April 20th, 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 20th, 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%
Cash & Bonds			**35.0%**	
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%
Equity			**60.0%**	
Gold	**GLD**	**17.0%**	**5.0%**	0.85%
Total			**100.0%**	**-5.53%**
***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 prefrred shares has dropped despite there being no question of the sustainablility 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 addtion 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 definsive position with "floors" and the highest quality credits which has, and should continue to reduce price volatlity.

Cecil Hayhoe	Gwyneth Pryse-Phillips	Adeel Yusoof
Investment Advisor & Portfolio Manager	**Investment Advisor & Portfolio Manager**	**Investment Representative**
(416) 359-5361	**(416) 359-5384**	**(416) 359-8296**
cecil.hayhoe@nbpcd.com	**gwyneth.pryse-phillips@nbpcd.com**	**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