Hi,

I hope that you and your family are doing well and that you are continuing to find ways to entertain yourself from home.

As you know, we have been trying to communicate with you a little bit more than normal as all of us continue to contend with the impact that COVID-19 is having on our daily lives and the economy. I am writing to you again to recap this week's events and their impacts on the markets.

Canadian and U.S. stock markets have been in rally mode since late March. This week initially saw that rally continue, and then markets gave back some returns in the past couple days, ultimately leading to a flat week. We know that corporate fundamentals will remain very weak for the next 1-2 quarters, but lately investors have been looking across the valley. Open-ended policy stimulus, declining viral caseload growth, and the slow and staggered return to work for some countries and regions have been helping to raise the floor under the prices of riskier assets.

The question everyone has, is where do we go from here? The range in possible outcomes over the next 6-9 months seems very wide. On the plus side, it is easy to imagine the discovery of an effective treatment or vaccine given the thousands of researchers around the world working on the common problem. In recent days there has been positive news about Gilead Sciences' remdisivir drug which the FDA will reportedly approve for use as a treatment for COVID-19. Under this scenario, we would expect the hardest hit assets to lead the way forward. This would include today's lowest-multiple equities, cyclical currencies like the Canadian and

Australian dollar, and high-yield bonds. A negative scenario, characterized by additional waves of infection and little treatment relief in sight, would undoubtedly lengthen the economic downturn. Companies with the highest quality balance sheets, or those that fill a need (e.g., grocery stores, utilities), would continue to outperform. Government bonds would be favored within fixed income for their haven status, while gold would probably outperform other commodities. (History shows us that markets tend to recover strongly after steep market drawdowns, click here for Mackenzie chart)

Yet, from what we now know right now, the likeliest scenario is situated somewhere between these two extremes. Economies will slowly transition back to normal, allowing economic activity some runway for improvement. The path to success will be met by intermittent disappointment. This also means that market dynamics will probably be characterized by a high degree of rotational activity, with riskier assets periodically leading the way and then giving back some of their relative gains to their more defensive brethren. It will be a very challenging environment for any investor trying to time each of these rotations.
In volatile markets like these, it is tempting for investors to want to move to cash temporarily, or to want to buy into a particularly depressed area of the marketplace, like energy or airlines for instance. In our opinion, most investors ought to ignore these urges. The core of a portfolio must contain a well-diversified basket of stocks, bonds, and other alternative assets across different investment styles. Well-constructed and diversified portfolios will ensure your money can be counted upon to fund your financial goals well into the future. Conversely, betting too much of your portfolio on a specific industry, asset class, or individual stock can stunt your financial prospects.

As always, we are here to answer any questions you may have.

With kind regards,

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