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Beware the Ides of March

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Much like the soothsayer in William Shakespeare's *Julius Caesar*, governments warned individuals in the middle of March to stay home. Social distancing measures have undoubtably reduced the spread of COVID-19 and saved lives, but have also had a significant impact on economic activity. Manufacturing output, employment figures and retail sales are experiencing their sharpest contraction since at least the Second World War. As social distancing measures only became more widespread in the second half of March, activity is likely to fall even more sharply in April. Nevertheless, signs that the infection rate is declining and rapid policy responses have helped drive a partial rebound in stock markets.

Central banks and governments across the world have socialized economic risk via open-ended purchases of financial assets and spending packages. The benefit is that these actions will likely minimize the damage inflicted by the pandemic on the underlying economy. The cost of these actions is a large rise in central bank balance sheets and public debt. The speed or breadth of the economic recovery is uncertain. What is certain is that the unprecedented response is going to change the way that financial markets function for years to come.

Central banks' balance sheets will not only be larger, but also contain a much wider variety of assets than before. This is particularly true in Canada and the U.S., where central banks have launched so many new programs it has been hard to keep track. On top of its $5 billion weekly federal government-backed bond purchases, the Bank of Canada is also planning to buy up to $50 billion in provincial bonds and up to $10 billion in investment-grade corporate bonds. The last point on corporate bonds is of note, because it makes the central bank the lender of last resort to nearly all borrowers. In the U.S., the Federal Reserve took the unprecedented step of expanding its purchases to include junk bonds, even committing to buying junk bond exchange-traded funds.

Monetary policy alone can't stimulate true economic growth. Governments have rolled out direct support measures including wage subsidies, tax and mortgage deferrals, and even direct payments to individuals. While the deficit will shrink as the economy recovers, the size of the fiscal shortfalls will likely be structurally larger in the years ahead. Financing persistently large fiscal deficits will not be possible without the continued support of central banks.

While these interventions have surely helped avoid a deeper crisis, the perception that central banks and governments are financing virtually every individual or company has serious repercussions for financial markets. These measures are making risky assets look more appealing in a world where yields are likely to be held near zero for a long time.

The fiscal and monetary policy actions announced over the past few weeks have been significant. What hasn't changed is our commitment to investing capital in a diversified portfolio of attractive investments. As always, we will continue to protect our investors' purchasing power to help them meet their financial goals.

We hope you and your family are keeping well, and are taking comfort in knowing that your financial health is being managed by your financial advisor and our team.

Combined top 15 equity holdings as of March 31, 2020 of the Evolution 40i60e Standard portfolio with Alpha-style exposure:

1. Microsoft Corp. 2. Fortis Inc. 3. Prologis Inc. 4. Alphabet Inc. 5. AltaGas Ltd.	6. Dollarama Inc. 7. Toronto-Dominion Bank 8. UnitedHealth Group Inc. 9. iA Financial Corporation 10. Apple Inc.	11. Power Financial Corp. 12. Royal Bank of Canada 13. ATCO Ltd. 14. Amazon.com, Inc. 15. Anthem Inc.

Source: Bloomberg Finance L.P., Bank of Canada and CI Multi-Asset Management as at April 20, 2020.