We hope that you and your loved ones are healthy and well.

Our goal with these updates is to provide you with timely and relevant information through these challenging times.

Portfolio
The wild ride in the market continues, with futures limit up (as of writing at 5:15am this morning). The one thing we know for sure these days is that what is at this moment, is no indication for how things will look at the end of trading today. Markets remain focussed on the headlines, and intra-day volatility can be driven by the US Federal Reserve, Congress or the Senate, a White House press briefing, or just about anything else remotely relevant. We remain focussed on risk management and will continue to do so as we navigate this challenge. As bad as the headline market numbers have been in recent days, a level of differentiation has begun to develop in which not all companies move in the same direction or at the same pace. Signs of leadership are beginning to develop and we monitor this closely. Companies that show leadership in a weak market are often the companies that lead once markets begin pricing in recovery.

Canada’s COVID-19 Economic Response Plan
In response to the COVID-19 outbreak, on March 18, 2020, the federal government announced an economic proposal that includes a set of fiscal and tax measures. The aid package includes an estimated $82B to support individual Canadians and businesses, including a deferral of the 2019 individual tax return filing deadline, deferral of certain personal and corporate tax liabilities, and a 25% reduction in required 2020 RRIF minimum payments. For a summary of fiscal and tax measures aimed to support Canadians, please see attached.

Comments from BMO Global Asset Management
Lead by CEO, Kristi Mitchem, BMO Global Asset Management has an asset management heritage spanning 150 years with offices in 14 countries. Please see below.

Thank you and as always, we continue to be here to navigate these times with you.

Macro outlook in times of the coronavirus: This is not a 2008 song

For investors, stomach-churning market drops and increasing recession fear in recent weeks due to COVID.
BMO Global Asset Management, Multi-Asset Team
March 2020

- While the full economic impact of COVID-19 is highly uncertain, a Q2/Q3 recession seems inevitable in light of the extreme social-distancing efforts to slow the spreading of the virus. Bond and equity markets already reflect substantial pain in future economic growth and earnings.
- The velocity of equity selloff has fueled fear that we are about to experience another 2008-like crisis. This note highlights keys reasons why we don't think this is the case.
- Beyond the obvious that the COVID-19-induced slowdown is a unique recessionary trigger, the backdrop is fundamentally different, most notably the resilience of the global banking sector.
- The North American housing market, a key pillar of consumer wealth and confidence, should see a sharp drop in transactions as social distancing keeps potential buyers on the sidelines, but we expect prices to remain resilient.

For investors, stomach-churning market drops and increasing recession fear in recent weeks due to COVID-19 are reviving memories of the 2008 financial crisis. While a technical recession, defined by two consecutive quarters of negative real GDP growth, seems likely in Canada and the U.S. in Q2 and Q3, our base-case is that this will be a brief. Overall, we expect a less severe economic cycle than during the 2007-09 period when the global financial system was on the verge of collapsing. While the full extent of the drag is highly uncertain, several factors are important to consider when comparing with previous cycles and assessing the medium-term outlook.

Unlike 2008, there is no sign of systemic risk on the radar. Central banks and governments are intervening to stabilize markets, and the private banking sector remains well capitalized. It feels more like a 9/11 type of transitory shock than a 2008-type deep and persistent collapse, although social distancing will undoubtedly cause a sharp decline in economic activity.

Before outlining why we believe things are fundamentally different than in 2008, we must first outline the basis of our base-case scenario for the next 12 to 18 months, focusing on Canada and the U.S.:

- Deep but transitory negative demand and supply disruptions, peak drag by end of Q2 with some spillovers into Q3, followed by steady resumption
- Bulk of negative impact due to social distancing to slow the virus spread
- Corporate credit to remain under stress, notably because discretionary spending is falling sharply, and the energy sector endures the oil-price war
- Large temporary job losses, but relatively few permanent losses outside of energy as normal life resumes
- Broad fiscal aid, with key measures to prevent a credit crunch in most impacted sectors and SMEs
- Targeted measures to SMEs to help them cope with financial hardship
- Whatever-it-takes monetary and fiscal policy actions as financial-stability backstop

Housing fueled by low interest rates and strong labour market, not subprime

The U.S. housing market ran on nitro heading into 2007, thanks to lax lending standards that led to the sub-prime debacle. By contrast, because Canada didn't really have a subprime segment in 2008 and its housing market came out of the Great Recession largely unscathed.

Going into 2020, the backdrop was greatly healthier in the U.S. Meanwhile, Canadians have accumulated a substantial load of personal debt relative to their income, and household balance sheets don't look as healthy as in 2007. However, because the bulk of the debt load is linked to real estate, we are not too concerned about the short-term resilience of households assuming economic activity resumes in a few months. Arrears on personal and mortgage loans will likely increase, but personal defaults usually lag by about a year.

Our main concern with elevated Canadian household debt has always been to cause persistently slower growth because of debt deleveraging, which has caused retail sales to stagnate since the BoC began hiking rates in the summer of 2017.

For U.S. households, the current situation is quite different. After experiencing a severe credit rationing following the GFC, household balance sheets gradually recovered. Although we expect job losses and the unemployment rate to surge in the next couple months, we expect this to be a transitory adjustment for most workers and businesses until normal life resumes.

In the current context of social distancing and uncertainty, we expect real-estate transactions to catch a severe cold, but a 1- to 3-month sharp decline in real-estate transactions is unlikely to trigger a cascading selloff and price correction. The 2002-03 SARS episode in Hong Kong and the 2001 U.S. recession are good examples where a recession caused real-estate transactions to fall sharply without impacting prices. We believe the Canadian and U.S. housing markets will experience the same kind of mild price patterns in coming weeks.

Dealers are no longer gamblers

A key lesson from the GFC was to impose strict regulations on the international banking sector in order to enhance the regulatory framework and improve the sector's ability to deal with financial stress, improve risk management, and strengthen the banks' transparency. Capital ratio and leverage requirements are much stricter—and safer. The Basel III accord also incorporates counter-cyclical measures where banks have to set aside additional capital during credit expansion, while capital requirements can be loosened during credit contractions. The Volker-rule has also drastically limited the ability of investment banks for proprietary trading and utilizing bank's balance sheet for risk taking. With all this, it's quite clear the financial system is much stronger than it was heading into the crisis in 2007, where banks were at the epicenter.

Fiscal stabilizers will kick in early

Even prior to announcing measures to help against COVID-19, the fiscal policy mix of provincial and federal governments contains several axes that act as cyclical stabilizers against slower economic growth. The recent additional measures will help address near-term funding needs of businesses. Get ready to see public deficits widen by a large amount as revenues fall and expenditures spike, but this will help cushion the COVID-19 drag.

Recessionary trigger matters, but the world always recovers

While each recession has its own trigger, every modern recession was triggered by some form of policy mistake that usually saw too loose policies leading to excessive debt levels. As we fall into a technical recession in coming weeks, we can't blame the Fed for over tightening, quite the opposite. How lasting the damages will largely depend on how long fear and social distancing persist. The fundamental supportive consideration is that the coronavirus can and will be contained. Whatever the economic hardship caused in the process, it should be temporary. Markets and economies should recover.

Canada's COVID-19 Economic Response Plan

Summary of Fiscal and Tax Measures to Support Canadians and Businesses

In response to the COVID-19 outbreak, on March 18, 2020, the federal government announced an economic proposal that includes a set of fiscal and tax measures. The aid package includes an estimated $82B to support individual Canadians and businesses,[1] including a deferral of the 2019 individual tax return filing deadline, deferral of certain personal and corporate tax liabilities, and a 25% reduction in required 2020 RRIF minimum payments.

The following is a summary of select measures released:

Individual Support for Canadians

Temporary Income Support (Emergency Care Benefit) – For Canadians without paid sick leave (or similar workplace accommodation) who are sick, quarantined or forced to stay home to care for children, the government is introducing the Emergency Care Benefit, providing up to $900 bi-weekly, for up to 15 weeks. The benefit provides income support to workers (including self-employed individuals) who do not qualify for EI benefits; those who are taking care of family members sick with COVID-19; and parents with children who require care due to school closures.

Longer-term Income Support – Introduction of an Emergency Support Benefit delivered through the Canada Revenue Agency (CRA) to workers who are not eligible for EI and who are facing unemployment or reduced hours.

GST Tax Credit – A one-time special payment by early May 2020, through the Goods and Services Tax credit (GSTC). This will double the maximum annual GSTC payment amounts for the 2019-20 benefit year. The average boost to income for those benefitting from this measure will be close to $400 for single individuals and close to $600 for couples.

Canada Child Benefit (CCB) – Proposal to increase the maximum annual Canada Child Benefit (CCB) payment amounts, only for the 2019-20 benefit year, by $300 per child. The overall increase for families receiving CCB will be approximately $550 on average; these families will receive an extra $300 per child as part of their May 2020 payment.

Student Loans Relief – A six-month interest-free period on the repayment of Canada Student Loans for all individuals currently in the process of repaying these loans.

RRIF Withdrawals – In recognition of volatile market conditions and their impact on many seniors' retirement savings, a reduction in the required minimum Registered Retirement Income Fund (RRIF) withdrawals by 25% for 2020. Similar rules would apply to individuals receiving variable benefit payments under a defined contribution Registered Pension Plan.

Flexibility/Deferrals for Taxpayers – Deferral of tax filing due dates for the 2019 tax returns of individuals, including certain trusts, as follows:

- For individuals: The due date will be deferred (from April 30) until June 1, 2020.[2] However, individuals who expect to receive benefits under the GSTC or the Canada Child Benefit are encouraged not to delay the filing of their return to ensure their entitlements for the 2020-21 benefit year are properly determined.
- For trusts: Trusts having a taxation year ending on December 31, 2019 (including typical family trusts), the return filing due date will be deferred (from March 30) until May 1, 2020.
- *For Quebec Tax Filers:* Similarly, Quebec announced that it will extend the deadline for filing 2019 individual income tax returns to June 1, 2020,[2] and for trusts to May 1, 2020.
- Deferral of Balances due: All taxpayers will also be able to defer, until after August 31, 2020, the payment of any income tax amounts that become owing as of March 18, and before

September 2020. This relief would apply to tax balances due, as well as instalments.[3] No interest or penalties will accumulate on these amounts during this period.

- *For Quebec Tax Filers:* To harmonize its practices with the federal measures, Quebec has also extended the deadline for final balances owing for individual income tax liabilities for the 2019 tax year, to September 1, 2020. For those who must pay income tax instalments, Quebec has deferred the payment of the June 15, 2020 tax instalment to September 1, 2020. Trust tax balances owing on March 17, 2020 or later, can pay their balances by September 1, 2020.

Support for Businesses

Wage Subsidies – To support businesses facing revenue losses and to help prevent lay-offs, the government is proposing to provide eligible small business employers with a temporary wage subsidy for a period of three months. The subsidy will be equal to 10% of remuneration paid during that period, up to a maximum subsidy of $1,375 per employee and $25,000 per employer. Employers benefitting from this measure will include corporations eligible for the small business deduction, as well as non-profit organizations and charities.

Flexibility for Income Tax Amounts owing – The Canada Revenue Agency will allow all businesses to defer, until after August 31, 2020, the payment of any income tax amounts that become owing as of March 18, and before September 2020. This relief would apply to tax balances due, as well as instalments.[3] No interest or penalties will accumulate on these amounts during this period.

For Quebec Tax Filers: For Quebec corporate filers, balances owing as of March 18, 2020 are deferred until September 1, 2020.

Note that these measures introduced are only proposals at this stage and many will require Royal Assent before formally being enacted into law. Readers are cautioned to consult with their tax advisors for specific advice on how they may be affected by these proposals.

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If you have any questions regarding these measures, please consult with your tax advisor for further details.

[1]For a compete review of these measures and additional announcements released, please see the following link from the Department of Finance:
https://www.canada.ca/en/department-finance/economic-response-plan.html
For the relief provided by Revenu Québec, please see the following links:
http://www.finances.gouv.qc.ca/documents/Bulletins/en/BULEN_2020-3-a-b.pdf
http://www.finances.gouv.qc.ca/documents/Bulletins/en/BULEN_2020-4-a-b.pdf

[2]For self-employed individuals, the filing deadline remains at June 15, 2020.

[3]Under Part I of the Income Tax Act.

BMO Wealth Management

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