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April 2020 Commentary & Outlook

Catching the Bottom

Stocks sold off sharply through the month of March as the fastest market correction in history extended into the last few days of the month.

From February 20th to March 23rd both the TSX and the S&P 500 gave up approximately 35% from their tops before finding a possible near-term bottom.

The announcement of fiscal and monetary stimulus, along with pension fund rebalancing, short covering, and investors attempting to catch a bottom, resulted in a four-day rally, with North American stock markets remaining range-bound into the end of the month, off their lows, but still down between 23% and 30% from their all-time highs.

While the expectation is that the worst is yet to come for case rates and related deaths due to the COVID-19 outbreak in both Canada and the United States, markets are considered to be forward looking and, with the unprecedented commitment from governments and central banks, it is possible that we may find some relative near-term stability at these price levels.

The Virus Sets the Timeline

Does this mean the worst is over for stocks? Not necessarily. As quoted by Dr. Anthony Fauci, the U.S.'s top infectious disease expert: "You don't make the timeline, the virus makes the timeline on relaxing public health measures."

And it is this relaxation of public health measures that will dictate the duration of the related economic slowdown, the resulting jobless claims, and just how well companies are able to weather the storm.

Meanwhile, as referenced last month, during this period of extreme economic and financial market uncertainty share prices continue to swing wildly in either direction, and it can be challenging to cut through this day-to-day noise.

We Remain Defensive and Active

The recent pricing trends of both the TSX and S&P 500 are still in a downtrend and implied volatility, otherwise known as the risk premium in the option market, remains extremely high, even during the significant bounce at the end of March.

With that in mind, we have remained defensive in our pooled funds, with hedges in place and a high allocation to cash. While we have managed to offset a significant amount of the downside and to reduce overall volatility in our portfolios, this positioning also acts as a drag on performance during market rallies.

Pool Pricing

For those of you invested in our pooled funds, also note that prices are updated on Wednesdays and at month end, while the assets within are managed actively every day. We feel it is important to realize that during these highly volatile market conditions, weekly and monthly valuations may be impacted negatively by the widened price spreads and higher implied volatility of the option strategies and assets held within.

While these option strategies help us both manage risk and take advantage of short-term opportunities, their true value may not reflect as expected until the underlying positions are closed or come to term.

This is also the case with many of our fixed income and corporate bond holdings. In volatile markets, bid and ask price spreads widen, which often results in the position reflecting a lower valuation than it otherwise would under normal market conditions.

As markets regain stability the price spreads for option positions, fixed income, stocks and other underlying assets should narrow significantly, reducing the variation in our weekly pool valuations.

Moving Forward

We continue to look for signs of stability as investment markets begin to look beyond the global pandemic numbers and the negative economic headlines behind the recent sell off. While markets remain volatile, we will trade actively to capture the short-term swings while being defensive against the possibility for another test of the lows and the potential for a more drawn out bottoming process.

To re-enforce our message from last month, as markets stabilize there will be some fantastic opportunities and we encourage our investors to remain focused with us on the longer-term as we actively work to take advantage of the current market volatility.

Safe and Secure

Meanwhile, the entire Croft Financial Group team remains both safe and dedicated to our role as your licensed portfolio manager.

We have been working remotely for several weeks but remain connected to one another and our service partners to ensure business as usual in a very unusual time. However, we do ask clients with questions or in need of support to please be patient as we may be dealing with higher than usual call and e-mail volumes.

And as a final note, we would like to encourage everyone to stay safe and healthy and let's all do our part to "flatten the curve" as quickly as possible as we look forward to better times ahead.

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