

Big Picture

N.A. Markets Gain Ground on Optimism That Pandemic Could Be Slowing

It was a strong start to the week as markets rallied Monday on early signs that lockdowns in the U.S. and Europe may be helping slow the coronavirus pandemic, even as the death toll in the U.S. climbs. All three U.S. markets were up roughly 7% in response to a drop in the daily death toll in New York, one of the country's worst hotspots. By Monday's close, the Dow was up 1,627 points, while the TSX gained more than 650. However, oil markets struggled to stabilize Monday after an emergency summit to cut global production was pushed back from Monday over continued tensions between the Saudis and Russians.

It was an extremely volatile day for trading in U.S. markets Tuesday, which saw dramatic gains in the morning erased by the day's close. The market's gains vanished partly in response to tumbling U.S. crude prices, which fell more than 9%.

Although the Dow was up by more than 900 points in early trading, it closed down 26 points, while the S&P and Nasdaq lost 0.2% and 0.3%, respectively. The TSX ended the day with a slight gain of 0.1%.

Also weighing on markets were warnings about the depth and severity of the U.S. recession. In an interview this week, former Fed Chair Janet Yellen predicted the U.S. economy would decline by at least 30% in Q2.

N.A. stocks rose once again Wednesday, buoyed by new data that the spread of the coronavirus could be waning in U.S. and European hotspots. Investor sentiment has also turned positive over news that Fed measures are helping stabilize markets. In addition to slashing interest rates, the Fed took aggressive action in March, pledging to buy government bonds, corporate-bond funds and municipal debt. This week Fed officials are also expected to provide an additional \$2.3 trillion in aid for small and midsize businesses, as well as cities and states.

By Wednesday's close, the Dow was up 773 points, while the TSX added 312. The TSX's energy sector jumped more than 4% as oil prices strengthened on hopes that OPEC and its allies will agree to cut production at a summit scheduled for Thursday.

N.A. Markets Regain Ground

For the three days covered in this report, the Dow surged 2,382 points to close at 23,434, the S&P 500 climbed 261 points to settle at 2,750, while the tech-heavy Nasdaq jumped 718 points to close at 8,091. In Canada, the TSX regained significant ground, adding 988 points to end at 13,926.

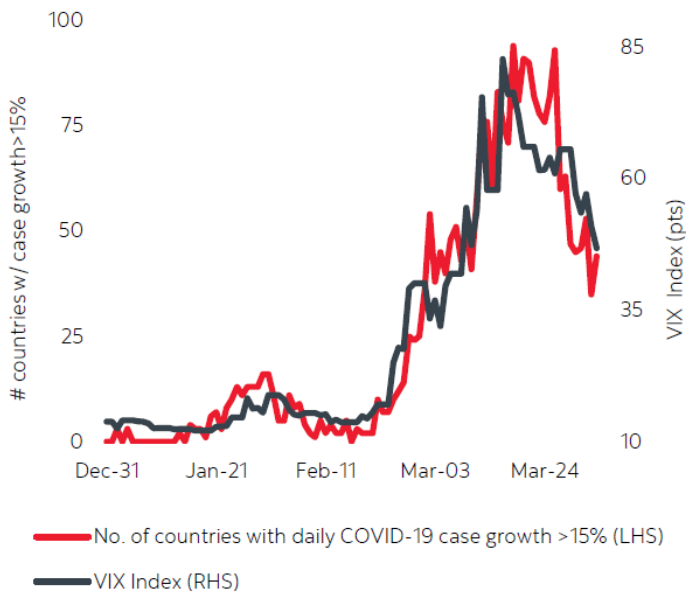
Equities

Despite near term uncertainty, we maintain a neutral equity weighting

While the coronavirus will impair corporate profits, the magnitude of the decline in equity indices during the past month has been historic. The VIX Index reached an all-time high in late March, coinciding with the largest 30-day decline in the history of the S&P500 since 1940. Equity market volatility has tracked closely with the number of countries reporting daily COVID-19 case growth exceeding 15%. We hope, and believe that equity market volatility has peaked (figure below).

Our expected returns for equities have increased by an average of 100 basis points. We have assumed that corporate profits will decline by over 25% in 2020 and gradually rebound to post-crisis levels within a few years. Risk premiums across geographies are currently near the high end of historical ranges. That said, uncertainty pertaining to the magnitude and length of the pandemic's effect on corporate earnings and the relative attractiveness of corporate credit continue to justify a neutral equity weighting within our tactical asset allocation.

Breadth of COVID-19 case growth rate has resulted in significant equity market volatility



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