Ward & Uptigrove
Wealth Management

March 10, 2020

This update is provided by the Independent Accountants' Investment Counsel Inc.

IAIC
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Market Volatility
What A Difference A Week Can Make

What a difference a week can make, as last week's market volatility demonstrated.

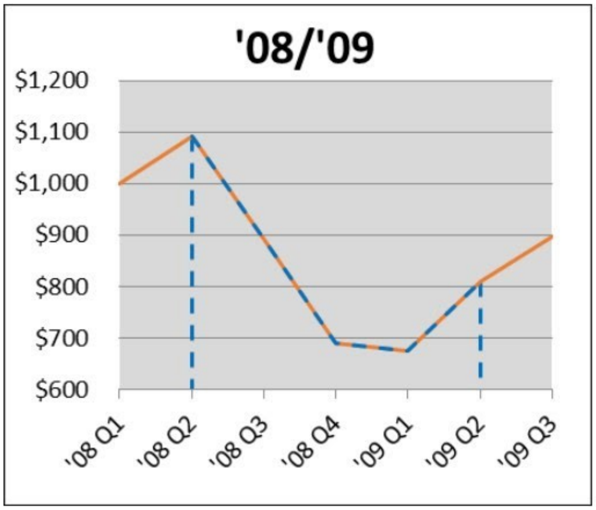
Here's how the S&P 500 fared:

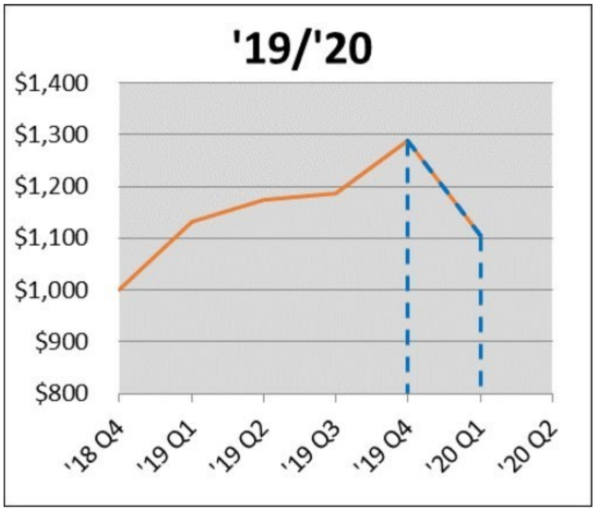
- Monday – Up 4.6%
- Tuesday – Down 2.8%
- Wednesday – Up 4.2%
- Thursday – Down 3.4%
- Friday – Down 1.7%

… with the final result that the index was flat for the week.

After a weekend that included the continued advancement globally of the Coronavirus and a breakdown in an oil production agreement between Russia and Saudi Arabia, the S&P 500 immediately fell 7% only a few minutes after the opening bell on Monday, leading to a triggering of "circuit breakers" to halt trading for 15 minutes. The index stabilized somewhat after the pause and finished the day down 7.6%.

Many clients have asked us about the similarities to the financial crisis of 2008/2009. The 2008/2009 market was rooted in problems with the global financial system and the housing market, ultimately leading to a financial crisis and an economic recession. The Coronavirus, in comparison, is likely to temporarily reduce general global economic activity. While the current market downturn is not as severe as the pullback investors experienced a decade ago, the eye- opening aspect of today's market is the speed with which equity markets have dropped.





The crisis of 2008 was indeed a panic selloff with negative market sentiment playing a very important role in increasing volatility on a day-to-day basis. Due to the collapse of the US housing market and the real financial risks it posed to the financial system, the credit market essentially froze and global liquidity dried up. We are not seeing the same level of risk in the credit markets today.

The Coronavirus will impact both the supply and the demand sides of the economy. While difficult to measure these impacts ahead of time, it seems clear that there will be a short-term reduction in global economic activity. However, it is also important to consider whether any lost revenue in the short-term will return in future periods once the crisis subsides. The potential loss of income for most large companies is not due to a market-altering, playing-field change that might threaten the long-term profitability of the industry. Most competitors are being impacted in similar ways. Once the economy stabilizes, the relative competitive positioning of any given company, especially those companies we invest in for our clients that have endured other crises in the past, may very well remain unchanged.

Today's global economic system is more interconnected than ever before. Globalization has raised standards of living around the world and lifted more people out of poverty than any development in history. However, this increase in economic inter-dependence has also magnified global vulnerabilities.

What role will policymakers across the globe play in cushioning the downturn and stimulating a recovery? Fiscal and monetary policies introduced by governments around the world helped stimulate economic activity to ward off the financial crisis of 2008/2009. In 2020, targeted, temporary and substantive fiscal support in the form of loans and subsidies to firms hardest hit by current events can help to mitigate economic slowdown, and monetary support can help to counter some of the financial effects. The speed of recovery will depend in large part on how the virus spreads and is ultimately contained and how long it takes for economic activity to return to normal levels.

In 2008, leverage in the banking system and weakness in the global financial system caused a market selloff and ultimately a global recession. While debt levels remain high today, interest rates are significantly lower relative to historical norms, making it easier for businesses and consumers to service the debt. The financial sector is also better capitalized today than in 2008.

So far, the impacts of the Coronavirus do not seem significant enough to trigger a global crisis, as was the case a decade ago. Prior to the current downturn, markets had been anticipating global economic growth of about 3% in 2020. Some economists now estimate a 3% contraction, translating into a potential reduction of future cashflows of approximately 6% in total. Compare that to the current market pullback of nearly 20%, and one can conclude that emotion and panic are contributing to the market volatility.

As always, we will continue to monitor market developments and manage our clients' investments with discipline and a long-term view.

If you would like to speak with an IAIC portfolio manager, please email clientservices@iaic.ca or call us at 1-877-291-3040.

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