2nd Quarter 2020 Commentary

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Schacter Palazzi | Wealth Management

TD Wealth

2nd Quarter 2020

TD Wealth Private Investment Advice

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Schacter Palazzi Wealth Management members would like to continue to wish all of you, our clients, good health and express our hope that your families remain safe during this difficult time as our community continues to work to combat COVID-19 and the challenges it presents to our economy and lives.

Please note that our team continues to mainly work from home, and our offices are closed for client access until further notice. You can continue to reach us by phoning the office, where we have one team member usually there and can assist you, and/or relay your message to Andrew, Jeff, James, or any other specific team member as needed.

Client meetings will continue to be done virtually via the video conferencing platform, WebEx, or by traditional telephone. Many of you are finding the WebEx video call/service quite useful so do not be afraid to try it over the regular telephone conference call. One quick tip for new users who will use an iPads or other Apple products, please download the app prior to the WebEx call – that will make things much smoother!

We hope that you take some time this summer to recharge, reset, and refresh, given the past few months, and please don't hesitate to reach out to us at any time.

Andrew, Jeff, James & team

Are You an Optimist or Pessimist by Heart?

By Andrew Palazzi

I am sure many of you have heard the common phrase "I have never met a successful pessimist".

When asked by our clients, I self-identify as an optimist, albeit a cautious one! I am also a strong believer in the power of the human spirit, the power of ingenuity in people and companies, and the creativity of others.

The most common question I am receiving these days as we enter July is: Will the equity market continue to move higher?

My answer at the moment, is that, following a large resurgence from the March lows, equity markets may be getting a little bit ahead of themselves and pullbacks can be expected along the way. As I write this in late June, we have seen an increase in volatility related to the fear of the emergence of a second wave in the virus among several of the early to re-open provinces and states. An article from the Globe and Mail dated June 19th (by Kelly Grant) showed that while covid-19 cases were actually seeing a sustained decrease in the number of new coronavirus infections reported daily, an increase was being noted in southern states like Florida, Texas, and Arizona. While it is too early to tell what the future looks like for sure, the re-opening of the North American economy is a good sign the playbook is being executed even if we are not at half-time yet. I think if asked what I thought the Bank of Canada or the U.S. Federal Reserve might be doing in the days ahead, I would respond with a sports analogy that they are reserving the right to change their play call at the line of scrimmage depending on what happens next.

While there have been a lot of questions coming up lately, here are some of the latest and most common ones from many of you...

Andrew what do you think the Canadian and American economic recovery will look like? Is it a good time to invest?

In terms of the economy's recovery shape, I think that the remainder of this year is more likely to trace out a sequence of "rolling W's" as opposed to a clean "V" (remember that the first part of a W is a V). A lot of the data we have seen recently (improved housing both Canada and the US, and improving employment data in both US and Canada) makes it look like a V, at least in the short term. However, it is important to remember this is a function of re-opening the economy. Starting from a closed state to an open state is like accelerating from 20 km/h to 85 km/h on the on-ramp to a highway – it feels like a big increase until you have to merge into the traffic which is going 100 km/h. It will take at least a few months before we see what the post-pandemic "normal" looks like.

I feel the governments on both sides of the border will be ill served if they opt to shut down the economy again so I suspect recovery will continue in the months ahead albeit moderately. Particularly given the recent acceleration in cases of the virus in the southern United States.

Equity prices are still down quite a bit on the Canadian markets year to date, and I feel many of the business that we hold in our Canadian and Canadian dividend only models will continue to be resilient and improve over the next 6 quarters. So yes, I do think now is a good time to invest. But remember short term volatility will stay with us for some time. This is where I would encourage all of you to take or retake our Discovery application and potentially revisit or renew your wealth plans with us. We have recently started using new planning software and it would not hurt to complete a new plan for many of you just to check that things are continuing to go according to plan. I believe that keeping an eye on your long-term goal, or family plans, helps to avoid being distracted by the day to day movements in news and events happening around us all over the world.

Andrew, how do you see investments and the economy changing in the years and months ahead because of COVID-19?

Longer-term I believe our economy is in the process of starting a shift from services/consumer-led growth toward more investment-led growth (particularly in areas like health care, technology, and manufacturing supply-chain). The transition is likely to be bumpy and uneven—especially for workers displaced by the havoc wreaked by the pandemic. I believe the areas of weakness on a go forward basis will likely be:

- Classic retailers (think Hudson Bay, Macy's, JC Penny)
- Restaurants/accommodations (Hotel operators etc..sit down restaurants)
- Recreation (most sports or activities that cannot make physical distancing work)
- Air travel (Air Canada, WestJet, Delta etc..)

On the other hand, I would expect the following sectors to strengthen in the days and weeks ahead:

- Consumer (Loblaw, Metro)
- Technology (Microsoft, Kinaxis, Descartes, Cisco etc.)
- Health care (United Health, Merck, etc.)
- Manufacturing (possible move to more domestic manufacturing)
- Residential construction (too early to tell if single dwelling residences will be of the main choice vs condos especially in large urban markets)

Final Thoughts

I mentioned earlier that I am a cautious optimist. I believe that investing in itself is an act of optimism – it requires a faith that the companies in which we invest will continue to flourish through good or bad economic conditions.

I believe we will emerge from this crisis to forge a stronger path and that the challenges we are facing will inspire us to improve both in business and hopefully as a society. The final thought I would leave everyone with is to be mindful of the emotions of both fear and greed with a bit more focus on the former. If we have laid out a good plan or income generating strategy, sticking to your game plan should really be the best course of action.

I still believe that when people ask me to define what long-term investment success looks like, it does not mean one must precisely pick economic/market tops and bottoms. That is gambling on moments in time, while investing should always be a process over time.

Thanks again for all of your questions this quarter and if you have a question that was not covered here, please don't hesitate to reach out to us directly.

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