

## Issue 3

### LOOTERS, RIOTS, AND PROTESTS. WHAT'S NEXT?

It was another good week for equities. Investors continue to focus on policy support, the downturn in the Covid-19 infection curve, US-China tensions, vaccine development progress, re-opening of economies and now protests rocking US cities. This week's terrible events in Minneapolis are tragic and heartbreaking. I am sure most of you have watched the video that shook the world of a police officer kneeling on George Floyd's neck while three other officers stood by and WATCHED. That anger has spilled out onto the streets of American cities with devastating consequences. We have watched for months as the tragedy of COVID-19 has disproportionately hurt communities of color with that pain now being compounded by these new incidents of racial injustice. The markets are not immune from the challenges posed by racial bias.

The first phase of the 2020 global downturn is coming to an end with country GDP's collapsing in Q2. Economic activity in the second quarter has been cut by more than half. Second-quarter gross domestic product could see the most severe contraction on record as Wall Street banks have already slashed their GDP estimates to minus 20% or worse. The blow to the economy comes as most states have begun to relax stay-at-home restrictions stemming from the coronavirus pandemic. Even with the reopening's, the economic data for the period is expected to be among the worst the U.S. has ever seen.

The economy and the stock market seem to be disconnected at this time. Over the weekend states of emergency have been declared in six states and 13 cities, and the National Guard has been called to help in 21 states and Washington, D.C. In addition, curfews have been imposed on 26 cities across 16 states. While global markets have focused more closely on the brewing tensions between the US and China that have been renewed in recent weeks, the civil unrest could be a negative catalyst for stocks.

The protests have led to mass gatherings that could induce a second wave of COVID-19 cases, which could further damage the already fragile US economy. In addition, continued unrest could threaten consumer confidence, a cornerstone of the economy, and hurt local governments and cities already reeling from the coronavirus crisis. Markets have moved on positive and negative news on the coronavirus, economy, vaccines, and more since February. The crowds generated by the protests have resulted in concerns by health officials that the proximity and massing of people in demonstrations without masks and the failure to practice social distancing while protesting could undermine recent efforts and progress made in slowing the spread of Covid-19. We believe that the on-going protests and riots do present a threat for the financial markets as it erodes investor confidence which is already scarce.



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### MARKET SUMMARIES

*(at Friday's close)*

S&P/TSX Composite **down 0.46%** at 15,192.83 (**down 10.96% ytd**)

S&P/TSX Venture **up 1.68%** at 553.77 (**down 4.12% ytd**)

S&P 500 **up 0.48%** to 3,044.31 (**down 5.77% ytd**)

Dow Jones Industrial Avg. **down 0.07%** at 25,383.11 (**down 11.06% ytd**)

Nasdaq Composite **up 1.29%** at 9,489.87 (**up 5.76% ytd**)

### Metals

Gold: \$1743.00

Silver: \$18.48

Copper \$2.44

### Energy

Brent Crude Oil: \$35.31

WTI Crude Oil: \$36.02

Natural Gas: \$1.84



Elsewhere, in Canada, economic growth contracted markedly, with QoQ annualized growth rate tumbling from 0.6% in Q4/19 to -8.2% in Q1/20, driven by business and border shutdowns. Canada-China relations not in the spotlight after China has not delivered a statement after the judge's decision to proceed with Huawei's Meng Wanzhou's extradition. Governor Poloz will close his term with a BoC policy statement with no major policy change expected. Trade figures will be released on Thursday, but the highlight of the week will be the May jobs report due out on June 5<sup>th</sup> with a consensus of 600k positions lost but could easily deliver a 1M drop and a rise in the unemployment rate to 16%. Prime Minister Trudeau speaking during a daily briefing with journalists said he wants young Black Canadians to know he is listening and understands why many are "anxious and angry" about the continued racism and discrimination they face, including at the hands of police.

Police in Montreal are looking at 70 cases of alleged mischief following an anti-racism protest in that city on Sunday night and have so far arrested 11 individuals. Police responded with pepper spray and tear gas and declared the protest illegal. Trudeau said peaceful protest is a right that must be protected but that those who try to disrupt peaceful protests with violence must be condemned. One journalist questioned our Prime Minister on whether his own history of wearing blackface and brownface gives him the "moral authority" to speak on the matter.

## IN THE WEEK AHEAD

COVID-19 has taken a backseat to the escalating civil unrest in the US following the death of George Floyd on May 25<sup>th</sup> in Minneapolis. Until the remaining three officers involved in the incident are charged, it's unlikely that unrest doesn't press on or deteriorate from here. As far as the coronavirus is concerned, it will likely be two to three weeks before the effect of this reopening simultaneously starts to flow through to the data. For now, when we account for the various lags between quantitative easing, policy rate cuts and market-based reflation with the global economy, the calendar still points to Q4 for the period of economic reacceleration.

Our quote of the week is from the renowned social rights activist who was a leader of the American civil rights movement, Martin Luther King, Jr.

**"We must learn to live together as brothers or perish together as fools."**





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