April 9, 2020

It has only been three months since 2020 began, but it's safe to assume that when we made our 2020 plans and resolutions most of us didn't expect to be where we are now. The same is true of the economic big picture in B.C., Canada and globally.

One thing that has performed as expected are stock markets. In times when many people feel uncertainty and anxiety, stock markets drop, sometimes dramatically. When normalcy and confidence return, stock markets go up again. Knowing that, smart investors weather a market downturn by holding their investments rather than sell at a loss. A few weeks ago, we advised you all to follow suit.

We still think that's the best investment strategy today.

Of course, this is in many respects a unique reality. But between the economic fundamentals and the reactions of both governments and people, we see a lot of reason to be encouraged. Today, we'd like to explain why.

What is happening in the economy?

The economic reality around all of us is stark. Many people lost their jobs or had their income significantly reduced. Many businesses have lost much of their revenues because people aren't buying things or going out.

In turn, front-line businesses aren't buying the products and materials they used to, so the businesses that make or distribute those products and materials are also losing much revenue. And so are the building owners from whom these businesses rent their premises, and so on. In such an interconnected economy, lower consumption cascades down the chain. This is what is meant by "the economy slowing down" as a result of people being ordered to mostly stay home or having a lot less money to spend, and many businesses being ordered to close, to help fight COVID-19.

This is the bad news. But here's some good news: system fundamentals are still intact. In our economic system, spending is the electricity that keeps the machine going. With a lot less power flowing through the machine, it's running much slower, sure, but its basic components - our food growing capacity, manufacturing capacity, distribution and retail capacity, and most importantly, the people who buy the end product or service – are mostly still here, ready to power it up again once we can.

Want more good news? The power sources are also still here, intact and from what we can see so far, not at risk. This power source is our financial system – credit unions and banks that provide loans and credit to people and businesses that they can then use to spend on goods and services. This is why, from an economic perspective, we're actually better positioned to recover now than we were during the economic crisis of 2008, when there was a real risk to credit, lending and the financial system.

And there's still more good news. Governments are by and large doing the right things from an economic perspective: making additional money available to people and businesses, especially vulnerable people and businesses, to get through the coming months. Most importantly, this helps many of us who need it to be able to feed ourselves and keep a roof over our heads in the coming months. But this is also adding more power for the economic machine, helping it not grind to a halt now and have enough power to ramp back up after the public health crisis is over.

Of course, people and businesses can only go so long without income. The capacity of governments to give people and businesses money or back extra credit and loans, or financial institutions to continue making credit and loans available, are not limitless. That's why the actions we are all taking at the order of our public health officials – distancing, self-isolation when needed – are also economically crucial. The more we prevent this virus from spreading, the quicker we can get our economic machine going, less parts of that machine will fail.

Impact on investment portfolios

This economic picture is what makes us think that, fundamentally, stock markets and the value of portfolios should rebound. That's why we advise that, for most portfolios, the best strategy is to hold current investments, and maybe even add currently-undervalued assets.

The current market downturn is understandable. Some people are reprioritizing longer-term investments to have the cash they need short-term. Some stocks are losing investor confidence because those companies are seeing short-term drops in revenue. And too many investors are just reacting emotionally and selling stocks at a loss.

But our typical portfolio is built to weather market downturns. That doesn't necessarily mean you won't see a short-term drop in your portfolio's value. But the reality is that since March 13, the TSX – which reflects how the major Canadian stock market is doing – has dropped 19%. If your portfolio's value has dropped by less than that, you are "beating the market".

Socially responsible investing, a strategy employed in many of our portfolios, is also proving more resilient. Earlier this week, new research from Bloomberg Intelligence showed that Exchange-Traded Funds (ETFs) tracking stocks selected using environmental, social and governance (ESG) criteria have outperformed the general U.S. and European stock market indexes by 59-60% in 2020.

And investors should remember that even if their portfolios are underperforming or losing value, they haven't really lost money unless they sell assets from their portfolios at a lower price than what they bought them for.

After this crisis is over, there will no doubt be a broader rethinking of how well our economic machine is doing its primary job of making sure all of us have what we need to live our lives, and how it can do a better job of that. But our sound economic fundamentals do mean that, as long as we all do what we need to do to stop this virus as quickly as we can, a recovery of the overall economy, and with it a rebound of stock markets and portfolio values, are to be expected.