ONE INVESTMENT

Making sense of today's markets – a municipal perspective

What is happening?

- **The COVID-19 pandemic has caused turmoil in financial markets and great uncertainty in the economic outlook in Canada and globally.** The impacts include significant volatility in equity markets with sharply lower equity prices, a significant drop in long- and short-term interest rates, and higher bond prices. We have also seen a precipitous drop in oil prices and a weaker Canadian Dollar.

- **Governments and central banks like the Bank of Canada and Federal Reserve have been taking major steps to support economies and markets.** Central banks have lowered interest rates and provided major injections of liquidity in the form of short-term loans to ensure markets continue to function properly. Worldwide, governments are providing fiscal stimulus to offset the economic impacts.

- **Financial markets are forward looking and will fluctuate in the short term.** Investments are valued based on estimates of next years' earnings, GDP or interest rates. Because COVID-19 is still unfolding, such estimates and forecasts are thrown into doubt. In the face of the unknown, markets will fluctuate and, often, will tend to assume the worst.

Where is the comfort?

- **We can be confident, however different the world may be post-COVID, that Canadian and global economies will eventually grow again.** The key is to take a long-term perspective and not react to short-term market convulsions. Long-term, market behaviour is more consistent. ONE Investment offers products that are well-managed with a cautious approach to manage risk, consistent with the needs of taxpayers.

Will we be all right?

- **Within the Legal List offerings, municipal governments can maintain and create a portfolio that can withstand the turmoil.** Bond prices have tended to hold or increase in value in response to the recent developments, helping to offset some of the weakness in equity prices. Maintaining the appropriate asset mix based on priorities is most important.

What should we do?

- **Investment planning should be long term in nature, reflecting our needs, goals, circumstances and risk tolerances.** These don't change with market gyrations, and it's important we stick to the plan. While volatility may be unsettling, equity remains an important tool to provide growth in investment portfolios.

- **Rebalance as needed.** It is wise to review portfolios on a regular basis and rebalance back to the target as needed. For example, if our target equity exposure is 20%, we will need to keep rebalancing back to that weight. When equity markets are very strong, we would trim equity exposure. Likewise, when the markets are weak, we need to rebalance, which likely means buying more equity. This is a simplistic approach that encourages one to '*buy low and sell high'* in a systematic way.

- **Don't be tempted to trade.** Timing the market to buy at bottom or sell at the top is a humbling undertaking. Even seasoned investment professionals have difficulty in getting the timing right. We need to invest for the long term.

CASE STUDY: Investing for the Long-Term

ONE compared a specific municipality's bottom line if it had invested $10 million using a long-term strategy versus keeping full liquidity and safety in short-term investments at all times. To reflect an extreme scenario, the analysis started just before the 2008 global financial crisis, when the Canadian stock market fell by 33%. For current context, the Canadian stock market has fallen by 21% in the first quarter.

Despite negative returns in several years, the overall benefit of a mixed portfolio of equities, corporate bonds and money market, was significant. In fact, in dollar terms, the $10 million was worth nearly $12.8 million in 2018, 17% higher than if the funds had been left in money market alone.

Read more:
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