March 12, 2020

Group Retirement Solutions

Update on Market Volatility

COVID-19 and oil weigh heavily on world capital markets

Markets have posted historically negative returns through a week of volatility. Closer to home, the Canadian TSX was down 10% in one day. Most global markets are closing in on -20% returns off the all time high achieved on February 19th. Markets like this will certainly test any investor's resolve. Let's look at the main events which resulted in this turmoil.

The economy was in good shape in 2019, but starting in January 2020, the effect of COVID-19 disrupted global supply chains and slowed economic output. There are concerns about the delay of parts and finished products as factories shut down and workers are told to stay home to contain the virus. This will result in lower revenue which drives stock prices down.

Demand is also expected to be effected as individuals and businesses change their consumption patterns in the wake of the spreading virus.

In addition to COVID-19, an oil price war hit the news as OPEC talks fell apart with Saudi Arabia and Russia, flooding the market with oil. Low oil prices will have a negative effect on the energy sector and put pressure on the North American oil producers who need a higher oil price to maintain their output. Many oil stocks and the Canadian market overall, are being impacted by these lower oil prices.

Uncertainty like this drives investment markets down, in part due to emotional reactions based on the unknown.

What should you do now?

The reality is that the middle of a market panic is typically not the time to make changes to your portfolio. These adjustments should be based on your long-term retirement plan, not emotion.

Being a part of a group retirement plan at work has already helped you and here's why:

1. You are using the expertise of professional money managers whose job it is to find future growth opportunities in the sell off
2. You are dollar cost averaging, meaning your regular contributions buy into a market that is on sale
3. Your program has diversified investment options, so you don't need to have all your eggs in one basket
4. You are paying lower than average fees

Instead of emotionally reacting to the recent market decline and changing your investments, here are alternative actions you could undertake:

1. Revisit your risk profile by going online to your provider's member website
2. Revisit your investment allocation to ensure you are properly diversified for the long term
3. Spend some time on a financial map so you feel better about where you are going

You may also wish to discuss your current situation with your personal financial advisor.