Mad, Mad, World

QPW Perspectives – June 2020

"It's a crazy world out there. Be curious"

– Stephen Hawking

A rather appropriate comment given that 2020 has been a year like no other. The world is experiencing its largest pandemic in the past 100 years – something many of us never thought we'd witness in our lifetimes. We've had to figure out how to cope and adjust how we live. We've changed the way we work, shop and socialize. Some of us have become part time teachers and learned to cut hair. We've been through highs, lows, and everything in between. So far this year we've had a lot of conflicting information to digest…

- Many businesses were forced to shut down, resulting in mass layoffs and unprecedented economic contraction.
- Central banks and governments around the world have stepped in to provide staggering amounts of support to businesses and affected workers and liquidity to capital markets.

- Equity markets experienced their fastest declines since the Global Financial Crisis (2008-2009) with the S&P 500 returning -34% from its peak on February 19, 2020 to March 23, 2020 (Bloomberg).
- Equity markets experienced their fastest recoveries with the S&P 500 now nearly back to its peak level from February 19, 2020 (Bloomberg).

- The Canadian unemployment rate reached its highest rate on record according to Statistics Canada. The U.S. unemployment rate reached its highest level since the Great Depression of the 1930s.
- U.S. equity markets are currently approaching new all-time highs.

- Toilet paper shortages were experienced across Canada as purchases surged by nearly 250% (Statistics Canada).
- Canada's largest toilet paper manufacturer, Kruger Products, saw its share price decline by 5.2% over the past four months (Bloomberg).

- The U.S. is experiencing near all-time highs in daily active new cases of COVID-19 in many of its states (John Hopkins University).
- In the U.S., physical distancing measures are being relaxed, mass protests are taking place and President Trump is holding rallies ahead of the upcoming presidential election.

To many, it has felt like a mad, mad, world.

Be Curious and Cautious

A closer look at equity markets' impressive recoveries reveals a few facts to be aware of.

- Canadian equity markets have experienced an impressive comeback. At its worst, the S&P TSX Canadian Equity Index returned -37% from its peak on February 19, 2020 to March 23, 2020. On a year-to-date basis (as of June 23, 2020), the index's return has improved to the area of -8%, which is notable given the Energy sector's year-to-date performance of -30%. Upon further examination of the broad Canadian equity index, performance was largely influenced by one stock, Shopify, a multinational e-commerce company. Shopify has posted a year-to-date return of 139% and moved ahead of Royal Bank to become the largest stock in the Canadian equity index based on market capitalization, despite never posting an annual profit. The Canadian equity broad market index, having 222 stocks, has been largely influenced by 1 individual holding.

- The U.S. equity market's performance was also largely driven by a small handful of stocks. As discussed in our last newsletter, 21% of the S&P 500 Index on a market capitalization weighted basis is now concentrated in five companies (Microsoft, Apple, Amazon, Alphabet, and Facebook). This level of concentration in the index is the highest in recorded history. The outperformance of the technology sector is also evident in the year-to-date performance of the NASDAQ at 13.5% versus the S&P 500 at -2.1% (as of June 23, 2020).

- A company's true or fundamental value doesn't seem to matter. Fundamentals have taken a back seat as companies with inflated valuation levels continue to be rewarded by market participants. In the U.S. large cap equity market, on a year-to-date basis growth stocks have outperformed their value counterparts by over 25%.

- Central bank and government support are key. Without the massive, unprecedented stimulus packages provided, financial markets would be in a very different position.

In short, caution is warranted with respect to positive market returns given the influences behind them.

Should you be making changes to your portfolio?

In response to the madness, a calm, disciplined approach is key. A sound investment portfolio should have an investment policy statement or IPS (The IPS is Your GPS) that takes into consideration an investor's long term investment goals, risk tolerances and constraints. During periods of uncertainty, the IPS can be relied upon to provide an unbiased overview of an investor's individual circumstances and long term goals. At Quadrant, a formal IPS is a matter of routine for all clients.

That being said, during times of turbulence and stress, each of us often wants to "do something" in response. It's human nature. However, when it comes to your long term investment plan, the right decision, as painful as it seems, is often to "do nothing" and stay the course, assuming your portfolio was constructed appropriately, preferably with an IPS, and your overall personal circumstances haven't changed.

To be sure that your portfolio properly integrates with your overall wealth plan, ask yourself the following key questions. If the answer to any of these is yes, speak to your financial advisor if you haven't done so already.

- Has my job or business income been affected by COVID-19?
- Has my retirement timeline changed given recent events?
- Would I like to increase my charitable giving goals to help others struggling during these times?

- Am I comfortable that my insurance portfolio (life, disability, critical illness) remains appropriate for my family's circumstances?

After exploring these questions with your financial advisor, there may be adjustments to your overall wealth plan. As professional advisors to our clients we cannot envision managing their portfolios without a current and comprehensive understanding of their unique circumstances and objectives. This is our nature and our duty.

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Unless otherwise expressed, financial data was obtained from Bloomberg.