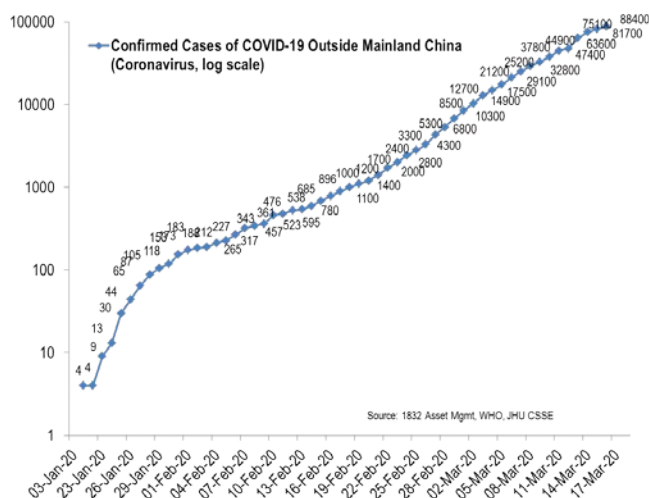


Insights on recent market events

Market Update: Déjà vu

We expect significant decay in global growth over at least the next couple of quarters. Restaurants, airlines, hotels, cruise lines, theme parks, and a host of other leisure industries are reporting significant declines in revenue. Apple, Urban Outfitters, Patagonia, and other retailers are closing operations. This is all in the name of safety.

Greater and more successful social distancing efforts will mean even more downside pressure on economic activity over the coming weeks and months. But, this is necessary to reduce the exponent in COVID-19 case growth. Early evidence on how these measures are working can be seen in China and South Korea, two countries that have taken different approaches to containment but have managed to flatten their viral case curves materially. And, yes, economic activity within each of the two countries has suffered, but success on the health front is truly commendable. It shows that a combination of massive testing and strictly followed (or enforced) social distancing can lead to a dramatic improvement in the outcome. Chinese business activity is already starting to return, with upwards of 70% of the working-age population back on the job.



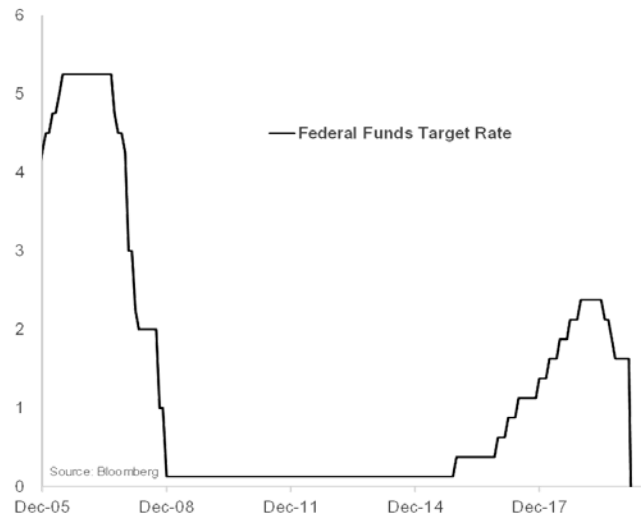
Closer to home, the U.S. has finally started to take this situation much more seriously. Late last week, President Trump declared a national emergency. This helped to immediately unlock \$50 billion in federal funds that will be used to dampen the income shock from the virus. The administration now supports free testing for everyone and has passed legislation that will provide compensation for people who miss work or lose their jobs because of the pandemic. Various forms of help for businesses and individuals have also been provided by several other countries around the globe, including the U.K., China, Italy, and Canada. In fact, the estimated worldwide tally for fiscal support over the past three weeks is approaching a quarter of a trillion dollars. But this isn't the end of it. We expect that the U.S. and other countries will greatly expand their policy activism in the coming weeks.

Meanwhile, the global monetary authorities have also been on the move. We are seeing large interest rate reductions and various forms of liquidity support to ensure the ongoing functioning of the economy and financial markets. The European Central Bank recently expanded its quantitative easing efforts, the People's Bank of China is driving down borrowing costs, the Bank of Japan has accelerated its Exchange Traded Fund purchases, and the Federal Reserve lowered its policy rate.

Then, on Sunday evening (March 15), the Federal Reserve fired a monetary bazooka. They once again lowered interest rates, and this time by 100 basis points, which pushes the target rate near 0%. Not only that, they signaled a plan to lift

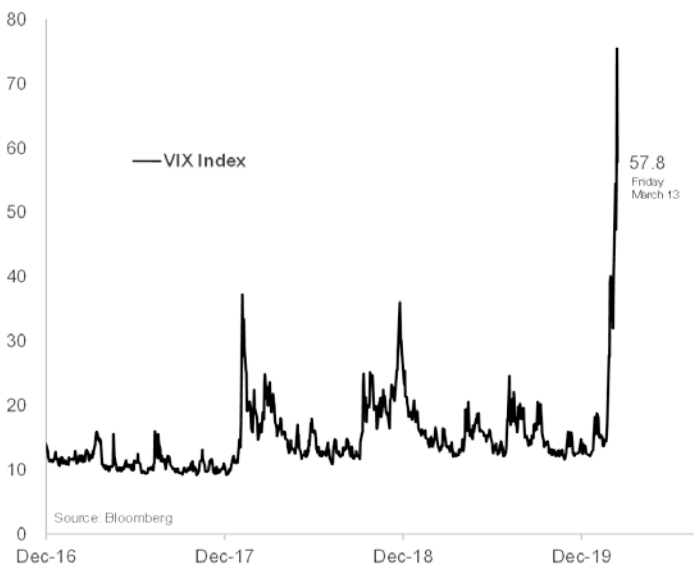
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their Treasury holdings by at least \$700 billion. Zero interest rate policy and quantitative easing are back. At the same time, the FOMC announced other liquidity enhancing measures like reducing reserve requirement ratios, lowering the rate on foreign exchange (USD) swap lines, and allowing banks to borrow directly from the discount window for as long as 90 days.



None of these policy steps represent a solution to what can only be described as a global public health emergency. But, taken together, they represent a partial buffer against significant downward economic pressure and escalating funding stress. They are surely helping to mitigate what might otherwise be an even more challenging situation.

Even so, macro uncertainty remains extremely elevated. In the last two trading days alone, we saw the S&P 500 first decline and then rally by over 9%. The VIX volatility index is still hovering above 50, which means there is an enormous amount of lingering doubt about the future path for the economy, corporate fundamentals, and financial market prices. It is clear that investors are bracing for a continuation of huge daily swings in asset prices. Only after case-load growth outside the Mainland begins to taper off can one become more confident in the outlook for the economy. It is at around this same time that one can also expect to see asset price volatility moderate in a more lasting manner. Credit spreads should then tighten, coupled with firming equity and commodity prices, and less downside pressure on cyclical currencies like the Aussie and Canadian dollars. We are not there yet.



Insights on recent market events

This has been and will continue to be a challenging period of time for investors to navigate. We have seen extreme turbulence before, and most of us will be around long enough to see it again. It is especially important to remind ourselves right now about each of our individual investment processes and why those processes were chosen. Let me leave you with a related quote by Edwin Lefevre from one of my favorite books, *Reminiscences of a Stock Operator*: “Speculators buy the trend; investors are in for the long haul - they are a different breed of cats. One reason that people lose money today is that they have lost sight of this distinction. They profess to have a long-term mindset and yet cannot resist following where the hot money has led...If you do not know who you are, the stock market is an expensive place to find out.”

Myles Zyblock BA (Hons.), MA, CFA
Chief Investment Strategist

advisor.dynamic.ca

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