Big Picture

Volatile Oil Prices Take Investors on Wild Ride

U.S. stocks declined sharply on Monday, signaling the start of another volatile week, after U.S. crude futures entered negative territory for the first time in history. The front-month May futures contract ended the day at negative $37 a barrel, leaving some producers having to pay buyers to take oil away or store it, as oil demand nearly vanishes in light of the pandemic. Year to date, the S&P energy index has lost 45%, by far the worst performer among 11 sectors. By Monday's close, the Dow had dropped nearly 600 points, while the Nasdaq shed 89. Despite oil's continued fall, the TSX climbed 28 points, buoyed by rising sentiment for Shopify, which climbed nearly 7% on the day.

It was another rough day Tuesday as further declines in oil prices dragged down everything from stocks to currencies, adding even more urgency to the crisis sweeping the energy industry. Major U.S. indexes opened sharply lower and continued falling in afternoon trading as the oil selloff gained steam. The Dow plunged over 600 points Tuesday, while the TSX fell more than 3%, and the loonie dropped to a near three-week low. Even gold declined, as investors scrambled for cash to cover other positions.

N.A. markets rallied Wednesday, however, to claw back some of the week's losses, as Brent crude was up nearly 6% for the day. Adding to the positive sentiment was news that U.S. lawmakers were on track to approve roughly $500 billion in aid for U.S. small businesses struggling from the impact of the coronavirus outbreak. By Wednesday's close, the TSX was up nearly 350, while the Dow jumped almost 500.

Positive sentiment continued on Thursday as signs of progress against the virus are fuelling hopes that many local economies could soon begin to ease lockdown measures. There was also more good news as oil prices climbed on signs of recovering demand in China, and weekly U.S. jobless claims appeared to be easing–although the total over the last five weeks has now reached 26 million. By Thursday's close, U.S. and Canadian indexes essentially finished flat.

Falling Oil Weighs on N.A. Markets

For the four days covered in this report, the Dow dropped 727 points to close at 23,515, the S&P 500 lost 77 points to settle at 2,798, while the tech-heavy Nasdaq declined 155 points to close at 8,495. In Canada, the TSX was off 109 points to end at 14,251.

Strategy

The Canadian economy was on relatively solid footing pre-crisis and now faces recovery challenges on multiple

The Canadian economy is in the midst of its deepest contraction since the Great Depression, as the COVID-19 pandemic has led to wide-spread business closures and dramatically reduced global energy demand. While the drop in activity will be concentrated in the March to June period, full economic recovery could take more than two years. Indeed, the Bank of Canada's most recently published Monetary Policy Report (MPR) indicated that the decline in 2Q GDP could be as large as 30%, relative to output in 4Q19. Pre-crisis, the Canadian economy had been operating close to potential with the labour market performing well, with low unemployment and rising wages. Despite energy intensive regions facing challenges from low-investment and relatively elevated household debt, economic activity overall had been on solid footing. Now, the Canadian economy faces challenges in avoiding a second wave of cases once mobility restrictions are lifted and awaiting the rebound in global energy demand. Ultimately, the timing and strength of the recovery will depend heavily on how the pandemic unfolds and what measures are required to contain it. The recovery will also depend on how willing consumers are to return to public venues and how quickly businesses are willing to return previously furloughed workers.

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