

## April 20<sup>th</sup>, 2020 - Market Volatility and Impact on Portfolios

BMO Nesbitt Burns

### Week in Review

BMO  Wealth Management  
BMO Nesbitt Burns

#### Market Volatility:

Equity markets peaked on February 20<sup>th</sup>, on both sides of the border, as supportive economic data and continuing low interest rates boosted stock values. With the onslaught of COVID-19 in Europe and North America, markets fell by 38% in Canada and 35% in the US, before staging a remarkable turnaround in late March. The TSX is now down 15.8% and the US S&P 500 down 11% in 2020 (before dividends). The US and Canadian government programs amounting to massive and comprehensive monetary stimulus (central bank easing of interest rates) and fiscal stimulus (government payments to the most affected individuals and businesses), is larger than anything seen previously. This has calmed markets for now.

Government bonds have benefitted from the lower interest rates, while corporate bonds did not initially benefit as spreads widened out, however with the recent bond buying program by the US Fed and Bank of Canada (for both government and corporate bonds) high grade corporate bonds have now performed well in 2020. Gold has been the best performing asset class, both in absolute terms and even more so in C\$ terms. On the lagging side the preferred share market has performed poorly despite the ongoing high quality dividend stream they generate as market concerns about the potential effect of lower interest rates on rate reset dates, has driven prices down. We show below the performance of several asset classes so far this year, excluding dividends and interest.

|            |         |           | 20-Feb-20  |           | Up or    | Decline from |
|------------|---------|-----------|------------|-----------|----------|--------------|
| 19-Apr-20  |         | 31-Dec-19 | Peak Level | Current   | Down YTD | Peak to Low  |
| TSX        | .TTT-T  | 17,062    | 17,944     | 14,359.88 | -15.8%   | 37.9%        |
| S&P        | .SPX-UT | 3,231     | 3,386      | 2,874.56  | -11.0%   | 35.3%        |
| S&P in C\$ |         | 4,196     | 4,477      | 4,025.99  | -4.1%    |              |
| Prefs      | CPD     | 12.31     |            | 9.88      | -19.7%   |              |
| C\$ Bonds  | VAB     | 25.86     |            | 26.81     | 3.7%     |              |
| Gold       | GLD-US  | 142.90    |            | 158.47    | 10.9%    |              |
| US Bonds   | BND-US  | 83.86     |            | 87.56     | 4.4%     |              |
| US\$/C\$   | CAD=-FX |           |            | 0.7140    | 7.2%     |              |

#### Impact on Balanced Portfolios:

We provide an update in the schedule below of the impact of the market declines in 2020 on 60/40 Portfolios using the relevant benchmark total returns in C\$ (which include an estimate of dividends and interest)

| 2020 year to date       | Benchmark  | Total Return in C\$ | Model         | Allocated     |
|-------------------------|------------|---------------------|---------------|---------------|
| 19-Apr-20               | Symbol     | 2020*               | Allocation    | Return - C\$  |
| C\$ Cash                |            |                     | 0.0%          | 0.00%         |
| US\$ Cash               |            |                     | 0.0%          | 0.00%         |
| Agg. Bond C\$           | VAB        | 4.0%                | 15.0%         | 0.60%         |
| Agg. Bond US\$          | BND        | 12.5%               | 10.0%         | 1.25%         |
| Prefs                   | CPD        | -20.0%              | 10.0%         | -2.00%        |
| <b>Cash &amp; Bonds</b> |            |                     | <b>35.0%</b>  |               |
| TSX                     | XIU        | -15.0%              | 30.0%         | -4.50%        |
| S&P 500 in C\$          | SPY        | -3.7%               | 25.0%         | -0.93%        |
| International           | VGK        | -16.0%              | 5.0%          | -0.80%        |
| <b>Equity</b>           |            |                     | <b>60.0%</b>  |               |
| <b>Gold</b>             | <b>GLD</b> | <b>17.0%</b>        | <b>5.0%</b>   | <b>0.85%</b>  |
| <b>Total</b>            |            |                     | <b>100.0%</b> | <b>-5.53%</b> |

\*including dividends and interest

On average we are down in the range of 3 – 5% on our balanced Portfolios as we remain slightly underweight the 60% allocation in equity. Individual Portfolios will vary somewhat due to actual allocations but we note our range of returns is mostly in this negative 3 – 5% range.

### **Portfolio positioning in the current market environment:**

Given the recent rebound in the equity markets, which has cancelled out more than half of the initial declines, we have this past week further reduced equity by ~3%. Specifically we have sold off the Carrier and Otis elevator stocks that split off from United Technologies and have exited the position in Magna. This has reduced our equity allocation ( net of gold bullion holdings) down into the mid 50% range. Our view is that earning forecasts, which justify the price of equities, are very uncertain and likely to be negative over the next two quarters across most industry sectors. We have reduced exposure to the industrial sector as noted and may look to add to the more stable consumer sector names as opportunities arise over the next few weeks. We plan to maintain our allocation to gold, now at about 6%-7% given its recent increase in price and continue to hold both C\$ and US\$ investment grade bonds totaling in the 25%+ range. Our holding of preferred shares has been a headwind on performance this year as the trading prices of all preferred shares has dropped despite there being no question of the sustainability of dividends other than some future reset to a slightly lower level. The Pref share index ETF “CPD” which is made up of mostly banks and utility names, has fallen 20% this year with a resulting dividend yield currently of 7%. In addition we hold some “floor” reset prefs that have minimum coupons where dividends can not be set lower at the reset date. We would continue hold the allocation to prefs for now and have seen a partial recovery from the recent lows. We will be maintaining a very defensive position with “floors” and the highest quality credits which has, and should continue to reduce price volatility.

**Cecil Hayhoe**  
**Investment Advisor &  
Portfolio Manager**  
**(416) 359-5361**  
**cecil.hayhoe@nbpcd.com**

**Gwyneth Pryse-Phillips**  
**Investment Advisor &  
Portfolio Manager**  
**(416) 359-5384**  
**gwyneth.pryse-phillips@nbpcd.com**

**Adeel Yusoof**  
**Investment Representative**  
**(416) 359-8296**  
**adeel.yusoof@nbpcd.com**

*Sources: Bloomberg, JP Morgan, Thomson & BMO Nesbitt Burns research*

*We deliver a full complement of thoughtful, customized wealth solutions for private clients and institutions, drawing upon global resources, top ranked research and the collective wisdom of BMO Nesbitt Burns and our internal and external partners. For more information on our team we invite you to contact us.*

BMO Nesbitt Burns | 1 First Canadian Place | 38th Floor | Toronto, ON M5X 1H3

Member-Canadian Investor Protection Fund

Member of the Investment Industry Regulatory Organization of Canada.

\*Disclaimers: BMO Wealth Management is the brand name for a business group consisting of Bank of Montreal and certain of its affiliates in providing wealth management products and services. “BMO (M-bar roundel symbol)” is a registered trade-mark of Bank of Montreal, used under licence.

© “Nesbitt Burns” is a registered trade-mark of BMO Nesbitt Burns Inc. BMO Nesbitt Burns Inc. is a wholly-owned subsidiary of Bank of Montreal. The opinions, estimates and projections contained herein are those of the author as of the date hereof and are subject to change without notice and may not reflect those of BMO Nesbitt Burns Inc. (“BMO NBI”). Every effort has been made to ensure that the contents have been compiled or derived from sources believed to be reliable and contain information and opinions that are accurate and complete. Information may be available to BMO Nesbitt Burns or its affiliates that is not reflected herein. However, neither the author nor BMO NBI makes any representation or warranty, express or implied, in respect thereof, takes any responsibility for any errors or omissions which may be contained herein or accepts any liability whatsoever for any loss arising from any use of or reliance on this report or its contents. This report is not to be construed as an offer to sell or a solicitation for or an offer to buy any securities. BMO NBI, its affiliates and/or their respective officers, directors or employees may from time to time acquire, hold or sell securities mentioned herein as principal or agent. BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltee/Ltd. (“BMO Nesbitt Burns”) will buy from or sell to customers’ securities of issuers mentioned herein on a principal basis. BMO Nesbitt Burns, its affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO Nesbitt Burns or its affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. A significant lending relationship may exist between Bank of Montreal, or its affiliates, and certain of the issuers mentioned herein. BMO NBI is a wholly owned subsidiary of BMO Nesbitt Burns Corporation Limited which is a majority-owned subsidiary of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Nesbitt Burns Corp. and/or BMO Nesbitt Burns Securities Ltd. Member-Canadian Investor Protection Fund.