STOCK MARKETS

In recent days, the markets have been shaken by a significant decline in the value of the world's major stock indexes. One of the reasons is fear that the coronavirus epidemic (COVID-19) could create widespread disruption in the global economy. We have received a number of questions and have combined them so that we can share our answers with all our clients.

What is happening in the global markets? Are these movements caused by concerns about the COVID-19 epidemic?

The global economy had already slowed in recent months, especially in Europe and China, despite the upward trend on the stock markets. For example, the global automotive sector was already in a downturn, putting Germany on the brink of recession.

We are currently experiencing a period of volatility in the markets. The emergence and spread of COVID-19 has amplified the economic slowdown that had already been observed in recent months. Measures to protect against COVID-19 have resulted in the shutdown of plants and even entire businesses; most notably, China's industrial output is expected to decline. The closures are having significant repercussions because China is one of the world's largest industrial players. The impact has spread around the world, generating the strong investor reactions we are currently seeing on the stock markets.

In response to the downturn, the U.S. Federal Reserve and the Bank of Canada quickly cut their key interest rates by 0.5% this week to support economic activity.

What are the potential impacts of these events on portfolio securities?

The decline in equity values at the end of February was significant. Even so, at Optimum Investment Management, our overweight position in Canadian stocks worked in our favour. Our domestic market has fallen less than the other markets. It should also be noted that a strong performance by bonds mitigated this decline for our balanced portfolios.

What did we do in anticipation of such volatility?

We assiduously monitor the global stock markets. As they reached record highs, we therefore changed our target portfolio slightly last December. The principles of prudent portfolio management prompted us to sell energy stocks, while continuing to exclude the mining and metals sector. We are emphasizing the defensive sectors, such as consumer staples and telecommunication services, because companies in these sectors generally pay attractive dividends.

We also eliminated our exposure to emerging markets in January and reduced our equity weighting in general.

What will the next few months bring?

The stock market volatility of the last few days is not over. The risk of recession is definitely rising in Canada and elsewhere in the world. But it is important not to give in to panic. This period of volatility could create buying opportunities for us.

We remain vigilant as we continue to track the markets' movements. Rest assured that our primary objective is always the preservation of your capital.

If you have any further questions, please contact your representative.

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