Subject: VALUED CLIENT MAIL LIST: Economic Perspective -The Summer of 2020

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SURFING THE RECOVERY

Source: Google Images

Medical practitioners tracking the pandemic's progress have been anticipating a second wave of infection to occur before year end ***(Reuters News June 30).***

However, while considerable progress in containing the spread has been made in certain jurisdictions, the reality is that it's difficult to say the first wave is over.

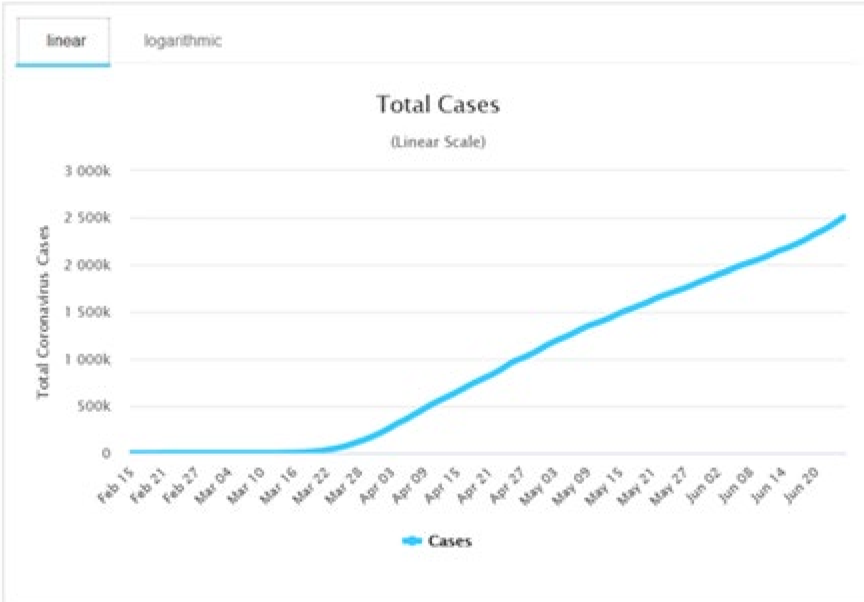
I speak about the financial market "talking" to us regarding issues that are a threat to continued economic performance and growth. One of the most powerful "words" in its vocabulary is <u>market volatility</u>. The market will not hesitate to respond to social threats it perceives as it did Friday June 26 as an example. On that day the Dow closed down 626 points on news that Texas will be rolling back some of the lock down re-opening due to the dramatic increase in the number of new Covid-19 cases. The day before the Dow closed up 380 pts. As a measure, the volatility index (VIX) which ranged within 14-16 prior to the pandemic now remains routinely above 30.

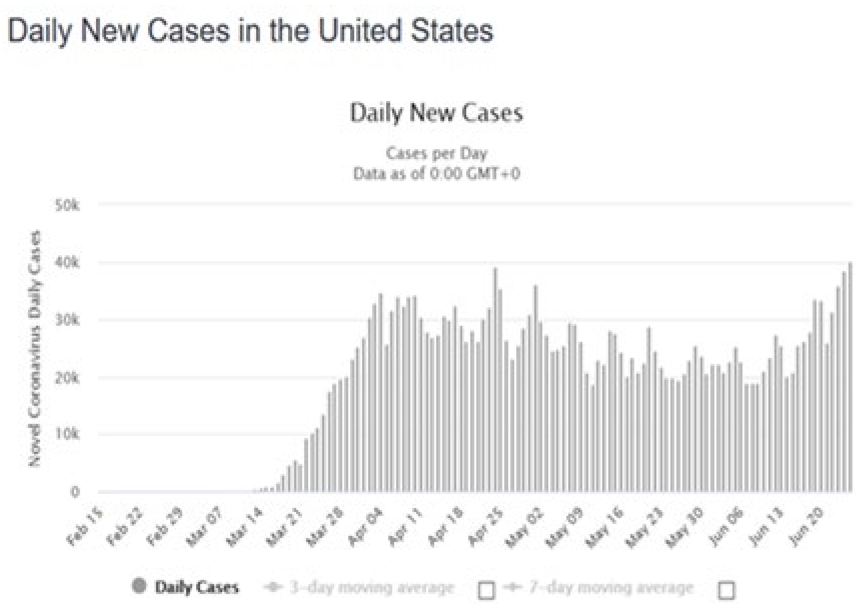
While the total number of Covid-19 cases in the U.S. has continued to rise, the financial markets did acknowledge that steps were being taken to contain the virus and slow the rise which has occurred in a number of U.S. states such as New York, Oregon and Connecticut. It did so by rewarding a substantial improvement following the March decline.

However, the daily rate of new cases has increased dramatically in response to the more aggressive degree of re-opening in Texas, Florida and California in particular. This is again prompting the market to express its concerns which it will continue to do, translating into persistent volatility.

Dow Jones Industrial Average (March to Current)

Total Coronavirus Cases in the United States





Sources: ***Statistica.ca***
Thomson Reuters
Statistica.ca

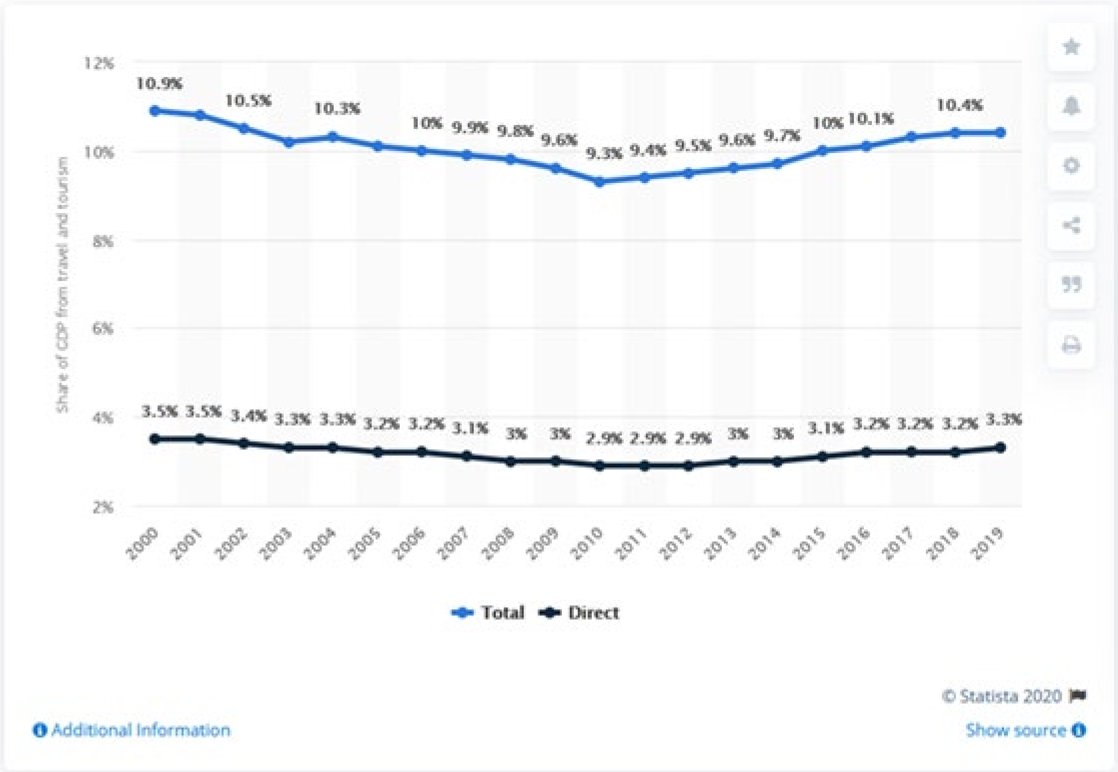
NOT FIRING ON ALL CYLINDERS

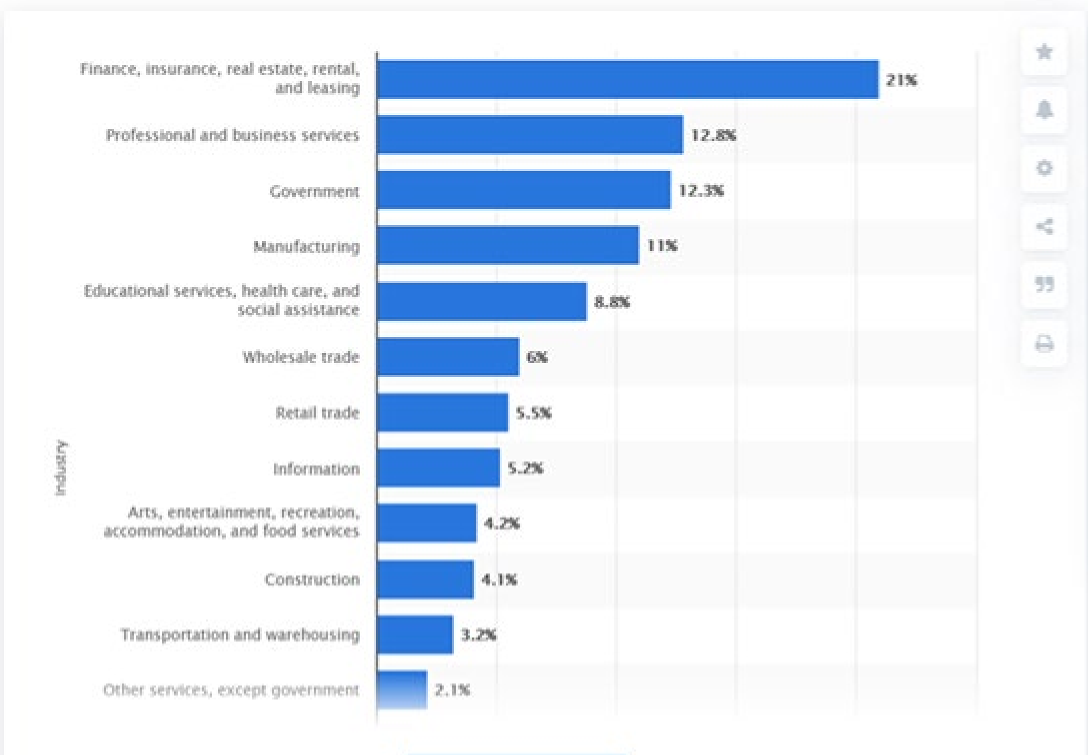
It's not hard to know when a cylinder in your car's motor is not operating properly and not contributing its share of power to the engine. The urgency in adhering to proper social practices, including the wearing of masks and frequent hand washing, is that some medical researchers are concerned a vaccine will not completely eradicate the Covid-19 virus and that it will be a health risk we will have to learn to live with similar to other influenzas *(CDC website).* The financial impact of this possibility is that some economic sectors will not be able to reach pre-pandemic levels of commerce and profitability; <u>the economic engine will not be running on all cylinders</u>.

More specifically, the travel, hospitality, entertainment and restaurant industries may act as a lag on GDP for a considerable period of time given the virus has not been sufficiently contained to permit them to serve the public in close quarters. Globally, these sectors account for more than 10% of global GDP and represent a potential persistent drag on GDP growth over time if social practice measures are not heightened.

Arts, Entertainment, Hospitality and Travel Sector as a % of Global GDP

U.S. Business Sectors as a % of U.S. GDP





Sources: *Statistica.ca* *Statistica.ca*

WHAT'S THE TAKEAWAY?

- **It has become apparent that an eventual vaccine or treatment is not around the corner. There is a sufficient medical consensus that we will have to live with the virus as a recurrent social condition best checked by vigorous social practices in the meantime.**
- **The financial markets are not waiting for the "magic pill" and are rewarding areas of growth least impacted by the pandemic while penalizing those industries most likely to continue to be affected.**
- **We should expect the drag on economies to maintain a recessionary environment. The contraction in GDP has slowed but the pace of recovery may result in further declines in quarterly GDP through 2020.**
- **A consequence of the weakness in the affected industries will be persistent higher unemployment.**
- **A characteristic of the market recovery will be on-going volatility.**
- **Market activity should include a focus on more pandemic resistant sectors including power generation, healthcare and commercial transportation. Within all sectors seek out best in class survivors even amongst challenged sectors.**
- **Maintain selective diversification and including alternative forms of returns.**
- **Become accustomed to maintaining a continuous and active defensive reserve.**
- **Anticipate a change in the financial environment starting 2021 post vaccine and U.S. Presidential elections.**

IMPORTANTLY, MANAGE EXPECTATIONS

Regards

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