

Wickham Investment Counsel Inc.

Quarterly Review

June, 2020

MR. VIRUS AND MR. MARKET

The apocalypse de jour was covid-19 in March and it has proved to be every bit as ferocious as expected. The pandemic has engulfed over 11 million people world-wide with deaths over 550,000. The world is combating the greatest health crisis in a century and the worst economic contraction since the depression. Global real GDP is projected to decline by -3.8% in 2020 and the US, Canada and Europe by close to -6%. World industrial production as shown in the chart is well below the 20 years trend according to Thompson Reuters Data Stream.

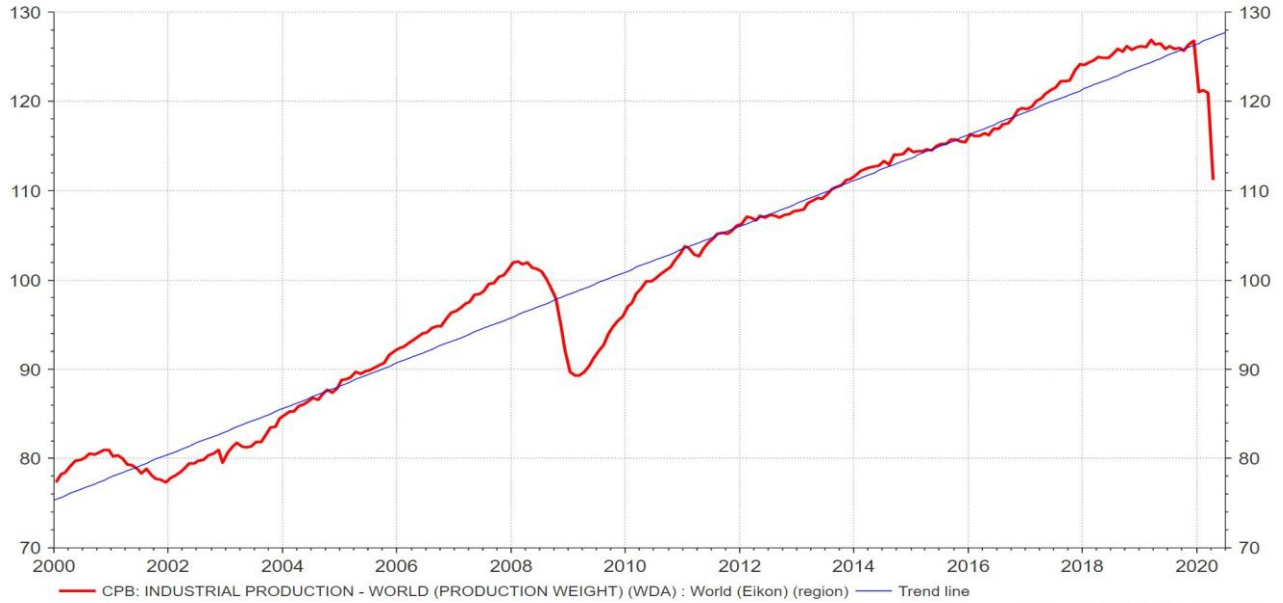
Mr. Market flinched initially as panic selling took hold. From a record high on the S&P 500 of 3,386 on February 19, the market made a *record* trip down into bear market territory by -34% over five weeks to a low of 2,237 on March 23. Stocks went on sale. Economies were in a Covid-19 induced shutdown and the outlook was grim. But the US Federal Reserve announced a major monetary response. The Federal Funds interest rate declined to 0.25%, and there was a massive increase in the money supply and heavy bond buying. Furthermore, governments responded with outsized support programs and expenditures not seen since war times.

Mr. Market said I get it and began a recovery of epic proportions. A *record* advance started on March 24 and in fact, Mr. Market ripped higher on 33 of the 53 trading days between March 24 and June 8, with gains of more than 1% per day. The major question now is – has the securities market decoupled from reality. Clearly, investors were able to look ahead to better times, and place credence in the ability of the central banks and federal government's fiscal responses to bring about a sustained economic recovery. Perhaps, a broad consensus developed that a recovery was a sure thing. The markets breath-taking ascent is now in the history books as the *strongest on record*.

There is more to be hopeful for as there are seventeen vaccines being tested in July on humans in Phase 3 trails in a frantic global race to find a vaccine to end the pandemic. Typically, one in three vaccines being tested later gains commercial approval and results in global production of millions of doses.

Still, the impact of covid-19 is leaving potentially permanent changes on business models in industries like retail, travel, office buildings, restaurants and high-density urban centers. Many jobs may be permanently lost in public facing businesses. There will be positives and negatives, winners and losers. E-commerce has absolutely boomed. For the first half of 2020, the swing from hopelessness and back has occurred in warp speed. However, the challenge going forward will be to determine what can be justified and what rampant optimism is.

World Industrial Production



Source: Refinitiv Datastream

	Dec 31, 2013	Dec 31, 2014	Dec 31, 2015	Dec 31, 2016	Dec 31, 2017	Dec 31, 2018	Dec 31, 2019	June 30, 2020	% Change Dec-June
Stock Market Indices									
S&P/TSX Comp.	13,622	14,632	13,010	15,288	16,209	14,323	17,063	15,515	-9.07%
Dow Jones Ind.	16,577	17,823	17,425	19,763	24,719	23,328	28,538	25,813	-9.55%
S&P 500	1,848	2,059	2,044	2,239	2,674	2,507	3,231	3,100	-4.05%
Nasdaq Comp.	4,177	4,736	5,007	5,383	6,903	6,635	8,973	10,059	12.10%
Commodities									
Gold - US\$	1,202	1,184	1,060	1,252	1,309	1,281	1,523	1,801	18.25%
Crude Oil WTI - US\$	98.42	53.27	37.04	53.72	60.42	45.41	61.06	39.27	-35.69%
Natural Gas - US\$	4.25	2.91	2.35	3.74	2.95	2.94	2.19	1.71	-21.92%
Currencies									
€ in Cdn \$	1.47	1.41	1.50	1.42	1.50	1.56	1.46	1.53	4.79%
£ in Cdn \$	1.76	1.82	2.04	1.66	1.69	1.74	1.72	1.68	-2.33%
US\$ in Cdn \$	1.06	1.16	1.38	1.34	1.26	1.37	1.30	1.36	4.62%
Interest Rates									
Cdn Prime rate	3.00	3.00	2.70	2.70	3.20	3.95	3.95	2.45	-37.97%
US Prime rate	3.25	3.25	3.50	3.50	4.50	5.50	4.75	3.25	-31.58%
Cdn 10 Yr bond	2.78	1.79	1.41	1.72	2.04	1.95	1.64	0.51	-68.90%
US 10 Yr bond	3.03	2.17	2.27	2.44	2.40	2.69	1.92	0.64	-66.67%

Source: The Globe & Mail