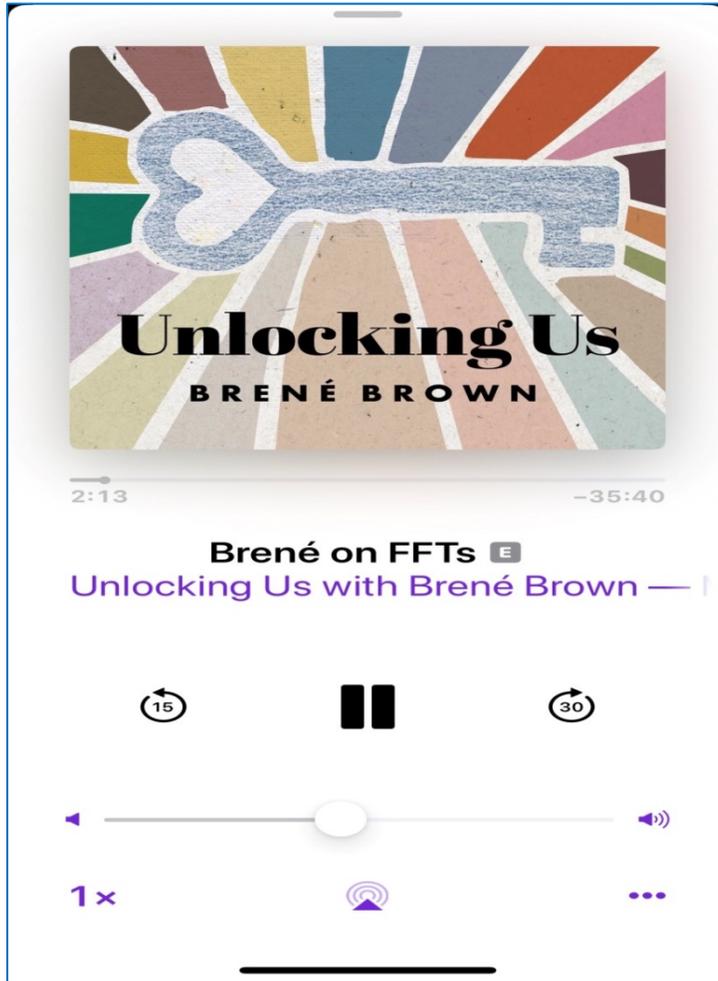




Extra-ordinary Measures for Extra-ordinary Times

Lesley Marks, CFA
Chief Investment Officer and Head of
Investment Management

Unprecedented, unparalleled, unequalled



“When we give up being new and awkward we stop growing and when we stop growing, we stop living”

-Brene Brown



fear | noun

An unpleasant emotion caused by the threat of danger, pain or harm

But what if we could focus on what's right in the world instead of what's wrong?



Same facts, two different perspectives

What's wrong?

- I don't get to see my friends or extended family
- I'm afraid of contracting COVID
- I miss my daily routine
- I miss dining in restaurants
- My travel plans were cancelled

What's right?

- I 'see' friends or extended family more through Zoom chats
- I'm less vulnerable to COVID
- My new routine means more family time
- I've upped my cooking game
- Less travel for work means more family time

Now let's try the same exercise for the economy

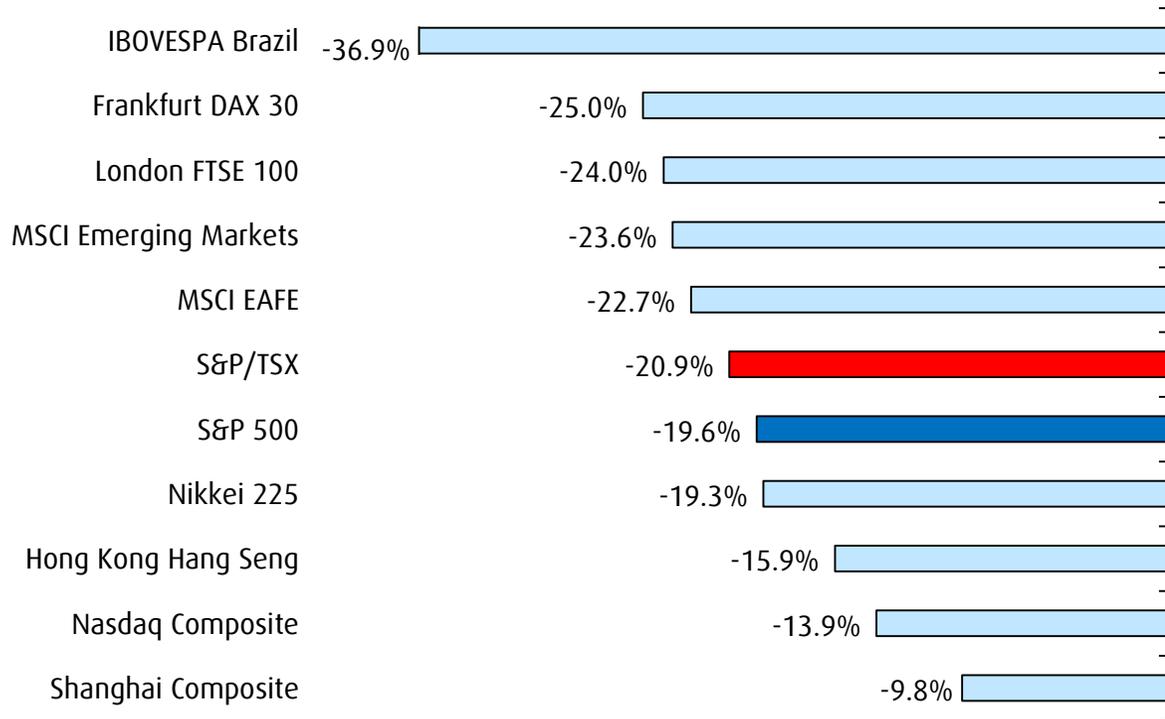
Is the glass half empty?



A health crisis AND a financial crisis

World Markets Performance

Year to Date Total Return in Local Currency
(as of March 31, 2020)



Source: Bloomberg



Global backdrop creates uncertainty



Sentiment

Global equity markets shrug off negative economic data, preferring to focus on the post-pandemic economic recovery. Old risks surface as trade war headlines re-emerge.



Economy

Global turnaround will take various shapes (V,W,U or L) depending on the sector. Likely to see a variable-speed recovery - some countries, regions, industries and markets will bounce back more quickly than others.



Policy

Central bankers committed to 'do whatever it takes' to maintain functioning of markets through low interest rates and asset purchases. Unprecedented fiscal support intended to bridge the economic gap created through the economic lockdown.

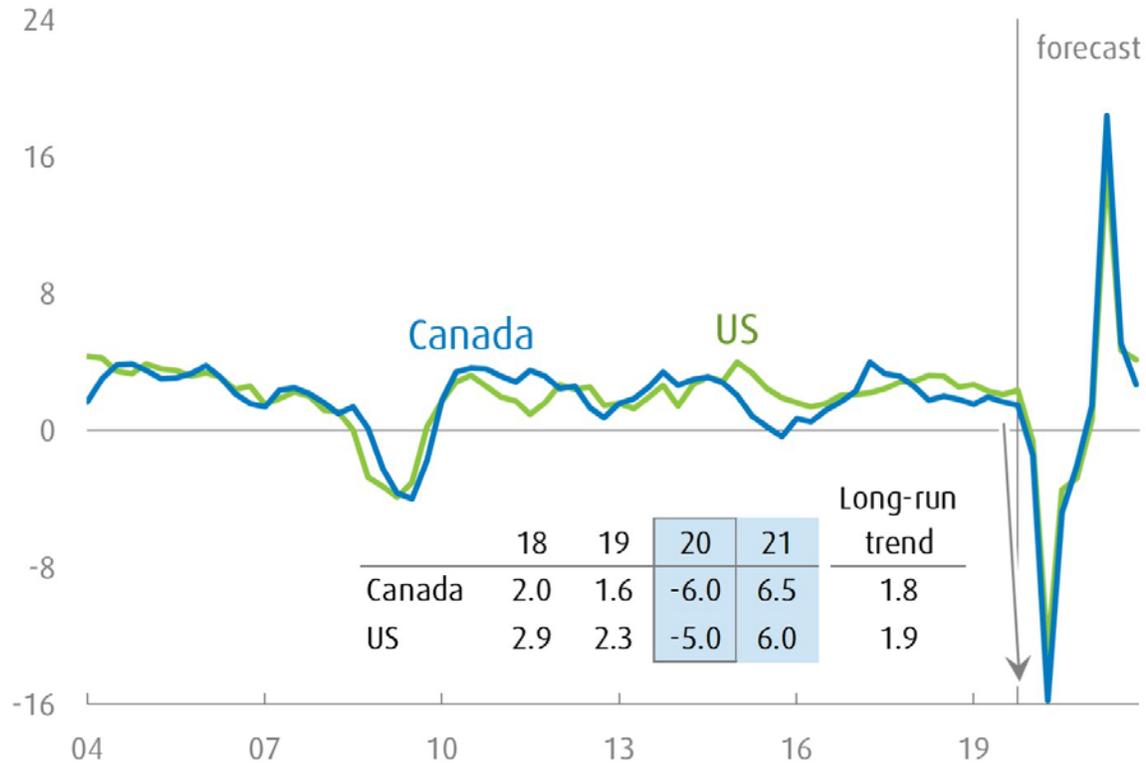


Valuation

Uncertainty in outlook for earnings makes valuation difficult. Equities look overbought in the short term as companies pull their guidance and timing of post COVID-recovery remains uncertain, investors willing to look over the valley.

Deep downturn in North America

Real GDP (y/y % chng)



No relief until lockdowns lifted

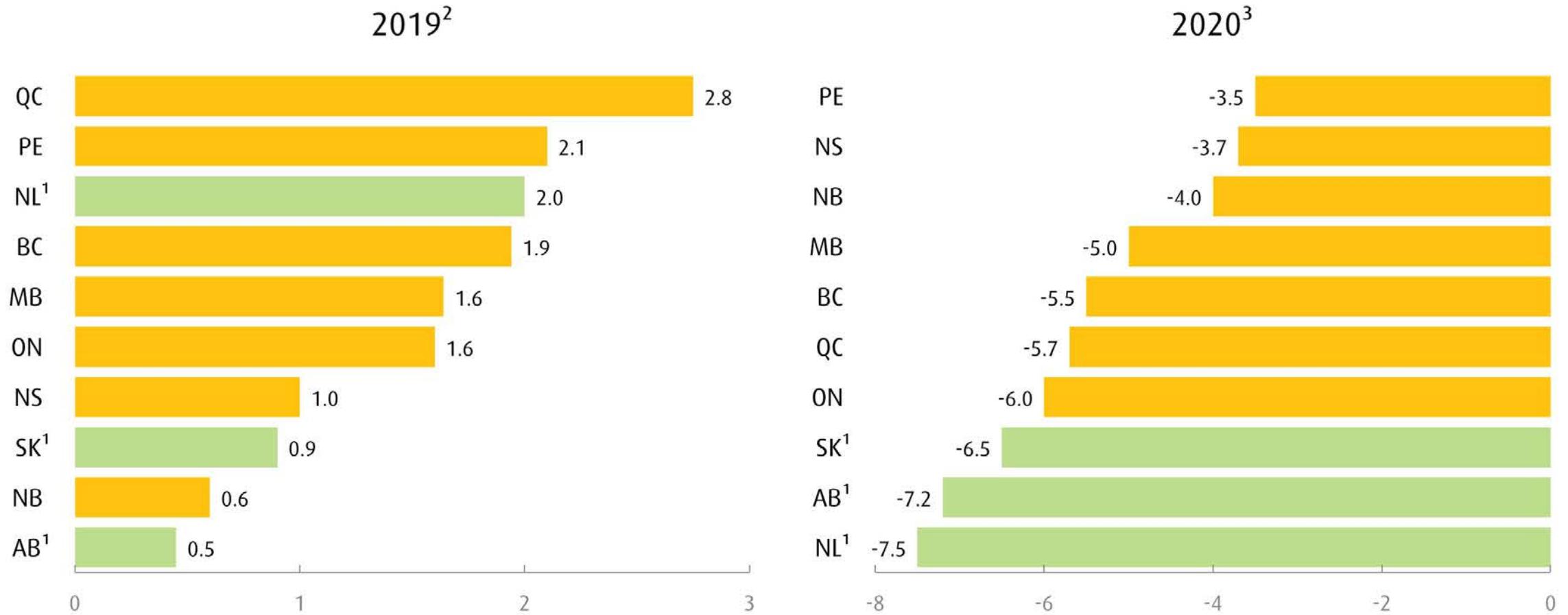
The longer the lockdown, the bigger the hit:

1 week = ~0.50%-to-0.75% of annual GDP

10 weeks = ~5.0%-to-7.5%

Canada's double hit: Coronavirus and Oil

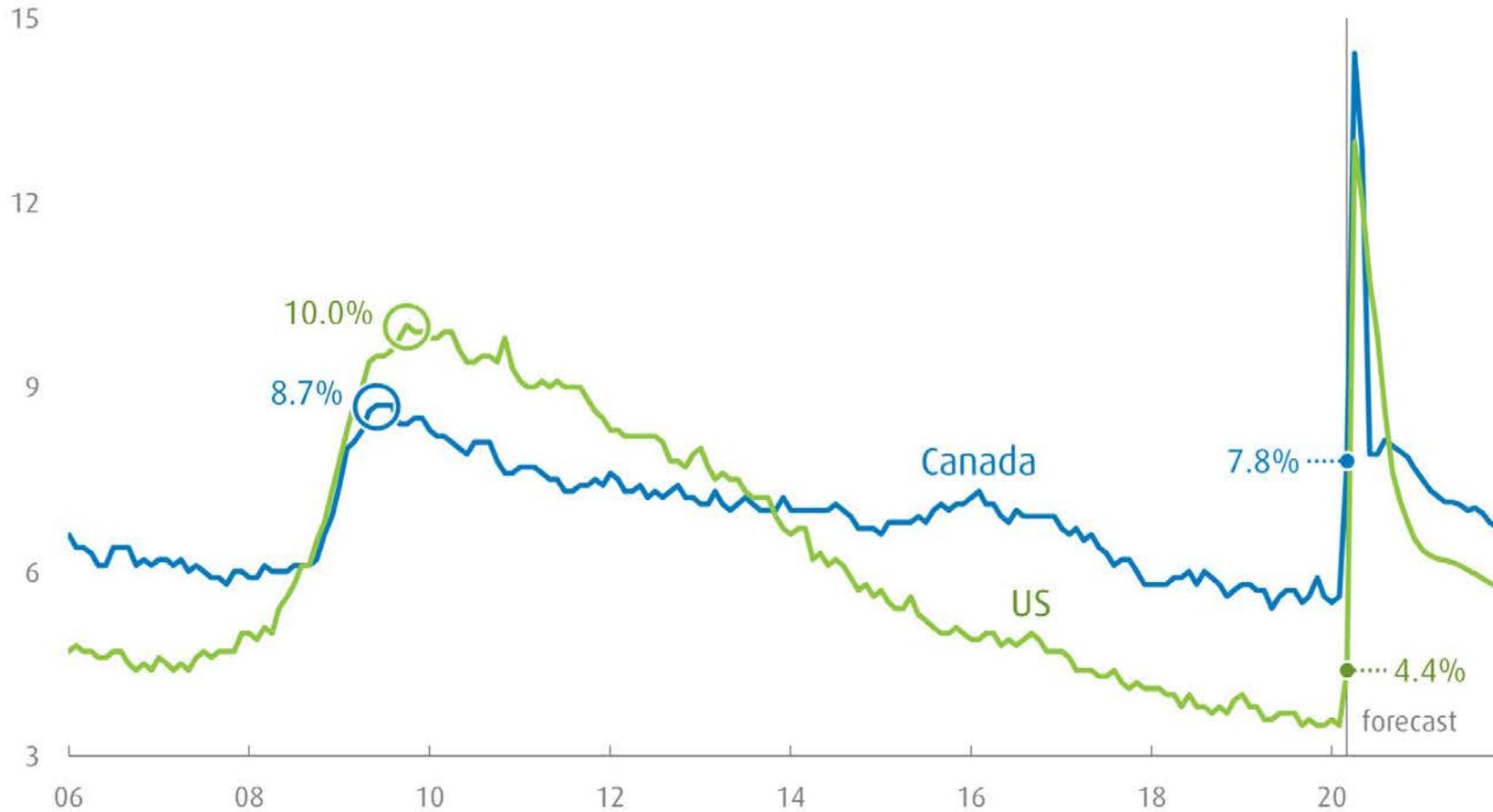
Real GDP – Canada (y/y % chng)



¹ Oil producers: Alberta, Saskatchewan, Newfoundland and Labrador • ² estimate • ³ forecast

Joblessness surge

Unemployment rate (percent)



	Current	Pre-COVID
Greece	16.4	16.4
Spain	13.6	13.6
Italy	9.7	9.7
France	8.1	8.1
Canada	7.8	5.6
Portugal	6.5	6.5
Ireland	5.4	4.8
Australia	5.2	5.1
US	4.4	3.5
UK	4.0	4.0
Germany	3.2	3.2
Japan	2.4	2.4

Or is the glass half full?



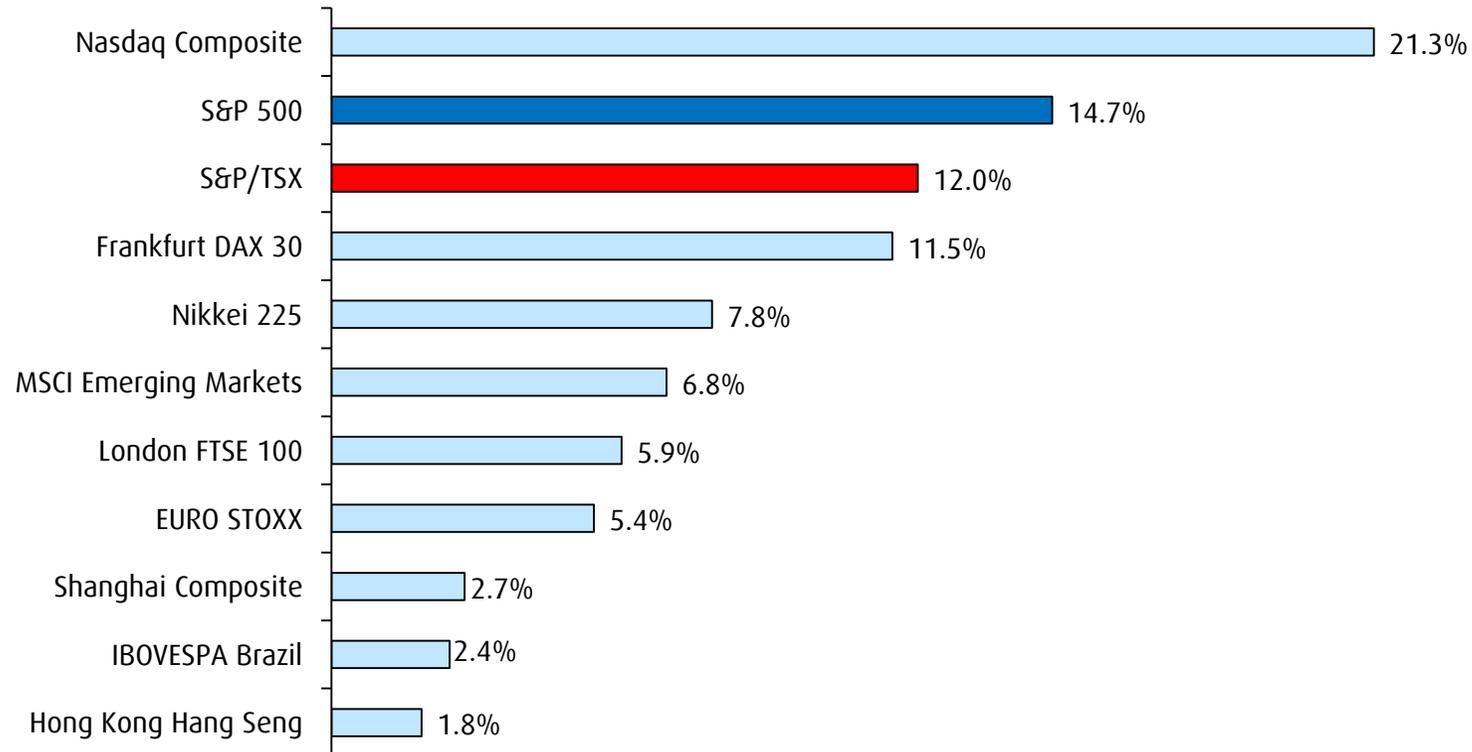


After the shock

- Path of the Virus
- Monetary Policy Response
- Fiscal Policy Response
- Cure for low oil prices
- Election on the Horizon

Markets are starting to feel better

World Markets Performance Total Return in Local Currency (Data from March 31, 2020 to May 22, 2020)



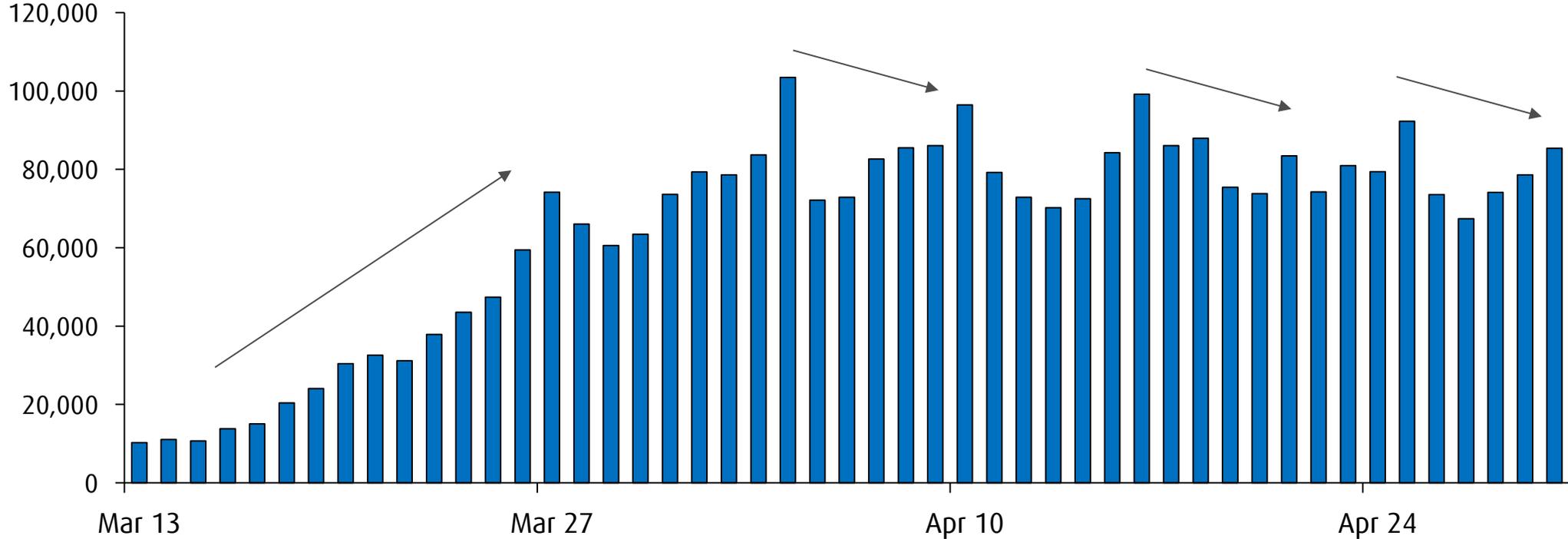
Source: Factset

Path of the Virus

...Cases begin to show signs of peaking

Global Daily Confirmed COVID-19 Cases

March 13, 2020 to April 30, 2020

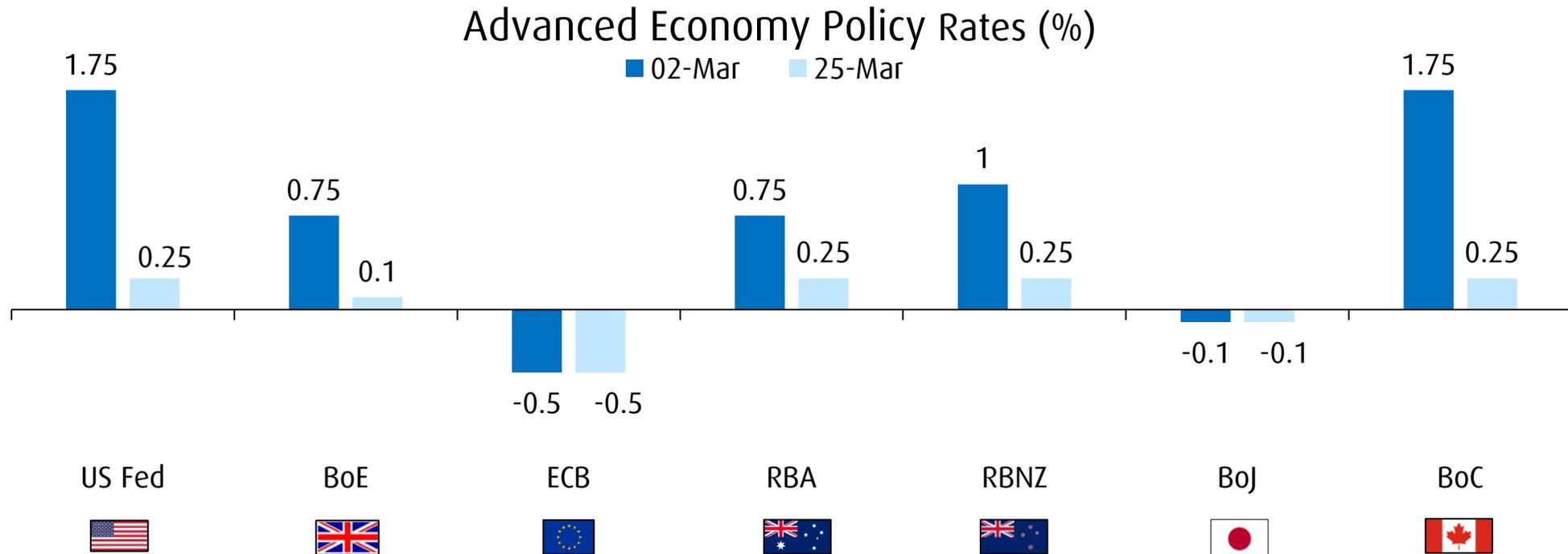


Source: Bloomberg

Monetary Policy Response



Central Banks around the world deploy policy ammunition and interest rates expected to stay low



Source: Wall Street Journal

Monetary Policy – Quantitative Easing



**Bank of
Canada**

- BoC to buy Government of Canada securities at a rate of C\$5 billion per week “until the nation’s recovery is well underway”
- Commercial Paper Purchase Program
- C\$50 billion insured mortgage purchase program



**Federal
Reserve**

- *March 15* – Fed announced \$700 billion in asset purchases
- *March 23* – Fed followed previous announcement with unlimited and open-ended Quantitative Easing
- Primary Market Corporate Credit Facility and commitment to purchase ETFs that track corporate bonds

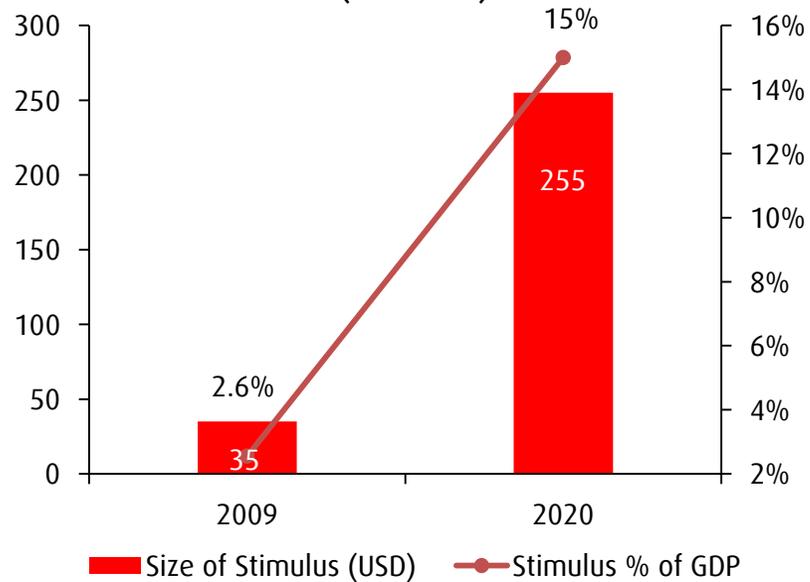
Central bankers providing liquidity to support markets

Fiscal Policy Response



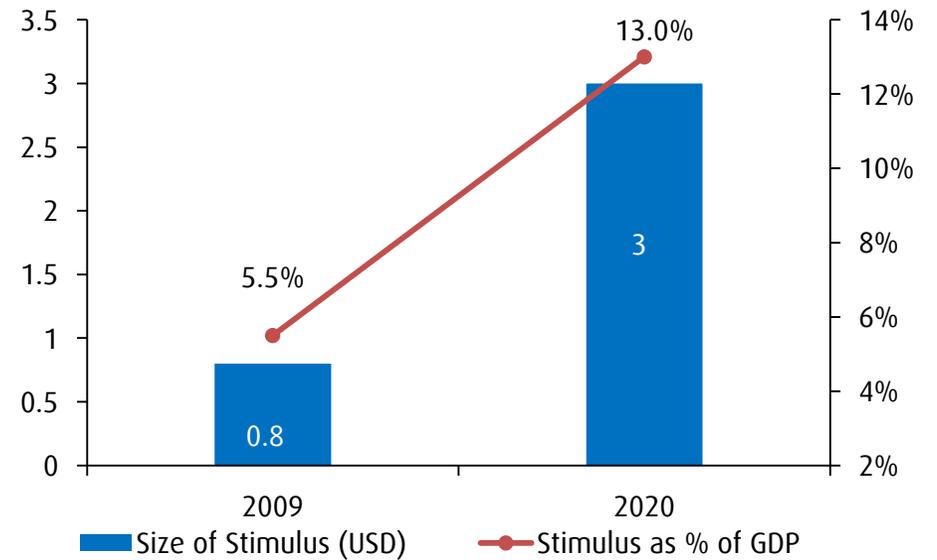
...Governments provide unprecedented levels of support

Size of Stimulus - Canada (Billions)



Source: Wall Street Journal

Size of Stimulus - USA (Trillions)

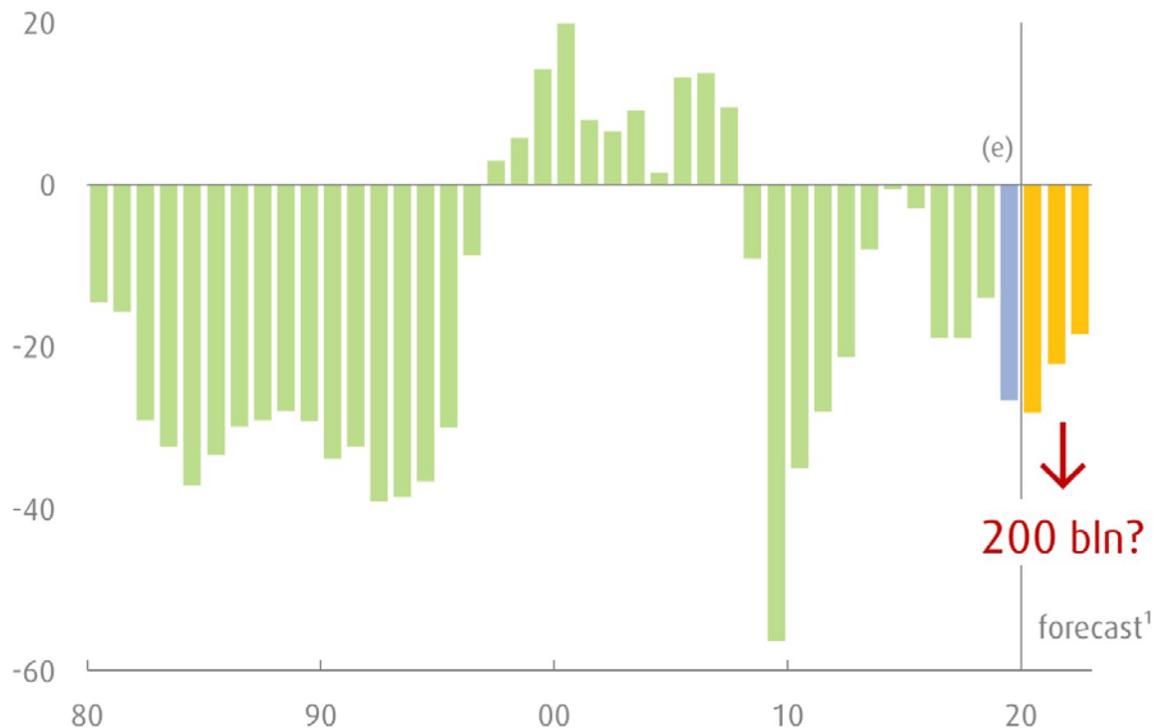


Source: Wall Street Journal

Fiscal floodgates open

Canada

Federal government budget balance (C\$ blns)



AAA Credit rating in doubt?

(e) = estimate

From Ottawa:

\$255 bln of support

(\$105 bln direct spending, \$85 bln tax deferrals, \$65 bln loan support)

75% wage subsidy for businesses

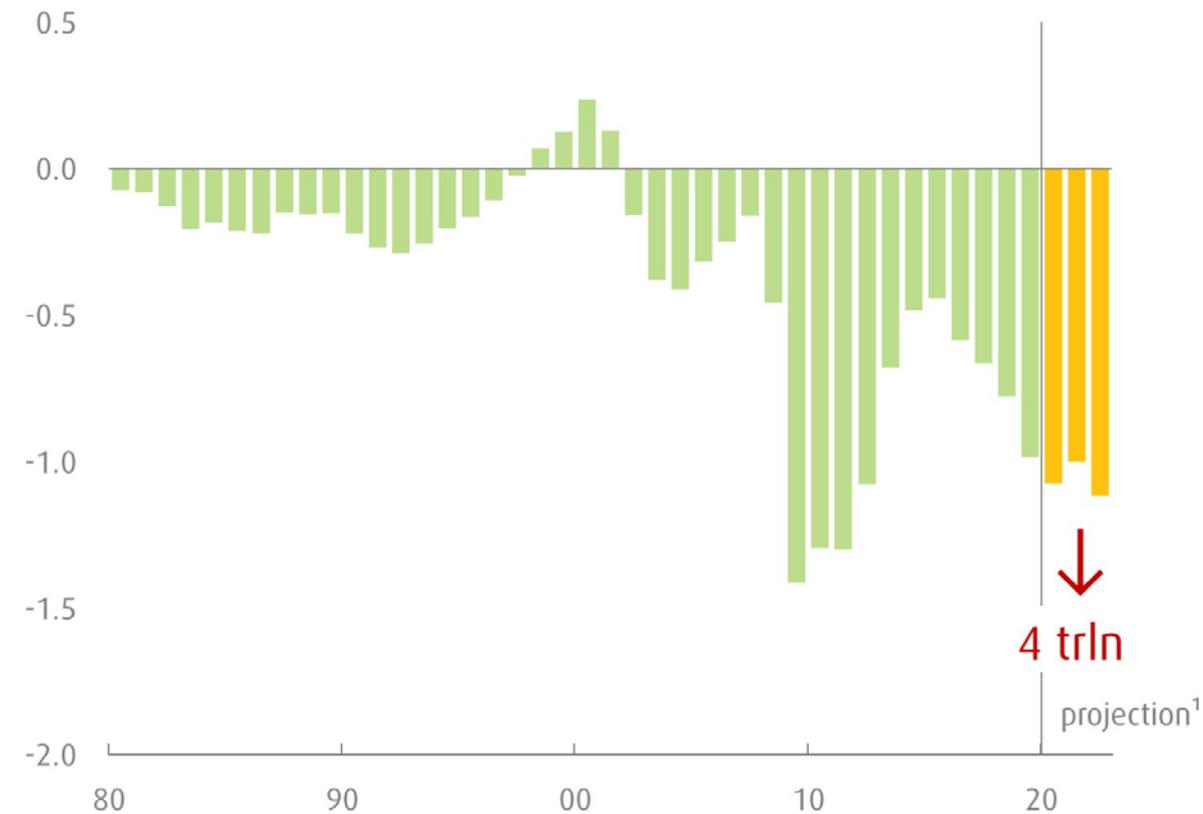
Canada Emergency Response Benefit (\$2,000/month)

Total Direct Support ~5% of GDP
...unprecedented

US Fiscal policy: Forward to 'Phase 4'

United States

Federal government budget balance (fiscal years : US\$ trlns)



¹ CBO projection (January 2020)

- March 6:** Coronavirus Preparedness and Response Supplemental Appropriations Act (\$8 bln)
- March 18:** Families First Coronavirus Response Act (\$100 bln)
- March 27:** Coronavirus Aid, Relief and Economic Security (CARES) Act (\$2.3 trln = \$1,107 bln spending increases, \$300 bln temporary tax decreases, \$876 bln support for loans)
- April 23:** \$480 bln for small businesses, hospitals and increased virus testing

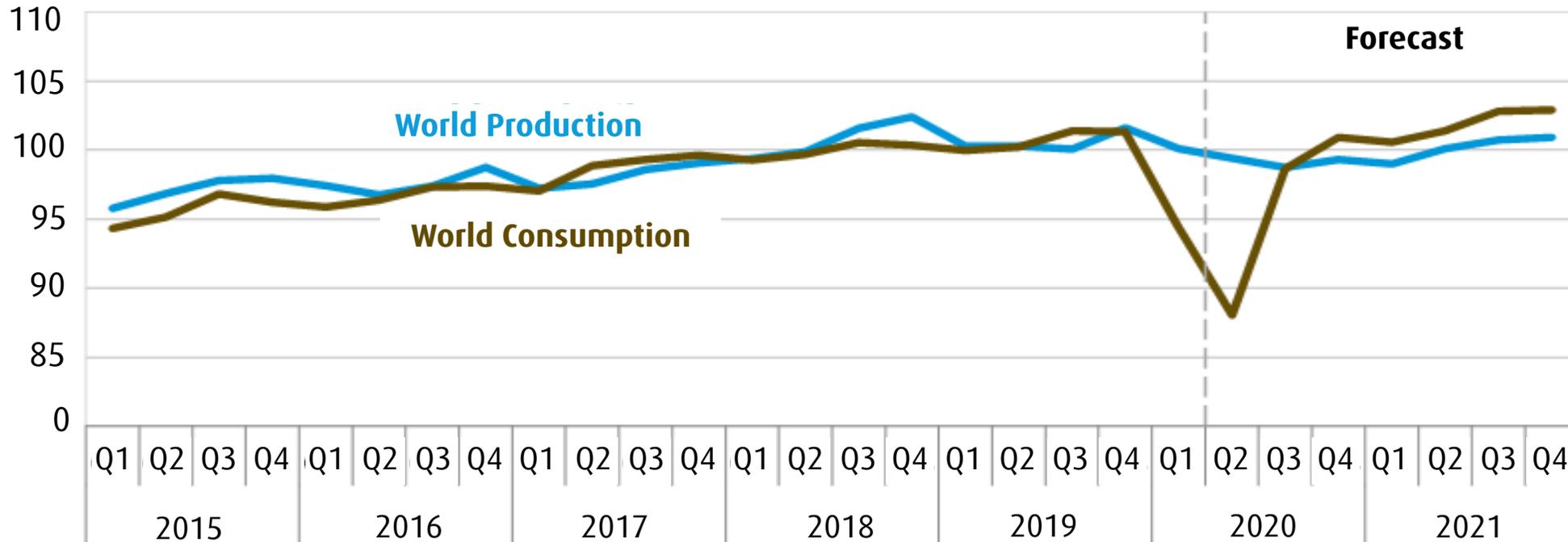
Already worth 13% of pre-crisis GDP

Oil hits a slick patch – Demand Evaporates

...COVID-19 has caused an unprecedented plunge in demand

World Liquid Fuels Production and Consumption Balance

Million barrels per day

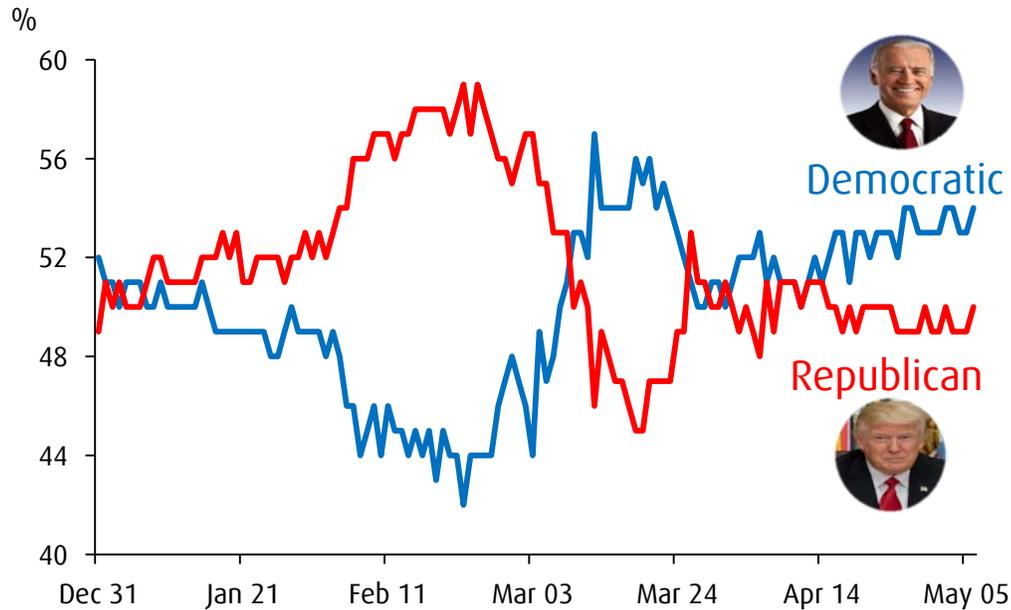


Source: US Energy Information Administration

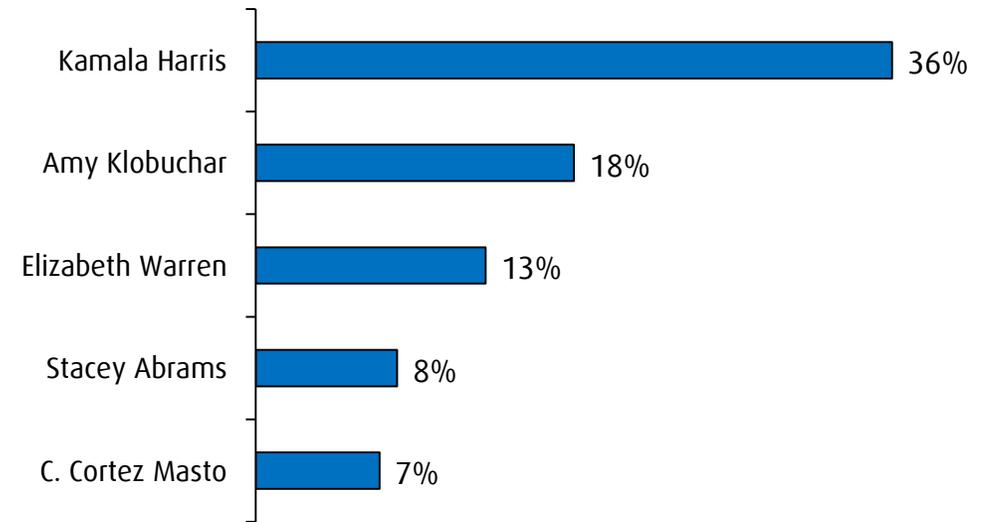
Election on the horizon

...Market believes Biden will win

Chance of Presidential Victory*



...and that Harris will be Biden's running mate
Probability of Vice Presidential Nomination*



Source: Bloomberg, US Predictit
*As of May 8, 2020

Economies planning for re-opening

- All 50 states in the USA have now taken steps to reopen their economies, with different regions following different schedules
 - E.g. Some southern states allowing concerts while some major cities remain on lockdown
- Ontario enters Phase 1 of reopening on May 19, allowing retail stores that have street entrances to open
- Quebec reopens all non-essential retail stores on May 4 and some schools on May 11
- B.C. enters Phase 2 of reopening and allows restaurants to operate at half capacity
- Majority of Europe has now reopened non-essential businesses; Italy and Spain announce plans to allow tourists
- Professional sports leagues begin to detail plans for reopening; baseball in Korea and Soccer in Germany resume without fans

C\$ under pressure

CAD/USD Spot Rate and WTI Price

(as of April 21, 2020)



[actuals] weekly averages • [forecast] monthly averages • ¹ (lhs : US\$/bbl) • ² (rhs : US\$/C\$)

Strong US\$

Low oil prices

Weak global economy

Current account deficit

Our Base Case



COVID-19 will have a devastating global impact

- Global economic growth will slow dramatically in Q2
- Slow growth likely extending into Q3



Policy support will help mitigate negative economic impact

- Both monetary and fiscal stimulus will cushion the economic impact
- Liquidity measures will support normal functioning of markets
- Interest rates will remain low for the foreseeable future



Earnings estimates will be impossible to achieve

- Current earnings estimates are being ignored as market surges from March lows
- Some areas of the economy will take longer to emerge from lockdown



Recovery is in sight for many areas of the economy

- Although the fog is clearing on the road ahead, the shape of the next leg of the journey remains uncertain
- Neutral asset allocation is warranted until we have greater visibility
- U.S. remains the most favoured equity market



Investing Themes post COVID-19

The fight against future pandemics



Bill Gates on how to fight future pandemics

- Giant leaps in vaccinology
 - “the fastest humankind has ever gone from recognising a new disease to immunising against it”
- Breakthroughs in diagnostics
 - “The next time a novel virus crops up, people will probably be able to test for it at home”
- Antiviral drugs
 - “Researchers will develop large, diverse libraries of antivirals...for effective treatments of novel viruses”

Source: The Economist

Two speed economic recovery

High recovery sectors

(90-100% expected recovery)

- Public administration
- Food and beverage stores
- Health care and social assistance
- Professional services
- Finance and insurance

Low recovery sectors

(50-60% expected recovery):

- Air transportation
- Accommodation
- Arts, entertainment and recreation
- Restaurant industry
- Retail/General merchandise

Post Pandemic Trends

Supply chains altered

- Shifting to increased domestic production, decreased globalization and strategic stockpiling

Remote working

- Work from home becomes a greater part of the economy, generating cost savings

E-commerce and social platforms

- Service providers moving to provide services online such as fitness, cooking, virtual healthcare

E-learning

Travel and tourism

- Increased precautions, reduced seating on planes, reduced business travel, higher cost

Shifting consumer behaviours

- Stockpiling, increased savings rate, impaired consumer confidence

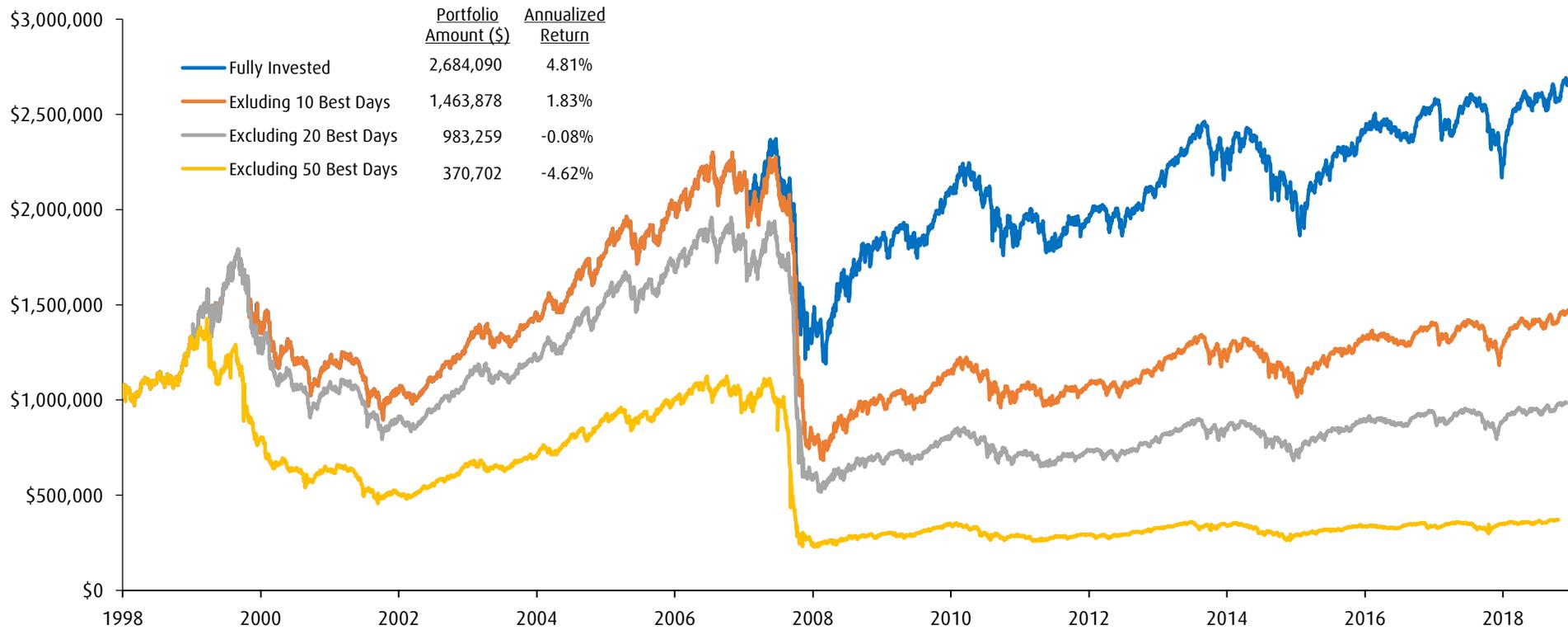
Successful investing strategies

Market Timing Strategies Erode Returns

Attempting market timing can have serious negative implications to your returns

Performance of \$1,000,000 Invested in the S&P/TSX

Data from December 31, 1998 to December 31, 2019

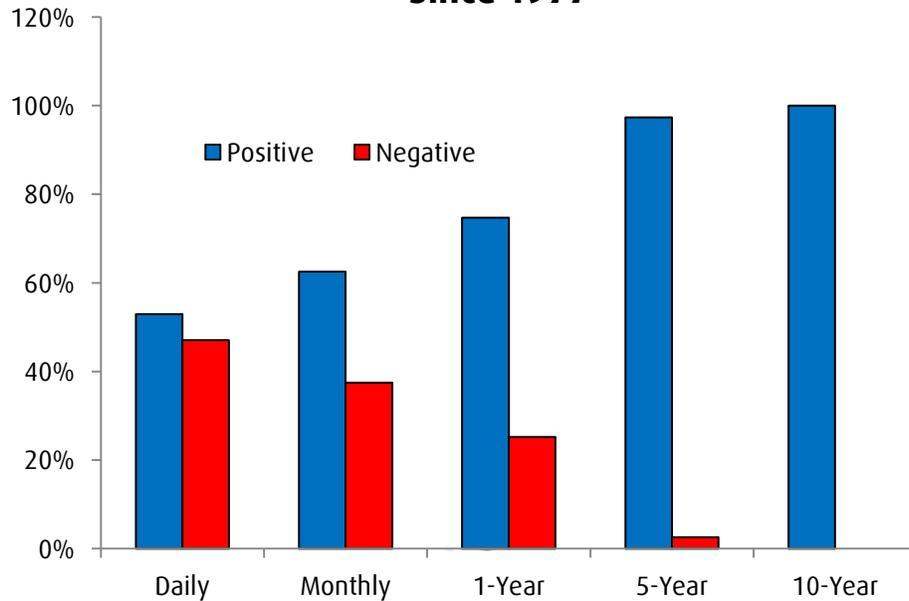


Source: Bloomberg

Long-term Investing Strategies

Negative returns in equities are uncommon if your time horizon is five years or more.

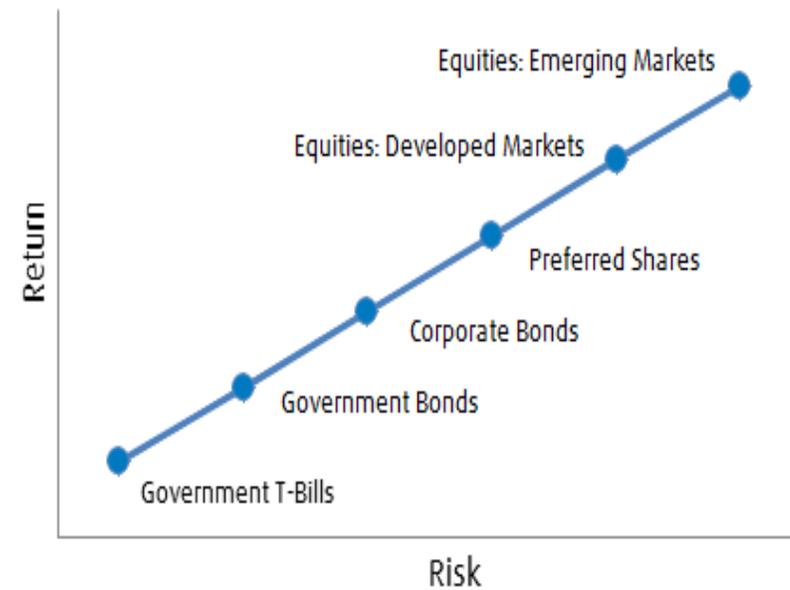
Chance of Positive/Negative Returns in TSX Since 1977



Source: Morningstar Direct

Adding bonds will lower your risk, but also returns over time.

Risk/Return By Asset Class



Source: BMO Private Wealth

Investment lessons to live by: the PPE of investing

Plan

Maintaining a disciplined approach that is tied to your financial plan is the best way to achieve your investment goals.

- A good plan reflects your financial goals, risk tolerance and investment time horizon

Process

Have a process to support your decision-making to remove the emotional or behavioural traps.

- Market-timing strategies rarely add value due to higher transaction costs, taxes and missing out on the best days in the markets

Engage

Stay engaged and involved with your finances and your wealth. Commit to regular touchpoints or reviews.

- Whether you are a do-it-yourself investor or work with an advisor, you still need to be involved
- Treat your financial health as you treat your physical or mental health

Remember



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