



PERSONAL EXCHANGE



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I have spent the past nine years leading Connor, Clark & Lunn Financial Group's Strategic Exchange initiative, which facilitates thought leadership on strategic investment matters.

This "Personal Exchange" shares my perspective on the present environment, specifically:

- Observations on the current markets;
- How today's challenges compare to past challenging times; and
- How investors have reacted so far and challenges ahead.

Current Market Environment

- Markets globally are down substantially and remain very volatile. The pace and magnitude of the equity market decline, as well as the upheaval and limited liquidity in fixed income markets is extraordinary.
- Year-to-date, major equity markets have returned -30% to -13% (in Canadian dollar terms), while traditional fixed income markets have been flat to slightly positive (as at March 31, 2020).¹
- In the shorter-term, private markets have fared better. For real estate and infrastructure this is in part due to strong income levels, but also because of the lagged valuation compared to public market

assets. In the coming months and quarters, the impact on private market valuations will be seen. For example, future valuations for commercial real estate will need to take into account any rental income shortcomings.

- It is human nature to assess changes in wealth and asset market values based on the most recent level reached. For example, following a strong bull market, we all got comfortable with the levels reached by the end of February 2020. However, the reality is that markets do not move in a straight line and there will always be setbacks.
- Current total portfolio asset values for many investors will likely be similar to levels at the end of 2018, however for some they may be closer to levels at the end of September 2019. While this provides important perspective, it does not help alleviate the anxiety that is likely being experienced.
- For defined benefit (DB) pension plans, the decline in the discount rate (used for measuring the value of liabilities) from the end of 2019 to the end of February 2020 has added to the challenge. Together with the equity market decline, this change has led to significant deterioration in DB plan funding levels.

(1) Source: Thomson Reuters

Today vs. Past Challenges

- The current situation is disconcerting for all of us and especially for those who have only experienced the challenges of the global financial crisis of 2008 or no market crises at all.
- Having personally experienced the 1987 stock market crash, the near depression in Canada in the early 1990s, the emerging markets and Asian crisis in 1997 and 1998, and the tech bubble and subsequent crash in 2001, they all share a common theme – while extremely tough in the moment, investors got through these events, albeit with some scars and lessons learned.
- It is appropriate to acknowledge that things are different this time. This is not simply a financial crisis or economic crisis where the majority of us still go about our regular day-to-day routine. As a result of the COVID-19 outbreak, we are all experiencing an unfamiliar situation where everyone has been affected. Globally, people are forced to work from home where possible, or alternatively they have found themselves out of a job. Our daily realities have been significantly impacted and many things we took for granted, such as a coffee with a colleague or dinner with a friend, are not possible for the time being.
- These differences should not be dismissed. It is important to recognize the mental anxiety that uncertainty creates and the effect it has on our individual and collective well-being. The anxiety can also impact how we process information and how we approach decision-making.
- The current environment is making it challenging to interpret information. It is almost impossible to avoid the feeling of being in an information overload haze, or to be influenced by news and social media. This type of environment can lead to an increase in behavioural influences that negatively impact decisions. For example, many of us are guilty of confirmation bias, where we look for information to support what we want to hear, good or bad.

- More information on behavioural decision-making influences and how best to manage them, can be found in the following article: [Riddle Me This: Are You Aware Of Behavioural Decision-Making Influences?](#).

Investor Reactions and Challenges Ahead

- To-date, anecdotal evidence highlights that most investors are not making any dramatic changes to their portfolios and are expecting some form of stabilization and rebound. As far as when and how fast, it is still too early to predict.
- An immediate challenge investors are facing is how to meet current cash flow needs, given that many markets have limited liquidity, wide bid/ask spreads, and selling equity assets that have materially declined requires moving from a paper loss to a realized loss.
- Investors with allocations to private markets have thus far been less impacted by the declines due to the lagged valuation of these assets. Some investors may still be building their exposure and have outstanding capital commitments. Therefore, it is also important to take into account potential capital calls from such investments when planning future cash needs. However, capital calls may be less frequent for a little while as sellers of assets do not want to capitulate to current valuations. In addition, there will be a heightened focus on addressing suitable valuations for underlying assets in order to ensure subscriptions and redemptions are priced appropriately.

Staying the Course

There are few guarantees when it comes to investing. While the current crisis has the added complication of dealing with professional and personal anxiety as we navigate these challenging times, staying the course may be the optimal solution based on the information available presently. This does not mean it is going to be easy, since there will still be many tough challenges ahead. However, if the past has taught us anything, it is that we will get through this; but we should not expect to come out of the current crisis with business as usual or without some lasting scars.

What I can guarantee is that I, along with many others, will no longer take the most basic things for granted and will appreciate health, family and colleagues much more.

A goal of our Strategic Exchange initiative is to promote dialogue and discussion to help institutional investors navigate the markets and challenges. I therefore invite you to share your comments and suggest any topics that you would like to discuss. Depending on how events develop, we may need to rely on video conferencing to stay the course with respect to the general exchange of ideas and education.

Stay safe and keep well.

Peter Muldowney

Connor, Clark & Lunn Financial Group's Strategic Exchange is an initiative to promote dialogue, understanding and the development of solutions to the often complex investment challenges faced by institutional investors.

Under the direction of Peter Muldowney, SVP Institutional Strategy, we bring together investors and consultants in a variety of interactive, educational forums. We also produce thought pieces addressing issues that are top of mind to those involved in managing and overseeing various asset pools.



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