We have been writing quarterly reports to clients for over thirty years, but this is certainly one of the most difficult to write.

Under normal circumstances we look at statistics such as economic activity, corporate earnings and corporate valuations to give us a reasonable expectation of how the securities markets are likely to perform in the short and medium term. However, in the current environment these matrices are of little use as the economy is being dominated by the public health concerns arising from the COVID 19 pandemic.

The economy is being dominated by the public health concerns

Without being able to rely on the more traditional economic statistics to gauge the likely direction of the securities markets one might look at past pandemics to gain insight as to how the markets will potentially react to the current situation. However, this may be misleading.

There have been several serious pandemics since the second World War. These include the Asian Flu of 1957, the Hong Kong Flu of 1968 and the Swine Flu of 2009. It is estimated that each of these pandemics resulted in over a half million deaths world-wide. The Asian Flu was particularly severe as it is estimated by the CDC to have caused over one million deaths, with up to 161,000 deaths in the U.S. alone.

These earlier pandemics, however, did not result in the drastic social distancing measures which have been put in place today and as such had a fairly modest impact on the economy. This is not the case today. Looking at these past pandemics, therefore, provides only a few select insights into how this crisis will affect the economy going forward.

Earlier pandemics did not result in drastic social distancing measures

Since neither traditional economic statistics nor the analysis of past pandemics provide reliable information, those making short-term predictions on the direction of the market are doing so in somewhat of an information vacuum.

While short term predictions are inappropriate under the current conditions, there are several concepts we believe clients should keep in mind regarding the long-term outlook for the markets.

1. All pandemics eventually end. Although the current pandemic appears tobe the worst we have seen in 100 years, history has shown that even serious pandemics generally end within one to two years. In light of the drastic measures that have been taken to deal with this particular pandemic we could see it end sooner rather than later.

All pandemics eventually end

Hopefully, in a few years, this pandemic will be just a bad memory and, for most, not a tragic experience. On a positive note we should be better prepared for the next pandemic.

We should be better prepared for the next pandemic

2. Stock markets do recover. The markets have now fallen into bear market territory with both the Canadian market and the US market down over 20% from their highs in February. A bear market is defined as any market decline of 20% or more. Living through bear market declines is not a pleasant experience for investors, however, they are not uncommon as there have been 12 bear markets since 1945. The markets have always recovered and eventually moved higher.

The markets have always recovered

Before this pandemic passes the markets may potentially move lower, however, after such a steep decline, the majority of the decline could also be behind us. Moreover, if there is any sign of the COVID 19 epidemic subsiding, the markets could rally strongly.

3. There has been much debate in the media as to whether the measures to deal with health care risks were implemented quickly enough. It is questioned whether social distancing and the closing of schools and institutions should/could have been done sooner.

   However, in terms of the economic response to the epidemic, it appears that the lessons learned from earlier crises such as the Depression of 1930 and the Recession of 2008, have been acted on. Our government and the governments of other countries have moved aggressively to support the economy.

Given the relentlessly negative news it can be hard to think long-term, but in periods like these investors must be focused on the long-term. Investors with ten-year horizons should not, when faced with a volatile market, turn into investors with one-month horizons and "just want to get out of the stock market".

Keeping in mind the uncertain short-term outlook and the long-term concepts noted above:

Review Cash Needs

In earlier emails we have asked clients to review their cash needs for the next one to three years. This is a good discipline regardless of the economic outlook. Under the current conditions this is particularly relevant.

Tax Loss Selling

We will be reviewing client portfolios to identify securities which are at a loss. It is never pleasant to realize a loss, but by doing so a tax refund can be generated. The capital losses of 2020 can then be used to offset capital gains taxes paid in 2017-2019 or can be applied to capital gains in future years.

Conclusion

We would like to be more confident in our short-term outlook for the market, however, as we noted earlier, the traditional matrices we focus on have been overrun by the public health crisis. The only confident short-term prediction we can make at this point is to say the markets will continue to be volatile.

The markets will continue to be volatile

Although we cannot be confident of our short-term outlook for the securities market, we remain confident of the long-term outcomes. The governments have been aggressive in supporting the economy and, while economic activity has been severely "interrupted", the productive capacity of the economy is still in place. When this crisis has passed the pent-up demand will hopefully quickly reboot the economy and today's angst will only be an unpleasant memory.

The productive capacity of the economy is still in place

As always, if you have any questions please do not hesitate to contact us by email or telephone. Keep well, keep your distance and remember "this too will pass"

CYPRESS CAPITAL MANAGEMENT LTD.

P.S. Our staff are all working from home and are doing their very best to ensure the least amount of service interruption possible during the COVID-19 crisis. As much as we try, under the current extraordinary situation, it is difficult to maintain the same level of service which we can provide under normal conditions. Therefore, we thank clients for their understanding and patience while we adjust to a new working reality. We are all facing this health emergency together and have the same concerns for the safety and security of our families, our friends, and our communities. We extend our best wishes to you and your family for good health and safety.