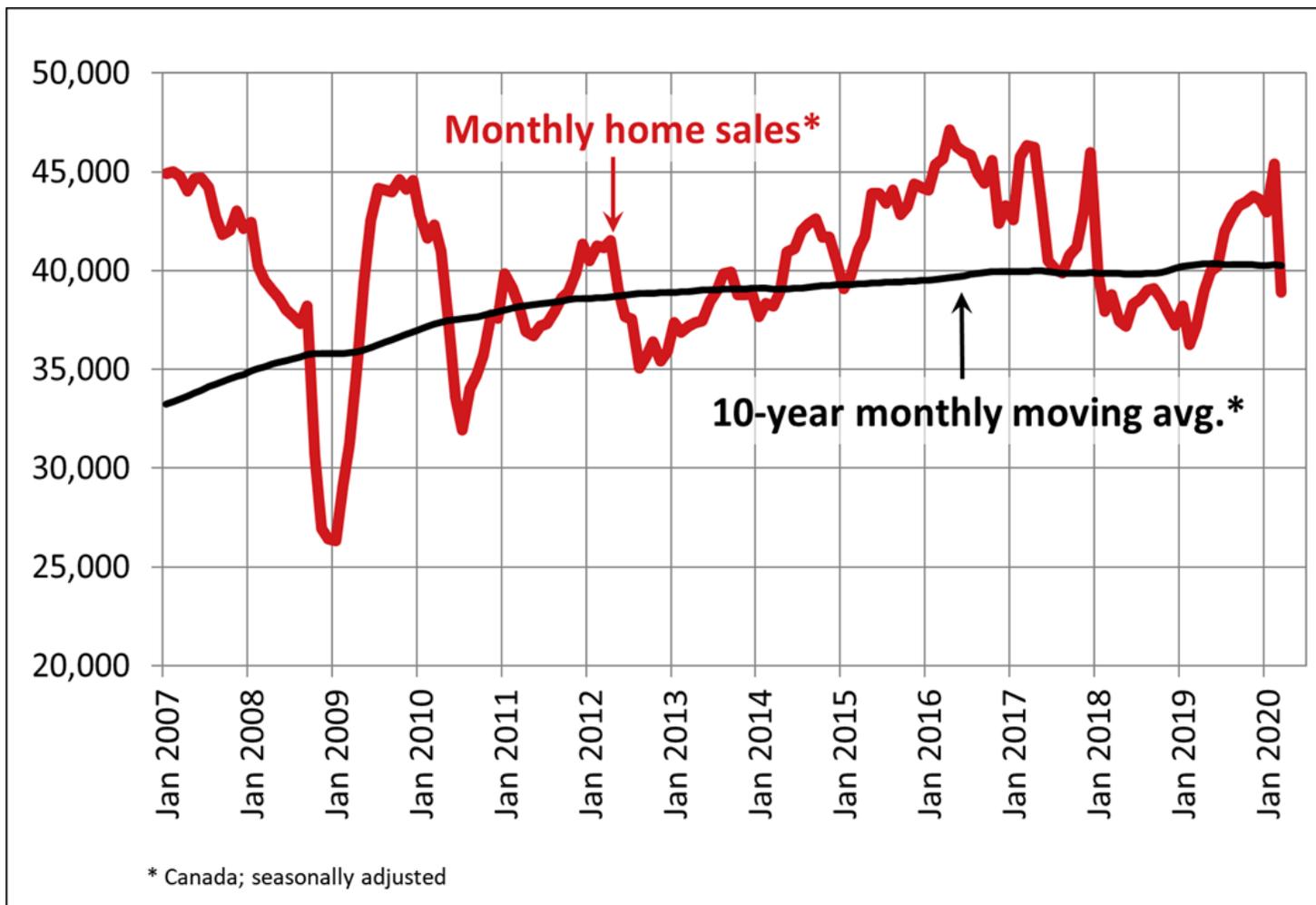
# Purchasing Managers Index

Figure 3: Manufacturing PMI (3m chg)



The Purchasing Managers Index for manufacturing is declining in every country listed in the chart. This is evidence of significant contraction in manufacturing and is considered a leading indicator for the economy.

# Home Sales - Canada



Monthly home sales have been steadily declining, which we expect to continue. Prices typically lag this data, meaning they decline after sales do.

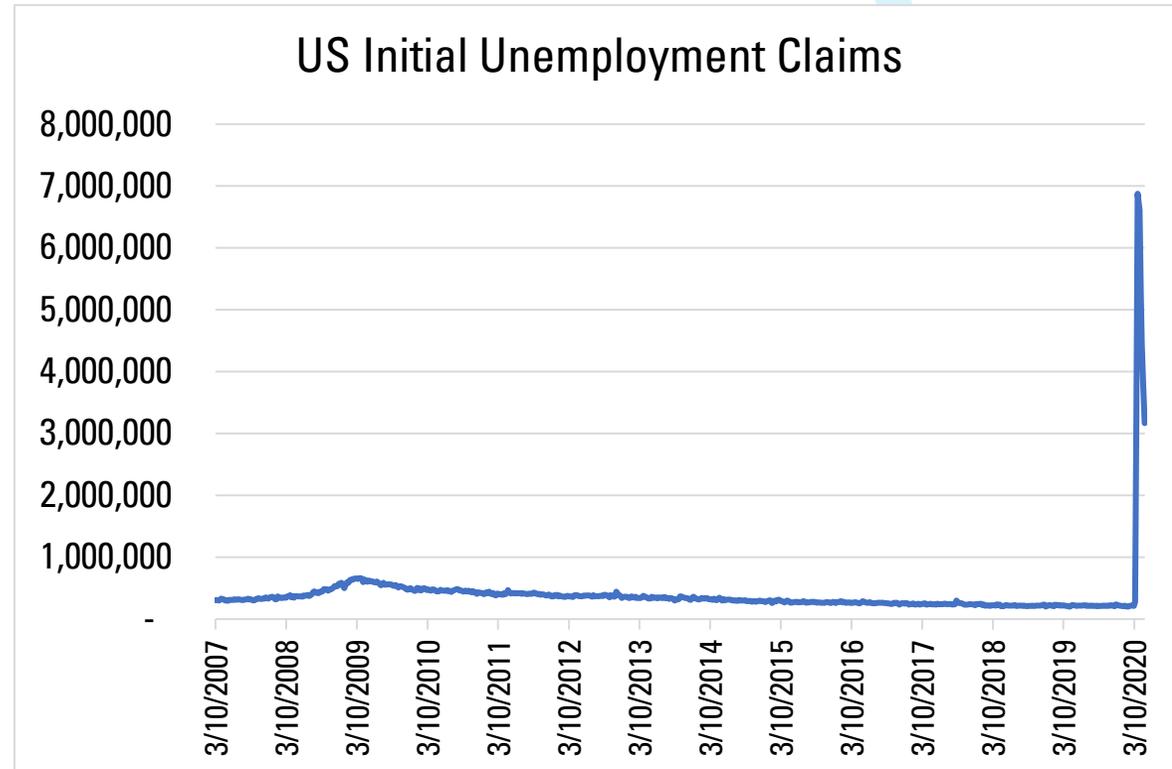
The Canada Mortgage and Housing Corporation (CMHC) said on Tuesday that they don't expect prices to reach pre-recession levels again until at least late 2022.

CMHC also said that about 10% of mortgages are in payment deferral, which could put significant stress on lenders like banks.

# Unemployment Claims - USA

Initial unemployment claims continue to be massive in the US. Compared to the last recession in the US, there have been about 16 million less claims in 2020 to date than during the financial crisis.

Total Initial Unemployment Claims	
2008 & 2009	51,567,000
2020	35,893,000

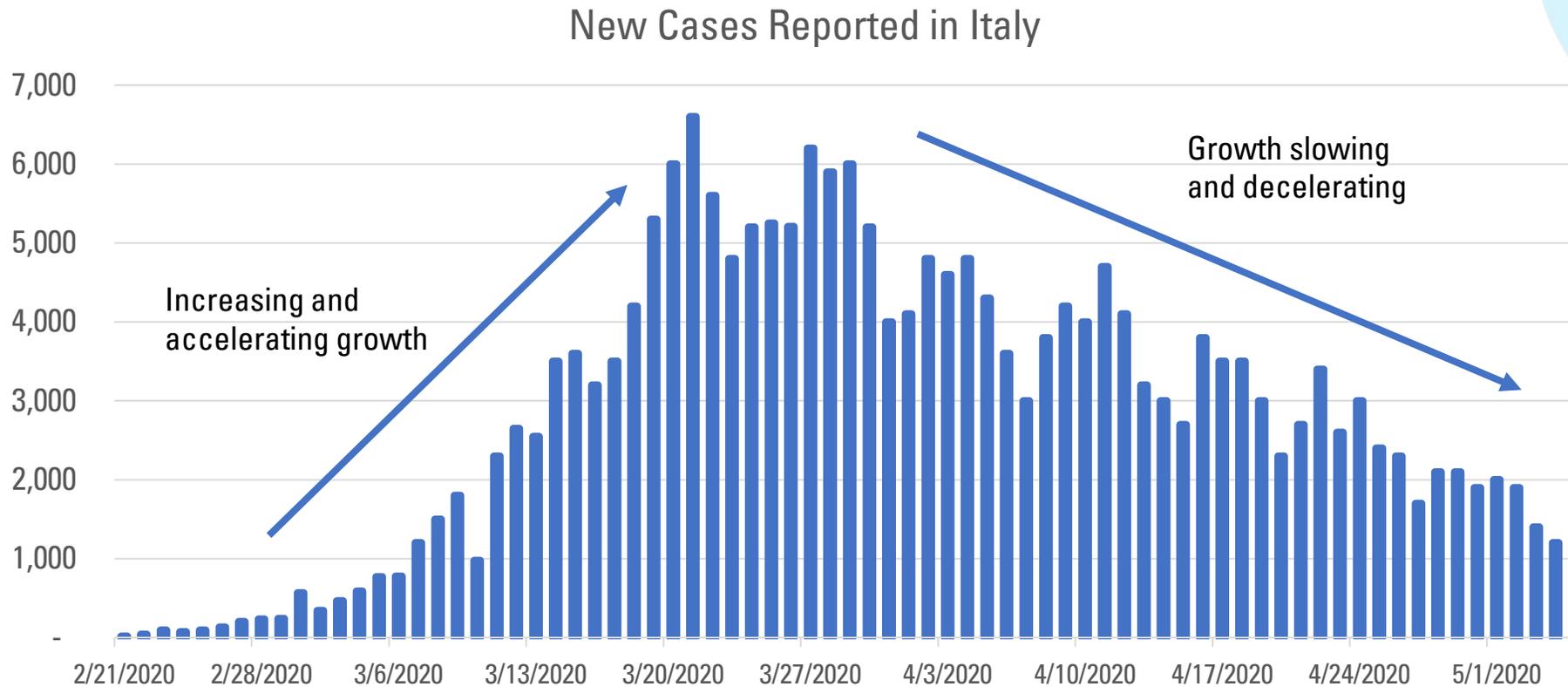


# Financial Stress Index - USA



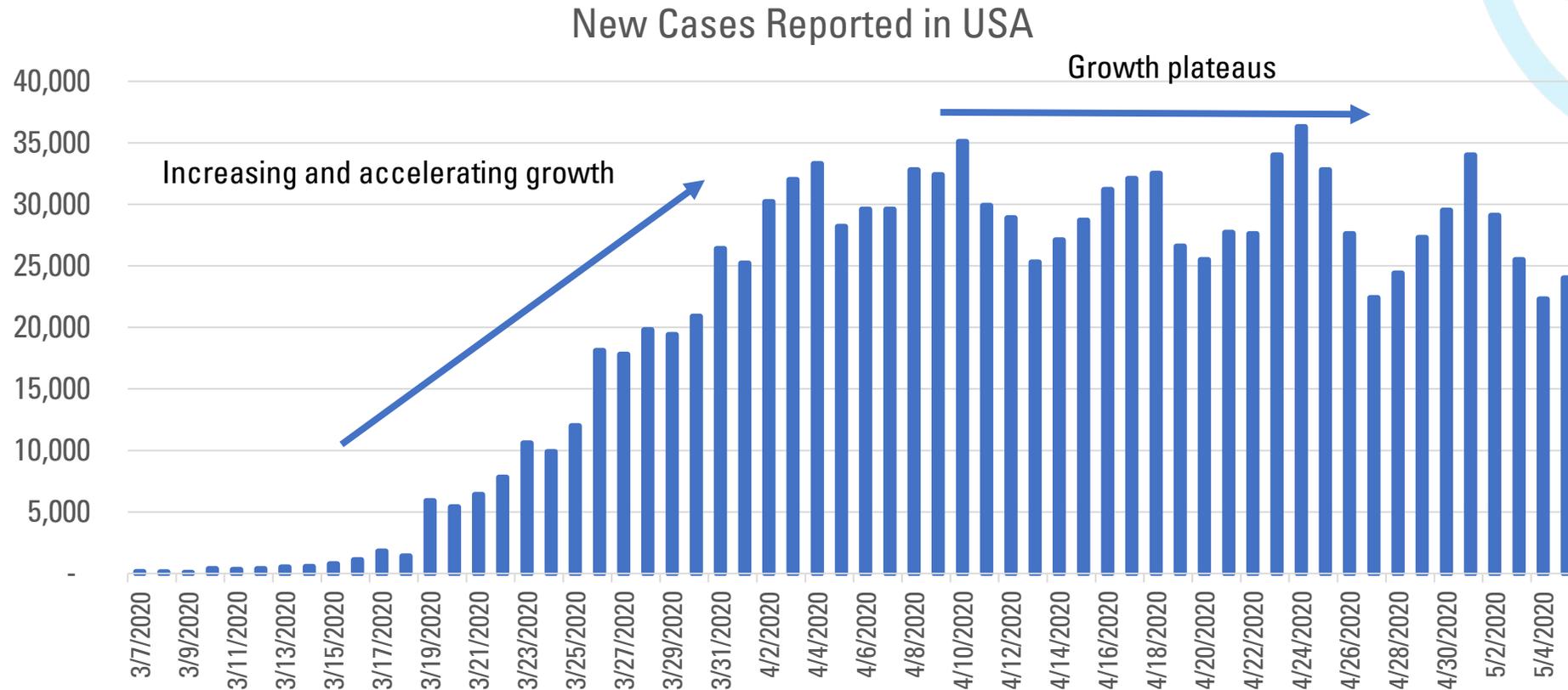
The value of zero is meant to represent average conditions in the chart. The index is still elevated, but is now at levels consistent with more minor stress periods of 2015, 2001 and 1998, and hasn't come particularly close to the extremes of 2008/2009. The actions of central banks, particularly the US Federal Reserve, have likely been a major benefit here.

# Spread of COVID-19 in Italy



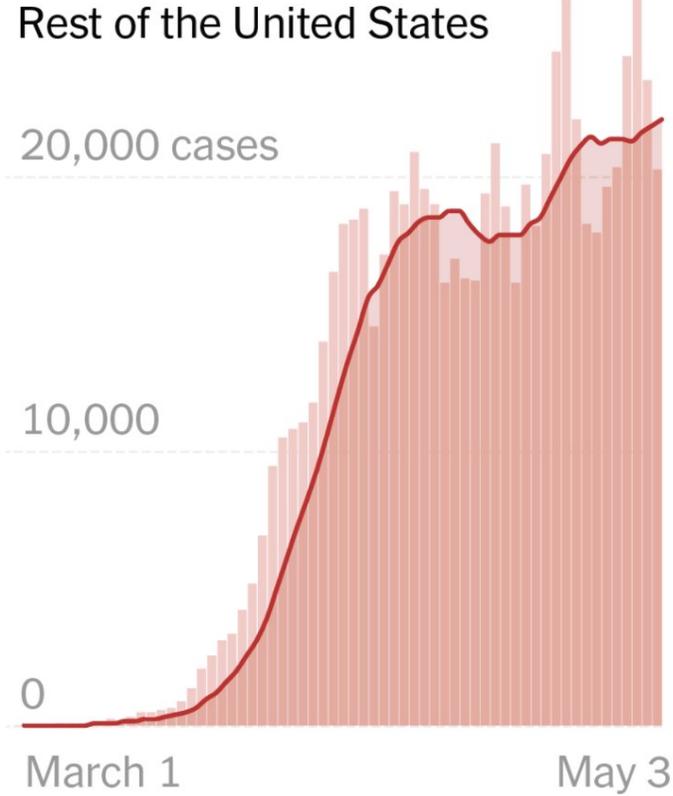
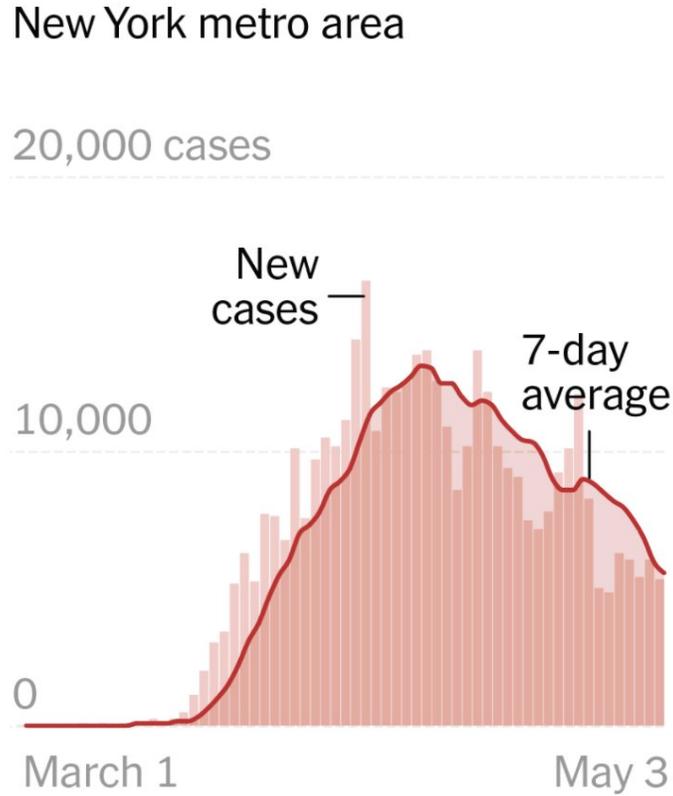
Italian case growth is still in steady decline. Italy is beginning to re-open.

# Spread of COVID-19 in USA



US case growth appeared to have peaked in early April but seems to have plateaued rather than declined at the rate Italy's did.

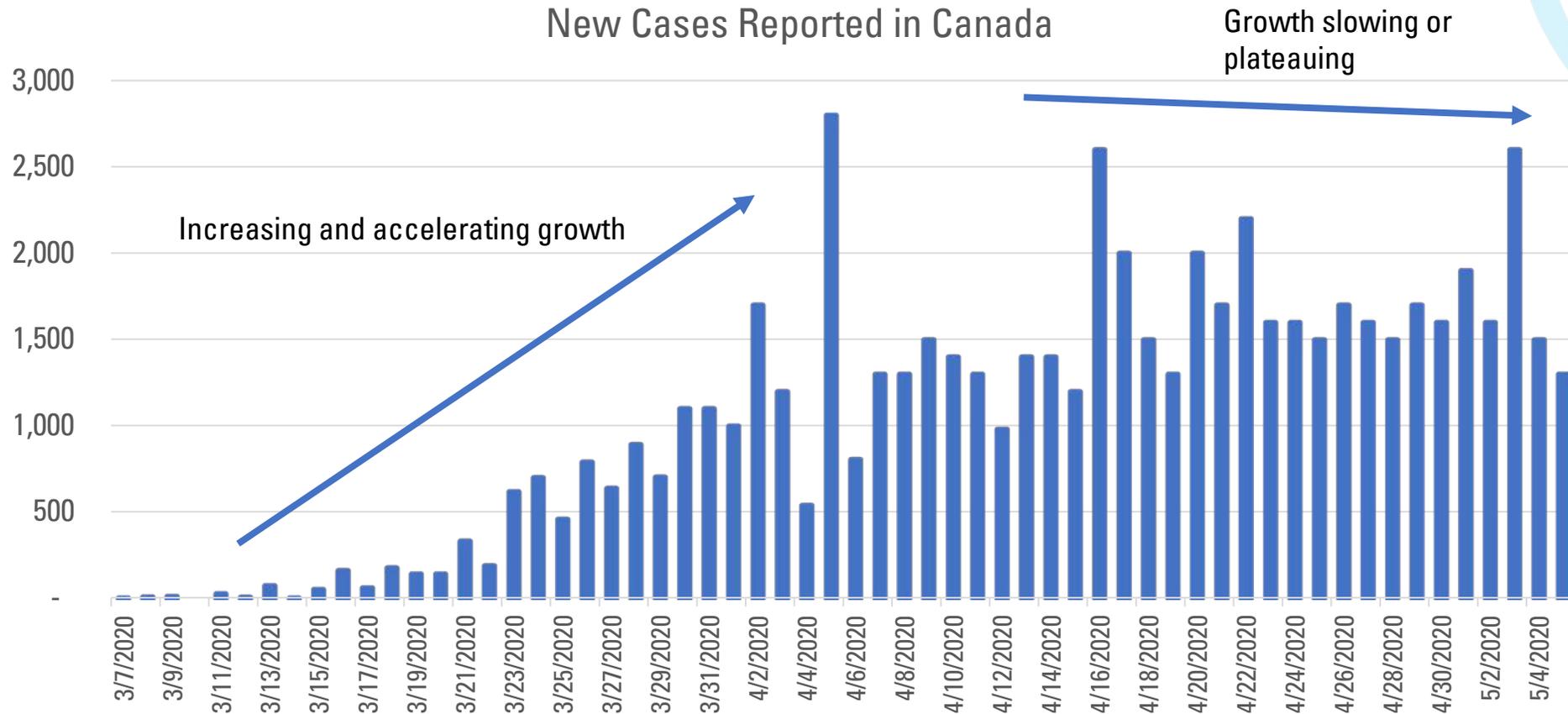
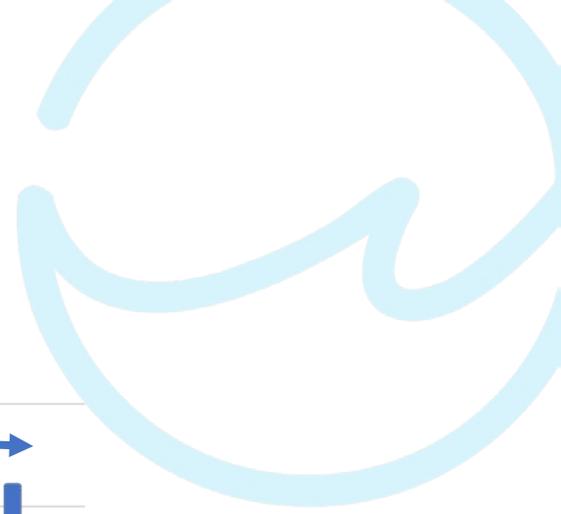
# Spread of COVID-19 in USA



Outside of New York City, cases are still growing in the US.

By The New York Times

# Spread of COVID-19 in Canada



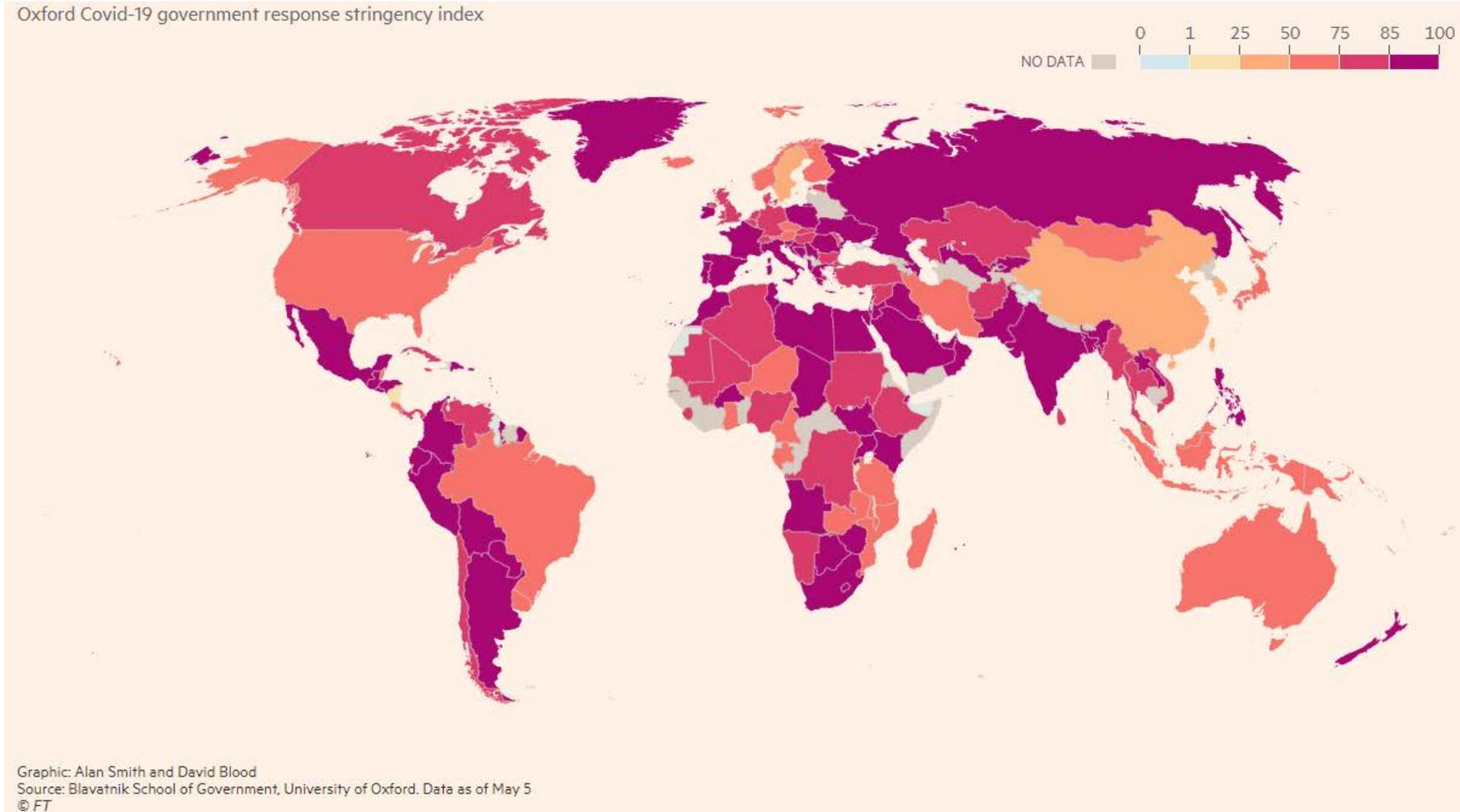
The Canadian case growth trajectory appears more like the US trajectory than Italy's.

# Spread of COVID-19 in Russia



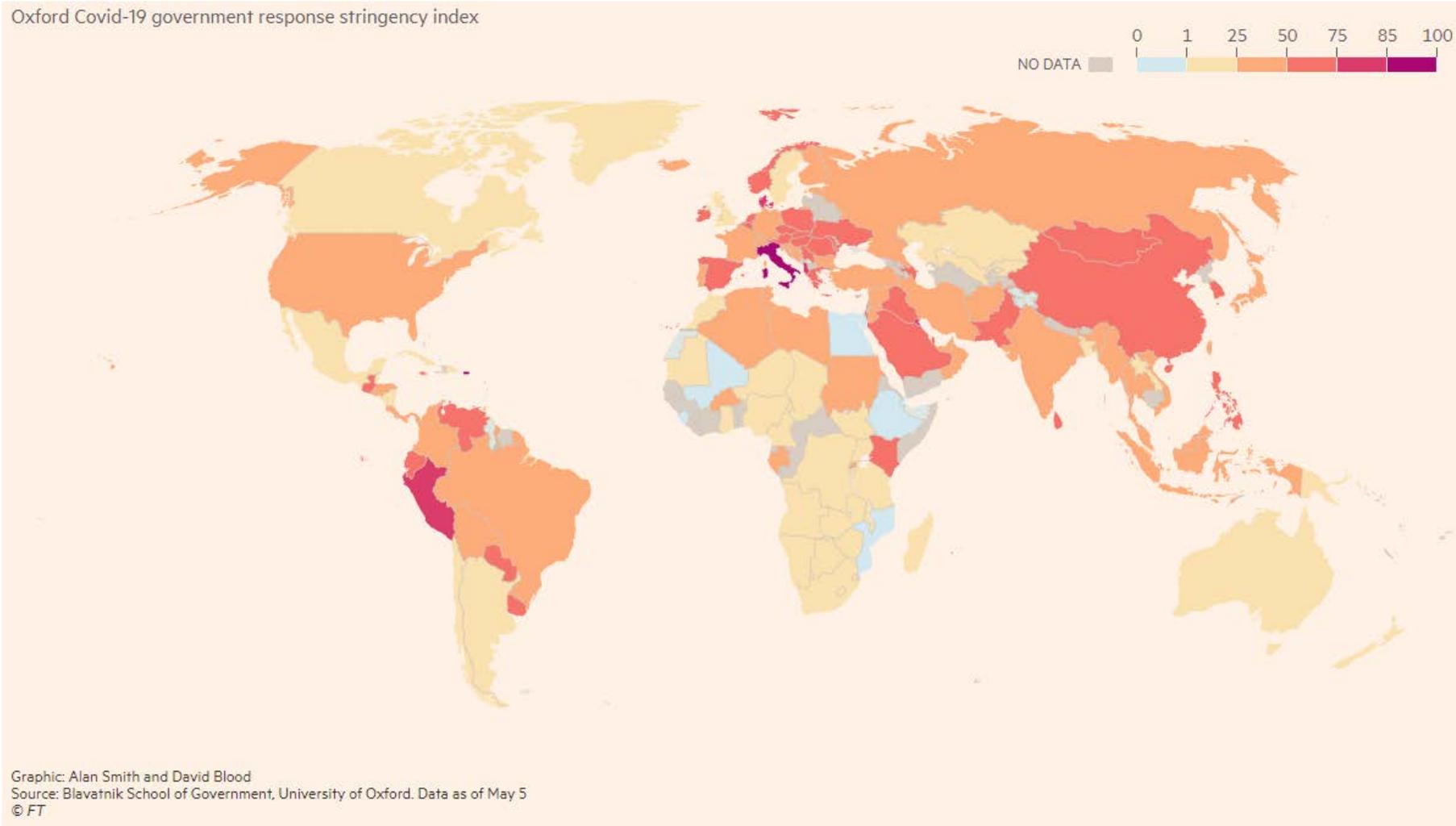
Russia is an example of a poor outcome, where growth slowed then re-accelerated. This is something to watch for in other countries as they open up.

# Lockdown Stringency



This chart shows the level of stringency of government lockdowns around the world as of May 5. As countries begin to open up, their colour will change from darker to lighter.

# Lockdown Stringency



As a comparison, this is the same chart as of March 15.

# Concluding Thoughts

With parts of Europe opening and Canada and the US soon to follow, we are looking forward to a “new normal” where we will get to enjoy some of the activities we have been missing these past several weeks. Some things will change, but with change comes opportunity. This has been reflected in some of our investment models recently, which we will share in next week’s Chartbook.

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

*“When written in Chinese, the word ‘crisis’ is composed of two characters. One represents danger and the other represents opportunity.”*

- John F. Kennedy

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