JUNE 2020

Insights on recent market events

Market Update: 'On the Money' A conversation with Chief Investment Strategist, Myles Zyblock.

In our ongoing 'On the Money' series we recently we sat down with Dynamic Funds' Chief Investment Strategist, Myles Zyblock, for an update on the current state of global economic & financial markets as well as his views on the ways investors should be thinking about their portfolio positioning.

- **Can you provide us with an update on where the markets and the global economy are today? How have policy makers responded?**

    The spread of the coronavirus beginning in late-2019 led to a subsequent and dramatic global shutdown by March 2020 of all but the most essential activities. Governments sent kids home from school, businesses were closed, and mobility was restricted. This generated massive headwinds for corporate and consumer income which then led to the most volatile start to a year for financial markets in our lifetimes, comparable only to the turbulence seen during the 1930s Great Depression.

    From mid-February through to March's end, there were very few places for an investor to seek shelter as stocks, corporate bonds, and commodities all tumbled in value. Government bonds and gold bullion held up okay, but that was about it.

    Then the reversal began. What started on March 23 was nearly as dramatic as the previous decline. Investors were encouraged by the flood of stimulus which was injected into the financial system by global policy makers. Trillions of dollars of supplementary income, tax relief, and lending backstops were hurried into place. This was joined by equally aggressive interest rate reductions, asset purchase programs and the installation of liquidity facilities by central banks. With so much policy stimulus entering the system, investors began to price out a worst-case economic scenario. Asset prices of all stripes started to rally.

    It wasn't too long after that caseload growth in some of the harder-hit countries began to moderate. Italy, Spain, and Germany had joined a growing list of nations which appeared to be flattening the curve. This encouraged governments to reduce social distancing restrictions, thereby fostering an increase in mobility. By mid-April, the data provided by several high-frequency providers like Apple and Google suggested that the worst for the global economy was in the rear view mirror. These positive data points encouraged investors to place even more money to work in the growth-sensitive areas of the financial markets. Admittedly, economies are still in very rough shape but are beginning to look a little better.

- **What are the biggest risks and opportunities for the Canadian economy?**

    Canada has not been immune to the transmission of the virus. Like we have seen everywhere else, the labor market, corporate profits and Canada's financial markets have been under immense pressure as a result of the shutdown in both domestic and international economic activity. Canadian policy makers have approached the situation in much the same way that we have seen elsewhere. The Bank of Canada has been active in reducing interest rates and helping to ensure that financial markets continue to function well under stress. The government has offered billions of dollars in stimulus in order to bridge the gap. They have focused a lot of attention on tools to help in job retention, like emergency wage subsidies. All of this is important and necessary. But what it really boils down to is getting this virus under control and allowing economies to re-open. That`s starting to happen, but it is still early days.

- **What are some of the signs that an investor should be looking out for as signs of improving markets and economies?**

  It is a mistake to conclude that the all's clear signal has been sounded even with the market carnage being left increasingly in the distance. A window of time is now opening where investors will look to the daily viral caseload growth with apprehension. Can we re-open our economies without igniting a renewed wave of contagion? Placing large swaths of the global economy back into lockdown would lead to concerns about an even larger cycle of lost income, loan delinquencies, and consumer and business insolvencies. It would place the economy, which is barely crawling out from the deepest depths of a monster-sized recession, on an even darker path. Of course, with so many research scientists and health care professionals around the world working on this problem, there's also the possibility of a sooner than anticipated medical breakthrough. Much is still up in the air.

- **What are some things to remember when considering portfolio positioning in these times?**

  Uncertainty is high today. Yet, it has always been that way. Were the investment conversations through the 1918 pandemic, WWI, the 1930s, WWII, the Cuban missile crisis, the 1970s oil crisis, the cold war, or 9/11 very much different than today? Sure, they were about different topics, but the world was most likely shrouded in as many unanswerable questions as there are today. It is impossible to predict with certainty what today's challenges or opportunities mean for stocks, bonds and other assets. It is precisely because of this appreciation about an uncertain future which makes portfolio diversification so important. Uncorrelated sources of performance, risk mitigation and volatility dampening are the tools necessary to navigate an uncertain future path.

- **What are some of the things that investors may not have considered but should?**

  I have been in this business for 25 years and I have noticed that the biggest mistake investors make is to forget or abandon their long-term investment plans; to scrap them, just as financial markets get volatile. For example, investors might sell the majority of their stock holdings and move that money into cash. But, people don't consider the risks that this introduces. Now, you open yourself up to the risk that inflation erodes your purchasing power. At near 0% interest rates, you also run the risk of not have enough capital to fund those goals that might be 10-15 years down the road. And, do you have a plan that will get you back into the market? Is it reliable?

  I think people might also not fully appreciate the role that alternative assets can play in one`s diversification plans. These lie outside of the domain of traditional stocks and bonds. They can include assets, like real estate, infrastructure or precious metals. Or they can be strategies, like absolute return strategies that can go long and short various assets. Part of the reason these have been ignored is because we in the retail community did not have easy access to them. But now we do, with the regulatory changes that took place in Canada about a year and a half ago; and they go by the name of liquid alternative investments. We can now gain easy access to these liquid alternatives.

Pension funds, endowment funds and other large institutional investors have been utilizing alternative assets for decades. The pension industry, which includes well-known names like the Canada Pension Plan, treat alternative investments as a critical third asset class – in addition to stocks and bonds. Today, most pension plans – remember that pensions are long-term conservative money- have 30% of their assets allocated to alternative investments. Alternatives offer an important source of diversification to portfolios, in addition to traditional stocks and bonds. They are an important source of diversification and investors should consider them as an important component of their diversified investment portfolios.

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