

# The Market in Review

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## This week's articles and insights

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**“You never let a serious crisis go to waste. And what I mean by that it's an opportunity to do things you think you could not do before.”**

- **Rahm Emanuel**

## Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	21,413	- 5.05%	- 24.97%
S&P 500	2,527	- 3.92%	- 21.79%
TSX	13,098	- 2.04%	- 23.24%

## Unintended Consequences

In 1996, Victoria was hit with an event called the Great Snowfall. Over three feet of snow fell in a single day, paralyzing the city for weeks. Many people were shut inside their homes without power, and since this was before the age of smartphones and Netflix, people had to make their own entertainment. And they did, apparently.

Nine months later, a mini baby boom hit.

Today, the world faces an even longer period of forced intimacy, except now we call it “self-isolation”. Will this result in another baby boom? The world’s largest supplier of condoms in Malaysia has been forced to shut down due to the coronavirus, and has not produced a single condom in more than a week. This has led to a global shortage and fears of a wave of ‘surprises’.

Now, before you go buying up diaper and baby formula stocks, consider what has happened in China since their lockdown ended. A number of cities have recorded record-high numbers of divorce filings in March. One city logged almost as many divorces per day as marriages. The staff was so busy, they barely had time to drink water.

Victoria’s Great Snowfall lasted 7-10 days. The coronavirus lockdown could last several months. It is entirely possible we will see both of the above, with divorces happening immediately and new babies nine months later. Fortunately, the Malaysian government has declared condoms a critical industry, and so the factory is up and running again. Before you raise an eyebrow at what Malaysia considers a “critical industry”, consider that Canada deems cannabis stores as essential services, as well as convenience stores selling doughnuts.

History will record many unforeseen consequences of this pandemic. New births and divorces will be just two of many.

## **Markets This Week**

Last week, we spoke about the three phases that delineate a bear market: panic, relief, and demoralization. Judging by calmer bond markets, which seized up as severely as stocks on March 23<sup>rd</sup>, we appear to be past the panic phase. This has helped stock markets, with several days of sharp relief rallies leading into this week. The 2-3% decline in the indexes in the last week seems almost like a victory after the huge swings we have just come through.

And so we begin April - a month when we are warned that new cases and deaths will spike and the news will be grim. However, we are also hopeful we will see a

peak in new infections and deaths. We hope to follow the pattern of Italy and China, with Italy's numbers suggesting that country is now past the worst. We have also now been warned that we may face stay-at-home orders through May.

Canadian markets outperformed those in the US this week thanks to oil. Energy rebounded significantly this week as the US announced it is brokering a truce between Saudi Arabia and Russia to curb production in an effort to stabilize oil prices. Oil had fallen below \$20 per barrel – the lowest price in decades – and has rallied to \$27.50 today. Several Canadian producers have already started slowing production because they are losing money on every barrel. Their shares staged a huge relief rally on the news. This will be enormously important to Canada.

The issue is not too much oil - it is too little demand with all of us cloistered in our homes. As Lisa likes to say "The cure for low oil prices is low oil prices". Cheap energy leads to more usage, which then leads to higher prices down the road.

April is likely to be full of churning, with little forward motion. As we said, the news will be bad, but the government stimulus is equally unprecedented. We do have to remember that stocks rebounded in China long before COVID-19 was contained there. Stock markets are forward-looking and see what most people didn't - that life would eventually return to normal. It will happen here as well.

In the meantime, investors will require more patience. As technician Ron Meisels said recently:

*"The bull market has been seriously damaged and it will take some time to do the necessary repair work and for the markets to complete a bottoming process."*

## New News

- Unemployment has risen far higher and much faster than economists projected. Close to 10 million people filed unemployment claims in the US in the past two weeks. Markets shrugged off the poor employment numbers, possibly because of the enormity of cash and subsidies being rolled out. How many of the newly-unemployed will have jobs to return to? That is a very important question for the months ahead.
- New drug therapies appear to help the recovery of Covid-19 patients. Several trials of hydroxychloroquine (an old anti-malaria drug) have sped recovery times and reduced the need for ventilators. This could help a

great deal. The drug is widely available in tropical countries, which may need it as Covid-19 starts moving south.

- Data released by both China and Italy show how important both diabetes and obesity are as risk factors. Most of the people under the age of fifty needing critical care have one of these two conditions. This may partially explain why we have seen less incidence of the disease in Africa – the population is much younger and slimmer than Europe and North America. Hydroxychloroquine may help those with obesity and diabetes stay off ventilators, though it is too early to make that conclusion.
- We know we are being inundated with negative information, but most of us are not aware of what this does to our brains. A recent talk by Joseph Coughlin of MIT's Age Lab described the constant onslaught of Covid-19 coverage as being able to physically change our brains. Our synapses focus on fight-or-flight responses and become less able to learn and process new information. Interestingly, older people are able to filter out negativity better than young people.
- The decline in stock values and earnings expectations is now close to the average seen in most recessions. Unlike most recessions that are caused by weakening conditions, this one has been a shock caused by a single event. This leads some economists to forecast that the eventual recovery will also be swift. Much depends on how deep an economic hole is dug that we have to collectively climb out of.
- Is this the end of Europe as we know it, or the beginning? A proposal is being actively discussed to issue the first true European bonds in history, backed by every member state collectively rather than issued by the separate countries. The Italians are all for it, while the Dutch are against it. It would mean the Dutch would be partially responsible for Italian debts, and the Italians would have to adopt some of the Dutch thrift to work.
- Confirming accurate numbers regarding Covid-19 is proving to be a difficult task. Many deaths attributed to the virus may have been people passing away from other causes who happened to catch it (seasonal flu kills almost 1,000 people per day worldwide - in a good year). How many people already have Covid-19? The Centers for Disease Control says as many as 25% of people who contract the virus may not show signs of it. We won't truly know until we roll out a new blood test that shows immunity after infection.

- Some new purchasing habits will be temporary, and some will be permanent. For example, Adobe tracks sales trends of various products. From January to March, online purchases of “virus protection” category, including hand sanitizers, gloves, masks, and anti-bacterial sprays surged 807%. Toilet paper sales spiked 231%. These are likely to fade as the pandemic passes. Adobe also noticed a spike in daily “buy online, pickup in store” transactions, up 62% from Feb. 24 to March 21. Buying online for delivery or pickup is likely to be a more permanent behaviour change.
- Alcohol sales in the U.S. increased by 55% during the third week of March.

## Shortages

While it is too early to worry about shortages today (unless you are talking about toilet paper), it is something we will face in the future. For example:

- Shortages of cheap labour due to virus shutdowns and border closures. We are seeing it already on farms and garden nurseries.
- Shortages of outsourced goods. Many supply chains, from those supplying drugs to surgical gear, have been built half a world away. The western world is waking up to how vulnerable we are without domestic supply lines.
- Shortages of commodities. It has been a decade since mining companies seriously explored for new copper, gold, and other hard-to-find minerals. The ratio of commodities to stocks just touched the same low as in 1929 and 1969 – points in time that preceded decades of big gains for commodities. It is hard to imagine inflation rising today after decades of disinflation, but with so much stimulus money being printed today, maybe it is not hard to imagine at all.

We mentioned Nutrien (**TSX NTR**) a few weeks ago. Nutrien is one of the world’s largest fertilizer producers and it had been hit with poor weather at crop-planting time last year. Farmers can hold off fertilizing for a year when this happens, and they did last year. This year is shaping up to be a much better year weather-wise and early indications are good for fertilizer sales. The world still has to eat, as they say. Nutrien shares have fallen this year, but have been one of the better stock performers in the last week.

The issue now is getting the workers needed to plant and harvest. Germany recently lifted restrictions to allow foreign farm workers back into the country.

## Evening Symphony

Locked away or set free, humans will always find ways to express themselves. The recent work-from-home restrictions have led to 7 p.m. pot and pan symphonies to thank medical workers and front line workers.

The sounds can be heard throughout neighbourhoods today and between apartment buildings. Hailey sent this video that shows one of these evening performances.

If you feel musical at 7 p.m. this evening, feel free to join in.

<https://www.youtube.com/watch?v=NVUVqFDc6oI>

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