Monthly Market Insights

Data and opinions as of April 30, 2020

Stocks rally as the world plans for re-opening

Equity markets continued to rally from their March 23 lows as “the COVID curve” appears to be flattening across many parts of Europe and Asia. China, the first country hit by COVID-19, has seen its economy slowly reopen and the data so far does not suggest a “V-shaped” recovery as many had initially hoped for. Businesses and manufacturing may be quick to restart, but consumer behaviour may change in a post-COVID world, at least in the short-term, as dining out and travelling seem less appealing. As more economies start to plan for gradual reopening, they also face a risk of a second wave of infection. For that reason, we continue to stress near-term caution. However, given attractive valuations and a backdrop of loose monetary policy, we have slightly increased our equity exposure in our asset allocation solutions with the expectation of longer-term gain.

The NEI perspective

Economic activity plummets. Lockdown measures were necessary to contain the spread of the virus, but economic damage has been severe. Unemployment filings and global leading economic indicators point to a plunge in economic activity steeper than the 2008 global financial crisis.

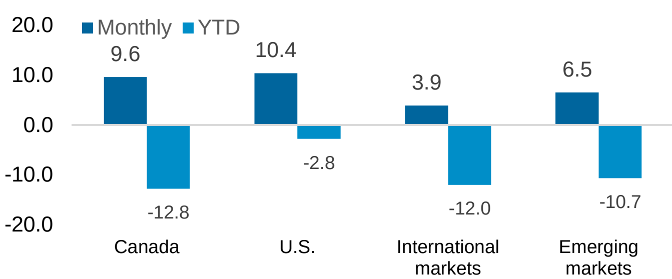
Markets rebound in April. Global equity markets have rallied off March lows as investors look forward to a gradual re-opening of the economy. Growth rates in new virus cases have fallen for now and many regions around the world are announcing plans to loosen restrictions in phases.

Longer-term optimism. We expect economic activity to gradually recover over the second half of the year and into 2021. This will help support the stock market as well as some parts of the credit markets that were hard hit. However, the “cone of uncertainty” is very large, including the timing of when, or even if, a vaccine will be widely available.

From NEI’s Monthly Market Monitor for May 2020. [Click here to get the full report](#).

Equity

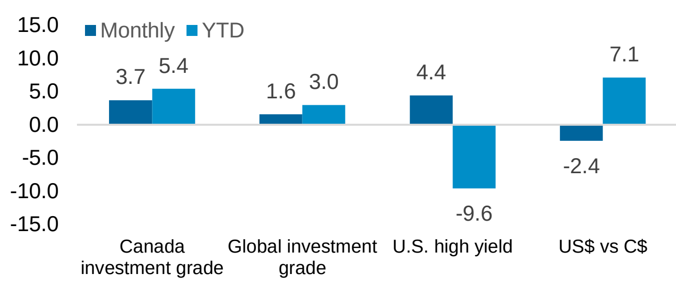
% return in C$



Canada: S&P/TSX Composite; **U.S.:** S&P 500; **International markets:** MSCI World; **Emerging markets:** MSCI Emerging Markets. Source: Bloomberg.

Fixed income and currency

% return in C$



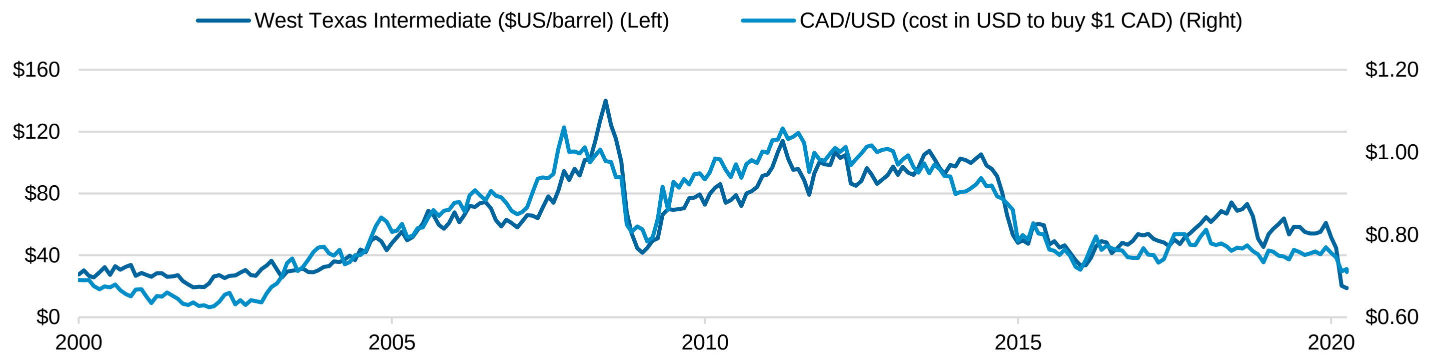
Canada investment grade: Bloomberg Barclays Canada Aggregate; **Global investment grade:** Bloomberg Barclays Global Aggregate; **U.S. high yield:** Bloomberg Barclays U.S. High Yield. Source: Morningstar.

The impact of oil

Crude oil prices plunged to all-time lows in April and even briefly traded at *negative* prices. What happened? First, the COVID-19 pandemic has nearly halted global economic activity, drastically reducing oil demand. Second, oil supply remains solidly above demand even with OPEC+ countries agreeing to large production cuts. Third, the oversupply led to a shortage of storage space, further increasing short-term pressure on prices. Having said that, many experts such as the U.S. Energy Information Agency expect oil markets to return to equilibrium by year end as demand gradually recovers and production cuts come into effect. This would be a positive longer-term development for oil prices.

Needless to say, Canadian stocks have been hit hard year-to-date, with the S&P/TSX Composite down 12.8%. Our energy sector accounts for ~17% of the TSX, one of the highest proportions in the world. In fact, the Canadian dollar has historically been referred to as a "petro-currency," as it tends to move in tandem with the price of oil. While that correlation has weakened in recent years, oil continues to play a big part in our economy.

Canadian dollar's relationship with crude oil



Source: Bloomberg. Data as of April 30, 2020.

Quick facts:

- At a production rate of 4.6M barrels/day, or 6% of global output, Canada is the world's 4th largest oil producer and exporter. Nearly all of our oil reserves are located in the oil sands. (Source: Natural Resources Canada)
- The oil and gas sector is ~6% of Canada's GDP and accounts for over 20% of our total exports. Nearly all of Canada's oil exports go to the U.S., amounting to just under half of U.S. oil imports. (Source: Natural Resources Canada)
- Canada produces two types of oil: Canadian Light Sweet and Western Canada Select. Both trade at lower prices to the North Amercan benchmark West Texas Intermediate, reflecting their lower quality and/or transport costs.