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"These are the times that try men's souls."

- Thomas Paine

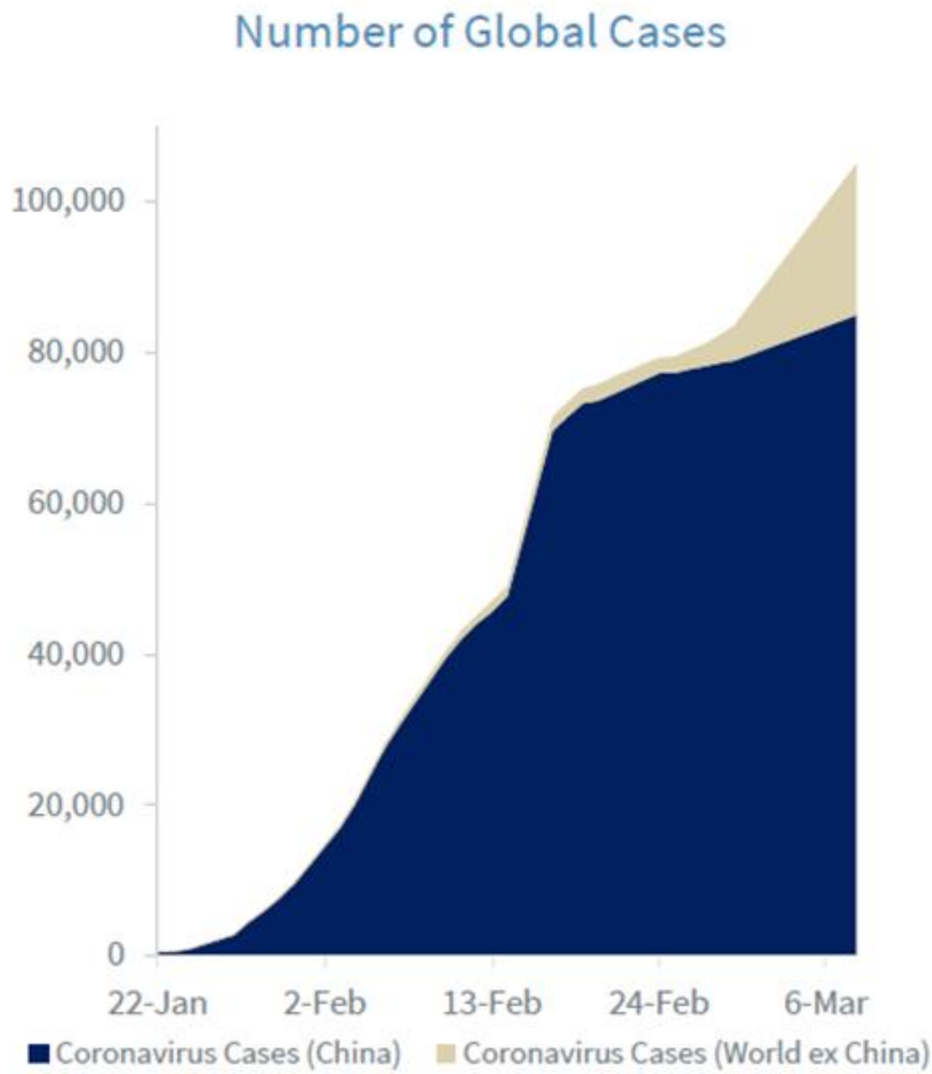
We all know about the Covid-19 pandemic. I mean, who can't know about it? It is everywhere in the news.

The problem is, there are actually three pandemics right now.

The **first** is the actual virus, which is a major issue, but may not be the major issue any longer. Left to itself, the Covid-19 virus will peak and then die out in time, as all flus do. It has appeared in hot climates such as Australia and Singapore, but there is hope that the severity is less in warmer climates.

In 2017, the "normal" seasonal flu killed 61,000 Americans compared to 22 from Covid-19 so far. This is not to minimize its effects, but simply to put it in perspective. It seems to be more communicable, although the worst clusters have come from cruise ships, churches, and nursing homes – all enclosed "incubator" environments.

The **second** pandemic is the media panic caused by the virus. The world was glued to China's numbers as the disease spread and deaths mounted, but China is rarely in the news any longer. Its new cases have dwindled while those recovering have soared, neither of which appeals to global media outlets eager for blood.



Schools, events, and entire countries are shutting down to prevent the virus spreading, which makes sense. We do have to remember that we once took our kids to measles parties to get them sick, even as measles can be a brutal disease for a small percentage of children. The point is, we are far more sensitive to pain and suffering than we once were. And our 24-hour news channels encourage non-stop fear.

Where are we in this pandemic timeline? We are likely only partway into the news cycle of the pandemic here in North America. Our Healthcare Policy Analyst, Chris Meekins, worked at the Department of Health Preparedness in the US. He believes we will see a notable widespread outbreak in the US and that the worst is yet to come. As lab testing ramps up in the coming days, the number of diagnosed cases will likely skyrocket.

Some additional ones we are monitoring and continuing to watch include, in no particular order:

- Milestone cases in the US (100, 500, 1000, etc.)
- Community transmission in a major city (Seattle, San Francisco, Los Angeles, Chicago, New York, Atlanta, Houston are prime targets)
- Additional deaths showing a higher than 2% death rate
- Hospitals reaching capacity
- Schools closing
- Federal government urging telework for its employees

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Volatility is likely to continue in the markets for the next few weeks. We have passed some events (first example of community spread in the US, first US death) that we believed would trigger market reaction. Further events will also trigger market reactions, but they should diminish as time passes. This is what we saw in China.

The **third** pandemic is the most worrying. It is the economic pandemic resulting from the global slowdown the virus has caused. Oil prices collapsed today when Saudi Arabia and Russia could not agree on a deal to slow output. Why did they need to in the first place? Because China shut itself down for a month and was full of the stuff. So, one could say Saudi Arabia pushed oil prices lower, or one could say they were merely following them down.

Either way, the Covid-19 virus brought the market to its knees, and the oil crash today has knocked it flat on its face. In less than a month, we have dropped -16% from all-time highs to where we are today. It is not the end of the world, but it almost feels like it.

Our banking system is sound – sounder than it was in 2008. Banks have fortified their balance sheets and become less reliant on single sectors, like energy. The largest companies, like Suncor (**TSX SU**) have cash costs in the US $20 per barrel range, and so even with oil at $32 today, they can keep producing. Many oil and gas companies will not survive, as US shale producers require oil at $45-50 to break even. Even Saudi Arabia, with its sub-$10 per barrel oil costs, needs $60-$80 per barrel to pay for its economy, its war in Yemen, and all its princes. Our oil analyst believes the plunge in oil prices will be temporary.

Interest rates are now forecasting a recession this year, even though one was not on the horizon just two months ago. When you shut entire countries down, it can happen. Expect interest rates to drop back to almost zero, at least until the pandemic is past.

A Possible Road Map for the Months Ahead

We have been asked what we think will happen going forward. Much depends on the spread of the virus and how governments respond, but here is an historic parallel.

In 2010, the market had risen sharply off the bottom of 2009 a year earlier, much as we did off the December 2018 low. Then, an event happened called the Macondo oil spill that went on and on. Sound familiar? This led to the May 6th Flash Crash and a 13% decline from top to bottom. We have declined 16% from top to bottom today.

A 10% bounce followed, which is exactly the bounce we just had last week. There were interest rate cuts over the next few months in 2010, just as we started a new cycle of rates cuts last week. Oil continued to burn in the Gulf of Mexico and on some days, it seemed like it would go on forever.

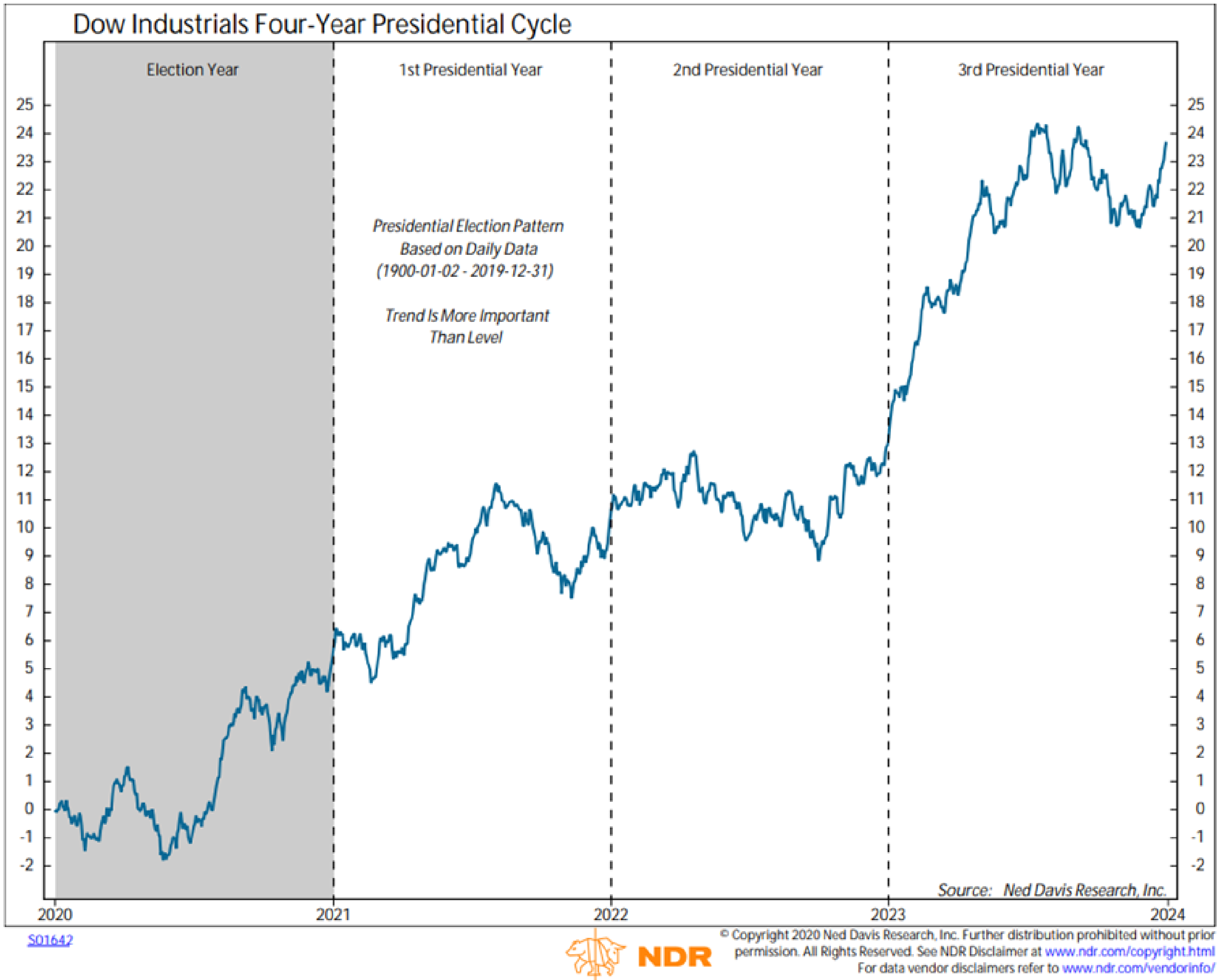
We are likely where the arrow is below, translated back to 2010.

Macondo dragged on until it was finally sealed September 10th, 2010. The market tested its lows four times during the four month period. Macondo is now a distant memory and its after-effects are minimal. But, they sure didn't feel like it at the time.

"Waterfall" declines like today take months of churning and testing to resolve. Some events – oil spills and pandemics - are not points in time, like tariff announcements. These require months of societal efforts to fix.

Also, the Four-Year Presidential Cycle also says we should peak, decline, and churn in the election year. Note that the historic path is to hit new highs around July.

This would be…four months from now.



Panicking is not a good investment strategy. Nine times out of ten, you get out at the bottom and never get back in. Even with the one time out of ten when selling out works, you would usually be back to where you started in a year or two. But because humans feel the pain of loss three times more than they feel the pleasure of a gain, we are inclined to panic. As we said, sometimes it works. Just not most of the time.

We expect more market churning through March as our country responds to the Covid-19 threat. We may not be at the exact bottom in prices for stocks, but we are hopeful that we are close.

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