Highlights

Global equity and bond markets rebounded strongly, taking heart in central bank and government stimulus programs.

Oil prices plummeted as global demand hit a virtual wall with the shutdowns in global travel and industries.

Sovereign bond yields stabilized; provincial and corporate bond credit spreads have begun to narrow, allowing investment-grade bonds to respond with strong gains.

Governments began to unveil post-pandemic plans to emerge from shutdowns, offering a glimpse of 'new normal' realities.

Markets rebound as focus turns to 'new normal' in a post-pandemic world

April offered strong gains for global equity and bond markets driven by fiscal and monetary stimulus and the apparent slowing of the spread of COVID-19.

The S&P 500 led the global pack of stock markets roaring back in April with a near 13% gain, its best monthly performance since January 1987. The Canadian S&P/TSX Composite Index wasn't far behind with a double-digit return of its own. Sector disparity was significant in Canada. The Materials sector led the way, up 33.0%, powered by strength from gold producers. The Information Technology sector was second from the top, up 29.3% on the back of a 50% rise in the month for shares of internet commerce enabler, Shopify. Shopify is up 70% on a year-to-date basis and is now the third most valuable public company in Canada, behind only RBC and TD. Canada's large Energy sector (still a 13.5% weight of the index) staged an impressive rise (up almost 13%) in the face of a virtual imploding of oil prices in mid-April.

Bonds ride the wave of central bank actions

Stocks and bonds rallied in tandem as the flood of liquidity from central banks helped to lift the prices of virtually all assets. In April, bond yields stabilized, and credit spreads began to narrow again after March's dramatic move by sovereign bond yields. Finally, markets moved from panic mode, where 'cash (and cash alone) is king', to one where broader fixed income provided a stabilizing effect. Credit products, like investment-grade corporate bonds, were added to the parade of central bank bond purchases. U.S. investment-grade corporates beat many other major world asset classes by delivering returns more than three standard deviations above their norm.

Market Summary

Canadian Fixed Income[1]	Month	YTD
FTSE Canada Universe Bond Index	3.8%	5.4%
FTSE Canada All Corporate Bond Index	4.8%	2.2%

Canadian Equities[2]	Month	YTD
S&P/TSX Composite	10.5%	-13.4%

	Month		YTD	
Global Equities[2]	**Local**	**CAD**	**Local**	**CAD**
S&P 500	12.7%	10.6%	-9.9%	-3.2%
MSCI EAFE	5.3%	4.4%	-17.0%	-12.7%
MSCI Emerging Markets	8.6%	7.0%	-12.4%	-10.9%

Currencies and Commodities (in USD)	Level	Month	YTD
CDN $	$0.717	0.9%	-6.8%
Oil (West Texas)	$18.84	-8.0%	-69.1%
Gold	$1,687.67	5.6%	10.8%
Reuters/Jeffries CRB Index	$117.20	-3.8%	-36.9%

Canadian Sector Performance[2]	Month	YTD
Energy	12.7%	-30.3%
Materials	33.0%	7.5%
Industrials	9.0%	-7.8%
Cons. Disc.	20.1%	-19.8%
Info Tech	29.3%	24.4%
Health Care	7.7%	-32.5%
Financials	0.9%	-21.2%
Cons. Staples	7.2%	-3.2%
Comm. Services	-0.3%	-9.5%
Utilities	3.7%	-2.8%
Real Estate	7.6%	-23.9%

Local currency unless otherwise stated.
[1]Total return | [2]Price only return
Source: Bloomberg.

What happened to oil prices?

April 20, 2020 will be remembered as the day West Texas Intermediate (WTI), North America's most common measure for the price of oil, fell $50 in two hours – another historic event to add to the many thus far during the COVID-19 crisis. At the end of April, oil prices were down a staggering 69%!

A fragile supply/demand dynamic already existed in global oil markets to start 2020. Further bad news for oil prices came from China in early January and then spread as travel bans, border closures and lockdowns drastically cut the world's oil consumption. What was a small global supply deficit at the end of 2019 (i.e., more demand than supply), quickly swung to a rapidly rising surplus (supply exceeding demand). To make matters worse, the world's capacity to store unused oil is now running near or at capacity which is at the root of the dramatic downward price volatility experienced in April.

Why not stop production? The short answer is 'easier said than done'. Shutting down oil rigs costs money in terms of foregone revenue but incurs fixed costs and risks as well. Producers need to pump a minimum level of oil in order to maintain operations and keep wells and reservoirs in shape for future production. Today's producers face a difficult trade-off dilemma: reduce volumes and incur additional costs to restore production versus maintaining production and selling at uneconomical prices.

Like much of the economic realities associated the COVID-19 pandemic, what happens next is marred in uncertainty. If economic activity slowly rebounds over the next several months, and OPEC and Russia hold to production cut commitments, excess oil supply will get worked off over time and prices should trend higher. Until then, we see prices remaining volatile in the near term. For more insights on what happened to oil prices, listen to GLC's recent podcast.

Is April's market rally justified?

We see two key reasons investors have been encouraged to dip their toes back into stocks so quickly after one of the sharpest selloffs in recent history:

- Governments and central banks have responded more aggressively and with much greater speed than during the 2008/2009 Great Financial Crisis. Globally, countries that represent a combined 83% of the world's economic output are injecting on average 8% of GDP into their economies, with the total in excess of USD $8 trillion. Whether it will be enough is debatable, but it's hard to dispute that it is, at minimum, a good start.
- In April, we began to see signs of the virus (and the curve of new infections) peaking in many regions. This opened the doors (pun intended) for governments to contemplate, plan and phase in the re-opening of shuttered businesses and industries.

We take solace in these reasons for optimism. But we caution that much remains unknown in terms of how long and how severe the economic impacts will last. At best, we're merely at the start of any such recovery taking hold. The 'right approach' to reopening economies will be determined only in hindsight, and timing is crucial. Reopen economies too quickly and scientists point to the very real risk of a reoccurring surge in the spread of the virus; hold back too long and the economic hardship might overwhelm otherwise healthy businesses.

Unlike many past market events, we expect medical news to take precedent over business pundits in determining how markets respond. Capitalism never wins over the power of human nature – especially when it comes to the basic security of one's own health. Before any of us ever contemplated the value of a dollar, we knew it was bad to be sick. Human nature always has a way of helping mankind get our priorities straight.

What we do know is that economic recoveries never begin with a definitive 'all clear' signal. Collectively, as investors attempt to price-in future events, expect the large daily swings in values, both to the upside and downside, to continue amid the uncertainty.

Visit GLC's website for more news and insights into capital markets and our portfolio strategies.

Christine Wellenreiter, CM, ICD.D
VP Marketing and Communications, has more than 20 years of investment industry experience and has been writing the monthly Market Matters for over 15 years.

This commentary represents GLC's views at the date of publication, which are subject to change without notice. Furthermore, there can be no assurance that any trends described in this material will continue or that forecasts will occur; economic and market conditions change frequently. This commentary is intended as a general source of information and is not intended to be a solicitation to buy or sell specific investments, nor tax or legal advice. Before making any investment decision, prospective investors should carefully review the relevant offering documents and seek input from their advisor.

Copyright GLC. You may not reproduce, distribute, or otherwise use any of this article without the prior written consent of GLC Asset Management Group Ltd. (GLC).