Wealth Insights

TD Wealth Private Investment Advice

April 8, 2020

Investing & the Impact of COVID-19

These have been difficult times for so many people. Please know that we continue to work hard for you and your family during this period of uncertainty. This note comes as part of our continuing effort to stay connected with you during the unprecedented global containment efforts against the spread of the COVID-19 virus.

Beyond the tragic health and social implications of this global event, there will, no doubt, be wide-ranging financial effects on economies and the markets over the near term. Over recent weeks, we have been living through a period of significant market volatility. Market swings have been rapid and aggressive.

This is likely due to a confluence of factors. Prior to this global health pandemic, we were in the latter part of a very long economic expansion. The current situation seems different than anything we have ever experienced and there are few precedents. There are many more dynamics at play: frightening health consequences, wide-ranging implications from shutting down economies and significant social impacts. The speed at which things have been developing has felt extreme. As well, we are much more connected than in the past, both through technology and the media — this being perhaps the first major global health event of the social media age.

However, if history is any indicator, it has shown us that time can be the ultimate equalizer. Past pandemics have not had enduring effects on the economy or markets. The Spanish flu (1918), which tragically took an estimated 50 million lives, was followed two years later by the "roaring twenties". The Hong Kong flu (1968),

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which was responsible for over a million deaths, resulted in a mild recession in the U.S. and none in Canada, but the virus wasn't a central theme even just a couple of years after its containment.

Significant periods of market volatility are also not new. Since 1928, the S&P 500 experienced 12 declines of 30 percent or more and 20 declines of at least 20 percent. These losses occurred every 7 to 8 years and every 4 to 5 years, respectively. Volatility can be a difficult trade-off, but it allows for the opportunity of higher returns of the equity markets. While it may feel safe to be in cash when markets are in a downturn, it is worthwhile to remember that holding cash over the long term would forego the opportunity for these returns. Despite these significant market declines, an investment of $100 in the S&P 500 Index in 1928 would have grown to more than $500,000 by the end of 2019. This, after enduring the Great Depression, wars, recessions, market busts and bear markets. A $100 investment in U.S. treasury bills would have yielded $2,080 over the same period. Risk and return are intrinsically linked.[1]

A recent article in Fortune also reminds us that, even in the worst situations, equity markets have eventually turned their course. It looked at the worst bear markets in history and the returns in one, three and five year periods after their end (see chart, next page).

Support Offered to Canadians

The Government of Canada continues to announce actions to help Canadians facing hardship as a result of COVID-19. For taxpayers, there has been an extension to the 2019 income tax filing due date for individuals (other than trusts) to **June 1, 2020**. Any new income tax balances or instalments owing will be deferred until August 31, 2020 without incurring interest or penalties. As measures continue to evolve, visit the Government of Canada website for the latest details: https://www.canada.ca/en/department-finance/economic-response-plan.html

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Average returns following significant bear markets were 52 percent, 89 percent and 132 percent over the ensuing one, three, and five year periods, respectively. Although the positive returns that followed came after the depths of the bear markets, history reminds us that time can heal even the worst market declines.

Looking Forward

The weeks ahead are expected to be challenging as the virus spread peaks closer to home. However, while it does not feel like it now, and it may not feel like it in the coming weeks, we shouldn't lose sight of the fact that recovery is expected in due course. Here are reasons to hold onto optimism:

Global policy responses have been faster and deeper than ever in history. Policymakers appear willing to do as much as they can to try and stem the crisis. Close to home, both the Canadian and U.S. central banks have engaged in emergency interest cuts, bringing rates to near zero levels, as well as unprecedented quantitative easing. At the time of writing, governments continue to roll out significant economic stimulus packages globally, including C$107 billion of relief in Canada, as well as a US$2.2 trillion stimulus package in the U.S.[2]

There have been early signs of abatement overseas. In Asia, where the virus' progression has been months ahead of that in North America, quarantining and physical distancing efforts have helped to stabilize the number of new cases. China's numbers have slowed markedly; South Korea has also been able to reduce and stabilize new COVID-19 cases.

Containment efforts continue to be strong. Adding to this, our medical knowledge far exceeds that of 1918 and 1968, or any other period in history. The response by the scientific community has been swift and determined in the pursuit to develop a potential vaccine. Governments continue to invest in both this and longer-term solutions for prevention.

Humans have endured and progressed. While it may not feel like it today, eventually things will recover. Consider that adversity can also be a catalyst for progress. Even in the face of the most challenging economic times, such as the Great Depression, there was significant innovation: microwaves, jets, electron microscopes, nylon, Teflon, plastics and synthetic rubber, to name just a handful. We have overcome the most difficult of challenges with great determination and resiliency.

Forward Returns Following History's Worst Bear Markets – S&P 500 Index

Peak	Trough	Drawdown	1 Year	3 Years	5 Years
1929, SEP	1932, JUN	-86.2%	162.9%	170.5%	344.8%
1937, MAR	1938, MAR	-54.5%	35.2%	38.2%	84.5%
1968, NOV	1970, MAY	-36.1%	34.8%	50.6%	42.2%
1973, JAN	1974, OCT	-48.2%	38.1%	72.7%	117.5%
1987, AUG	1987, DEC	-33.5%	23.2%	55.5%	121.7%
2000, MAR	2002, OCT	-49.1%	24.4%	59.0%	105.1%
2007, OCT	2009, MAR	-56.8%	53.6%	98.0%	181.6%

Source: fortune.com/2020/03/19/coronavirus-stock-market-predictions-bear-market-stocks-bottom-what-to-expect/

We Are Here for You

While the office temporarily remains closed, we have been working remotely and continue to monitor the rapidly changing situation. Given the challenges to the economy over the short term, we expect that equity markets will continue to experience volatility in the months to come as containment efforts persist. Despite the broad market declines, we believe that many quality companies with solid balance sheets are well-placed to weather these types of storms. While we have been proceeding with an abundance of caution, there may also be opportunities for the longer-term investor to slowly increase equity positions in quality companies at low valuations.

During these times, try and look beyond today. Don't lose sight of the fact that, just as we have seen in the past, equity markets can quickly turn their course. Investing continues to be a marathon — this one, while certainly testing our true resolve, is not insurmountable. Stay safe, healthy and continue to look forward.

1. https://awealthofcommonsense.com/2020/03/whats-causing-all-the-panic-buying-selling-of-stocks/; 2. Measures announced include those up to March 30, 2020. There are likely to be additional actions taken by governments as the situation continues to evolve.

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