

## Issue 1

### THE FED IS NOT OUT OF AMMUNITION

Stocks were due for a pullback and we got it this past week. The fears of reopening economies globally too soon and risking a reacceleration in coronavirus infections acted as catalysts in this week's market losses. From March's historic sell-off to April's historic rally, investors continue to face four unprecedented developments; the pandemic, the economic contraction, the oil price collapse and the Fed/government response. Thus, several considerations make the future particularly unpredictable these days.

Given the unprecedented factors above, there's little or no history relevant to today. That means we don't have past patterns to fall back on or to extrapolate from. Over the weekend Federal Reserve Chairman Jerome Powell reiterated the fact that they will stop at nothing to help endure the economic shock of the coronavirus pandemic. "We're not out of ammunition by any shot," he said. "There's almost no limit to what we can do with these lending programs," referring to the Fed's emergency lending authority.

A full economic recovery may not be possible until a Covid-19 vaccine is available, Fed Chairman Jerome Powell said in a clip on 60 minutes Sunday. "For the economy to fully recover...that may have to await the arrival of a vaccine". "In the long run and even in the medium run, you wouldn't want to bet against the American economy. The American economy will recover." The current contraction, Powell argued, is likely to be shorter than the Great Depression-and the financial crisis-because it wasn't caused by an underlying imbalance in the U.S. or global economy. He said that if there isn't a second-wave outbreak of Covid-19, he expects the economy to start to rebound in the second half of the year.

The House passed a Democratic-backed \$3 trillion aid package Friday night which includes; direct aid to state and localities, including grants and education assistance. It also includes another round of one-time cash payments to Americans, extending the duration of enhanced jobless benefits, help covering some rents and mortgages, some student loan debt forgiveness, and premium pay to essential workers. Republicans have been clear that the bill has no prospect of advancing in the GOP-controlled senate.

US-China tensions ratcheted up further this week. The White House continued to criticize China over its handling of the coronavirus outbreak. President Trump said he could scrap the whole US-China relationship and save \$500B, and on Friday his administration announced new export restrictions on semiconductors directly aimed at Huawei. This was followed by talk that China could activate its "unreliable entity list".



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### MARKET SUMMARIES

S&P/TSX Composite **up 0.89%** at 14,638.90 (**down 14.21% ytd**)

S&P/TSX Venture **up 2.15%** at 508.99 (**down 11.87% ytd**)

S&P 500 **up 0.39%** to 2,836.70 (**down 11.32% ytd**)

Dow Jones Industrial Avg. **up 0.25%** at 23,685.42 (**down 16.97% ytd**)

Nasdaq Composite **up 0.79%** at 9,014.56 (**up 0.47% ytd**)

### Metals

Gold: \$1754.60

Silver: \$17.08

Copper \$2.33

### Energy

Brent Crude Oil: \$32.84

WTI Crude Oil: \$29.75

Natural Gas: \$1.83



Elsewhere, we note the further oil production cuts announced by Saudi Arabia led to a third weekly increase in WTI, which is now nearing \$30/bbl.

The march data was released Friday morning and it was not pretty. Foreign investors sold \$6B worth of Canadian stocks, the worst monthly outflow on record. Outflows accelerated in Q1 and the net result is that on a one-year rolling basis, foreign investors have sold \$18.4B in Canadian equities.

The good news is, who is left to sell after such a withdrawal?

## IN THE WEEK AHEAD

In Canada and the U.S. this week will be pivotal as we watch many stores, restaurants and even gyms re-open. Apple, the tech giant, has laid out a plan to open more than 25 stores in the U.S. as they already have opened five of their doors last week. Disney announced that Walt Disney World's Disney Springs shopping complex, in Florida, will reopen on Wednesday, after reaching an agreement with its workers union on safeguards to protect employees from the virus. Disney will offer contactless payment options, as well as require shoppers to wear face masks, submit to temperature screenings, and adhere to social distancing guidelines.

Other stores will likely watch how the reopening's go. With retailer defaults at all-time highs, companies are likely hoping that cabin fever is working on their side. That said, if shoppers stay away, the higher overhead costs associated with reopening's could deepen their difficulties.

The turning back on of the global economy will have no shortage of challenges and associated risks...the most significant being the increase in the loss of life. Layer on the economic challenges with reopening, we are bound to see enhanced market volatility in the weeks ahead with talk about negative interest rates, political chaos in further federal support for business/families and amplified tensions between the US and China.

Our quote of the week is brought to you by one of the savviest and greatest investors of all time, Warren Buffet.

**“Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it.”**



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