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One for the Record Books

Today is Friday the 13th. A day so commonly associated with fear and dread that it inspired the creation of one of the most successful and long running horror film franchises in the US. Over the last few weeks, between the market volatility and the virus, ending the week on "Friday the 13th" feels like an appropriate end to a very tumultuous five trading days.

Since the beginning of the year, escalating fears that COVID-19 would result in an economic slowdown had pressured the price of oil. Growth in oil demand turned negative for the first time since the global financial crises. Indeed, even before the events of this week, oil prices were already down over 30%. There was some hope on the horizon though – OPEC+[1] was expected to meet on Friday, March 6th and announce a production cut which would have re-balanced the market. Unfortunately, talks broke down and no cut was announced. Over the weekend, Saudi Arabia doubled down and announced that instead of cutting production it would in fact *increase* production starting in April. Between shrinking demand and the prospect of growing supply, the price of oil on Monday, March 9th fell nearly 25%, the largest one day drop since the Gulf War in 1991.

The impact of sharply lower oil prices reverberated throughout global stock markets and Canada was no exception. The TSX Energy Sub Index traded down 30% on Monday, the largest one day drop in the index's history. After a severe recession that started in late 2014, followed by several years of economic stagnation, Alberta looks almost certain to re-enter a recessionary environment again; Canada may follow.

COVID-19 continues to spread across borders, disrupting economies throughout the world. Governments around the world have restricted the movement and activities of people, choosing short term economic pain over a longer-term healthcare disaster. In an unprecedented move, President Trump announced on Wednesday night that all travellers from Schengen Europe will be not allowed to enter the US. Unfortunately for the markets, fiscal measures to offset COVID-19 were not announced, causing even more concern that the largest economy in the world does not appear to have this problem under control. On Thursday, stock markets around the world officially plunged into bear market territory[2].

March 12th was the single largest one-day selloff on the TSX in eighty years. The market selloff this week has been indiscriminate, not necessarily surprising in the earlier stages of a major correction where liquidity is the primary consideration. Besides the significant selloff in economically sensitive sectors, defensive companies were also sold off in dramatic fashion, regardless of their vulnerability to COVID-19 or low oil prices. Canadian utility companies, whose earnings are more stable, diversified across multiple jurisdictions and with virtually no counterparty risk, were down between 15-20% this week. Canadian telecom companies, providers of essential communication services and operators in an oligopolistic industry, were also down about 20%. It is rare to see such high-quality companies under pressure; such market panic provides a rare buying opportunity.

We continue to hold higher than normal amounts of cash in the QV Canadian Equity Strategy and would expect to continue to deploy this cash as we find opportunities. These opportunities will come both in the form of initiating on new companies we do not own and adding to companies we want to own more of. We don't expect to be able to call the very bottom of the stock market – in many ways a stock market bottom is something that is defined in hindsight, not foresight. During volatile times, it's important to remember the stable source of income our portfolio of businesses produce. The dividend yield offered by each of QV's equity mandates is higher than 4%, versus <1% yields from Government of Canada 10-year bonds.

Fear has set into the market and likely will be with us for some time. As long-term investors, we hope to benefit from the desire of some market participants to sell all assets at any price. It is times like these when quality companies go on sale and we find more opportunities.

[1]OPEC+ referring to an intergovernmental organization of 14 oil producing nations (OPEC) and Russia (the "+"). This organization is the largest oil producing cartel in the world. [2]Bear market is typically defined as a market selloff greater than 20% from its peak.