# IN FOCUS

July 2020

Independent Accountants' Investment Counsel Inc.™

## IAIC Quarterly Commentary

As the world continued to struggle with COVID-19 in the second quarter of 2020, financial markets re-assessed their path back to stability and economic growth. Initially, markets generally viewed the virus as an issue concentrated in China and a disruptor to supply chains. Despite the fact that cases were surfacing outside of the epicentre of China, the world carried on into February with little focus on the potential human and economic costs that were about to be unleashed. What followed in the first two weeks of March was unprecedented. By all measures, the economy went from a trajectory of modest growth to the steepest and fastest decline on record. The decline resulted in a substantial pullback for stocks and fuelled market volatility, which markets continued to experience beyond the second quarter.

The economic shock caused a downturn and placed analysts in the middle of a storm that has been difficult for them to see through. On one hand, history has taught us valuable lessons. Economies recover and financial markets rebound and continue to grow, giving credence to the necessity of a long-term investment view. On the other hand, the unique characteristics of the current downturn have introduced unknowns and risks that are difficult to quantify without a playbook.

We must appreciate that the underlying risks to the economy, caused by the spread of COVID-19, are generally beyond the control or influence of fiscal or monetary policies. These tools, which are normally used by central banks to slow or accelerate growth and inflation, or to mitigate the impact of economic shocks, have no impact on the root cause. They alone will not cure a pandemic.

By any measurement we may consider, the speed and depth of this year's economic downturn have been historic. However, the catalysts of the downturn – while directly correlated to the virus – have been government intervention and the measures used to mitigate the spread of the virus. For instance, large portions of the economy were ordered to shut down and borders were effectively closed to travel and commerce.

While we can turn to several data points to measure COVID-19's impact on the economy – including consumer confidence or retail sales – one barometer that provides a clear distinction between the current and previous contractions is unemployment.

Extending back to just after World War II, there have been 11 recessions, which are defined by at least two quarters of back-to-back negative growth. In all cases, unemployment rose significantly as the economy contracted. When compared to the recessions of the past, the speed in which jobs were lost and the magnitude of the spike in unemployment during the current recession have been significant. Unemployment has steadily declined over 10 years, from approximately 10% in 2009 to a low of just under 4% in 2019, which is considered by economists to be full employment. However, during the COVID-19 crisis, it took just two weeks for unemployment to spike to 15%, a level not seen since the Great Depression.

Mike Williams, CFA, MBA

Advising Representative

Stock markets quickly followed unemployment, tumbling over

30% in a matter of weeks. Less transparent was the volatility in fixed-income and bond markets. Analysts considered various risks, including the growing number of daily cases, the fear of overtaxed medical facilities, the lack of knowledge about the virus itself and confusion compounded by conflicts between the World Health Organization and other political regimes. The path to recovery was blurred and markets reflected expectations of a deep and prolonged recession. By the end of March, confidence began to return. Markets looked beyond 2020 and believed a recovery was possible beginning in the third quarter of 2020. Some markets clawed back 50% to 70% of steep losses sustained earlier in the year and some surged beyond pre-COVID-19 levels. However, overall fears are now focused on further setbacks related to a second wave, particularly in the U.S., and an inability to contain the spread, which may send markets back into negative territory.

From a macro perspective, the stimulative measures by governments and central banks are also notable. These large -scale measures immediately mitigated the impact of containment orders and mandated shutdowns, while providing some stability to stock markets and, more importantly, to fixed-income markets. The downside to these measures is that governments have taken on massive amounts of debt in a very short period. While these have helped to ease the short-term pain facing individuals and businesses, the means in which the aftermath is dealt with remain unknown and may have an impact on economic prosperity well beyond 2020.

On a positive note, economic data has shown some improvement as economies around the world have begun to reopen. While nowhere near pre-COVID-19 levels, most measurements, including global PMIs and new unemployment claims, are trending favourably.

The issue now turns to current valuation levels. Even before COVID-19, many questioned whether the market was overpriced and due for a pullback, or some sort of correction. Despite the recent rally, stock markets are generally trading at discounted levels versus the levels reached in the first six weeks of 2020. While caution was warranted prior to the sharp downturn, the current consensus is that the lows of March were heavily weighting worst-case scenarios. In hindsight, the sharp declines created a buying opportunity for some quality names that were suddenly discounted by 20%, 30% or even 50%. The focus has turned to the strength of corporate balance sheets and the sustainability of operations through an extended downturn. Governments' actions to support financial markets were massive and swift, providing some confidence to investors. As quickly as markets fell, a recovery began to take hold. The DOW Jones Industrial Average Index gained 17.7% in the second quarter. The tech-heavy NASDAQ Composite Index surged 30%, to a level above its pre-COVID-19 high, and posted a 14.5% gain on the year.

There is no doubt that many companies will see substantial declines in revenue and profits in 2020 with continued disruptions in their supply chains. That is a given. However, we need to keep in mind that past performance is merely a tool to forecast the future and markets are forward looking by nature. COVID-19's impact on 2020 financial results are reflected in current stock prices, but so are future expectations and the anticipated path to recovery. In theory, the more rapidly the economy returns to some semblance of normal, the less impact the current downturn will have on the markets. However, a slower and prolonged recovery will have a more significant impact, and result in a generally deeper setback for markets.

At the current levels stock indices are trading at, investors seem to be looking beyond 2020. As of now, the consensus reflected in stock prices is that the economy will return to a state of stability by year-end and that corporate earnings will bounce back in 2021, nearly reaching the levels posted in 2019. Compared to past recessions, it took 35 months for corporate earnings to recover from the 17% decline of the 2000 dot-com crash and 40 months following the 42% decline in the wake of the 2008 financial crisis.

An investor's state of bullishness, or bearishness, is somewhat influenced by the degree of confidence they have in the current forecast.

Markets are also beginning to pay attention to the pending U.S. presidential election and the polls, which will become more meaningful as we approach November. However, investors seem to be shrugging off the unrest in the U.S. and the surging number of COVID-19 cases in key states. At IAIC, we are tending to err more towards caution given the number of unresolved risks, but we continue to advocate for investments in good companies with strong business models that have a proven track record of dealing with economic uncertainty.

## Things you can do to help loved ones live well in their senior years

Let's face it: our world is obsessed with youthfulness. Once you hit your late 30s and early 40s, you start to notice an uptick in messaging related to how you can look, feel, and act younger than you really are. Coincidentally, this comes when you're doing your best to juggle career, finances, kids, and your self-care. You have a lot going on, and it can be overwhelming to see your parents and older relatives ageing. Watching your loved ones navigate today's world as senior citizens can be worrisome, adding to the stress of an already brimming plate. But taking time to look at their physical, financial and emotional health can help you learn about how they envision what living well looks like during this next phase of their lives. It has the added benefits of reducing some of the pressure you will feel while taking care of them in the same way they've always looked out for you.

### Looking for clues in physical health

Often the first thing that forces someone to concede that they are getting older is a physical change that manifests as an accident or health crisis. A broken bone could indicate diminished stamina, mobility, or strength. Your parent may be having trouble with activities that were easy to accomplish in the past and this could be related to cognitive changes or even attributed to treatments required for some serious illnesses, like cancer. It can be challenging to work with

Ashley Carter, CFP

Financial Planner

parents to help them understand that sharing health-related information with their adult children is one of the keys to living well. An incomplete healthcare picture, even around something seemingly small like proper nutrition, can make offering assistance unnecessarily tricky. However, once your loved ones understand that transitioning to a shared-information approach to their overall health offers benefits, they will be better positioned to address ageing-related physical health concerns. Of course, it's essential to maintain privacy, but do consider having a conversation about how it might be prudent to have you in the room when they are meeting with healthcare professionals. You can position this advantageously; as having a second set of ears to collect information. Attending appointments with them also means that you'll help physicians by offering observations that might not be top of mind for them to report but can be important markers of health.

### Gaining an understanding of finances and legal documentation

Financial matters are another area to check in on with ageing parents. Have they created a Power of Attorney (POA) document that comprehensively addresses their financial and personal situations? Are their wills and healthcare decision documents (also known as living wills, advanced directives, or Healthcare POA) up-to-date? If these critical documents don't yet exist or haven't been reviewed for many years, now is the time to ensure they are in place and current. POAs, wills and healthcare directives offer your loved ones' legal protection. With them, decisions around housing, health care, property and financial affairs are documented and allow the person named to make specific decisions for someone who is unable to make them firsthand. Healthcare directives capture someone's intentions related to their health, and often end-of-life care, if they become mentally incapacitated. Wills allow someone to document how they want their property to be managed even if they pass away. These necessary documents precipitate some very personal discussions. It's important to realize that a "once and done" approach is not going to offer the best protection. There is good reason to revisit documents regularly to ensure that the people named are still appropriate.

A second part of gaining an understanding of your parent's finances focuses on investments and wealth management. During retirement, many seniors worry about their daily living expenses since they have limited sources of income. Extreme market fluctuations increases financial stress. As their needs change in retirement – be it through checking off bucket-list items, or transitions into new living arrangements – financial planners need to be well-informed to be able to respond and adjust investments accordingly in your parent's best interests. Financial planners can provide information around unique opportunities that may exist that can help protect savings. For example, the federal government recently relaxed the annual minimum payment requirement from Registered Retirement Income Funds as a way to help seniors. Preserving wealth can provide a wider variety of options for care as they age and reduce worry on both them and you. Please encourage them to continue to meet with their financial planners, even if the receiving updates means connecting by phone or even through video conferencing.

### Helping create positive emotional and mental health

With physical health and finances in order, the last thing to consider for your loved ones is their emotional health. Studies and circumstances have shown that a large number of seniors face an epidemic of loneliness and isolation in their golden years. Recent events have only exacerbated these problems with restrictions on our ability to visit seniors' residences and long-term care facilities. The disconnectedness takes its toll, potentially creating mental health concerns, such as depression, that need intervention. Many of the measures that have been in place to keep seniors safe have also had unfortunate effects on their emotional well-being. It's essential to continue to check in to make sure that your loved ones are managing to the best of their abilities. You may be able to work with them, or their caregivers if they live in a supportive care facility, to stay connected not only through phone conversations but also by leveraging newer technologies that allow for visual communications - like video-chats. You could also consider how virtual home assistant devices, also known as smart-speakers, can help make things easier to manage. Configuring these innovations can often help address feelings of isolation your parents may be experiencing by offering a convenient way to "pop in" for a visit or by making it easy to play some favourite tunes. When working with these devices, be sure to consider aptitude, ease of use, technical ability and configuration requirements, as these can vary depending on their living situation. You will also need to be sure to have a support system to help them if something doesn't connect or work as expected. The one thing you don't want to have happen is for them to feel frustrated because they experience a problem using technology. Don't be afraid to get creative in maintaining contact – you might be able to arrange a short window visit or mail them a care package of favourites and treats, including some good old-fashioned art for the fridge.

Even though everyone's situations are going to be uniquely different, attending to the basics of ensuring that physical, financial and emotional health needs have been addressed sets you up for success over the long term as we all inevitably continue to age. Sometimes, difficult conversations will be needed. But once these are out of the way, you and your parents will be able to focus on living well in comfort and happiness.

## How the Markets Performed

Jordan Carter, CIM

Advising Representative

Global indices were up from their March lows, with each major market posting a double-digit return in the second quarter. While April saw the strongest monthly performance, the recovery was sustained throughout the quarter by positive equity returns in each month. Over the previous 12 months, the U.S. market has been the runaway winner with a return in excess of 12%, while other markets posted negative returns over the second quarter. Preferred shares saw a large increase but were down 7% over the last year as interest rates remained low.

| Key Indicators | | June –20 |
|---|---|---|
| 90 Day Tbill | | 0.29% |
| CPI (Y/Y) (Aug) | | 2.2% |
| $U/$C | | $0.74 |
| **Major Market Returns** | **3 Month Total Return** | **12 Month Total Return** |
| S&P/TSX Composite | 17.0% | -2.2% |
| S&P/TSX Preferred Share | 15.0% | -7.2% |
| S&P 500 Composite (C$) | 15.3% | 12.1% |
| MSCI EAFE (C$) | 10.1% | -0.7% |
| **IAIC Equity Sector Benchmarks** | | |
| Consumer | 19.2% | -10.7% |
| Financial | 4.8% | -14.6% |
| Utilities | 0.2% | -2.6% |
| Industrial | 39.0% | 39.3% |
| Resource | 26.7% | -0.6% |

## Your IAIC Quarterly Statement is now accessible through the IAIC Client Portal

## Sign-up for eStatements now and help reduce our carbon footprint

Benefits of electronic statement delivery:

- Environmentally friendly…..no paper.  IAIC has already reduced our paper usage by 24,000 sheets
- Receive your statement sooner.  We will send you an email to let you know when your  statement is ready
- More secure delivery verses an envelope in your home mailbox
- Easier to organize and save electronic copies compared to paper statements


IAIC
Independent Accountants' Investment Counsel Inc.™

IAIC Disclosures

All graph and chart statistical data contained in this report has been supplied by Refinitiv and National Bank Financial . Sources used by Refinitiv and National Bank Financial to compile the data include: Global Insight, Thomson Financial, CPMS, Bloomberg, S&P/TSX Index Services, S&P Index Services, TSX, NYSE, NASD, and company reports. The views and opinions expressed in this newsletter are based on historical company fundamentals and market statistics.  No guarantee of outcome is implied and opinions may change without notice.  Investors should not base any of their investment decisions solely on this report.

This report is produced entirely by Independent Accountants' Investment Counsel Inc.  Although the information contained in this report has been obtained from sources that IAIC Inc. believes to be reliable, we do not guarantee its accuracy, and as such, the information may be incomplete or condensed. All opinions, estimates and other information included in this report constitute our judgment as of the date hereof and are subject to change without notice.

Please contact your IAIC representative if you have any questions regarding this newsletter.