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Friday, March 6, 2020

Week in Review, March 6, 2020

Special Focus: Carbon Emissions

Markets ended the week higher, but after a volatile week. Markets rose for the first half of the week and then declined Thursday and Friday. The Fed cut interest rates by half percentage point to a range between 1% and 1.25% for the short-term Federal Funds rate to curb the effect of the coronavirus crisis on the economy. However, lowering the interest rate alone was not enough to stop the markets from dropping on Thursday as investors recognize that lowering interest rates in and of itself will not stop the spread of the virus or get people back on flights. Italy has now overtaken Iran to have the second-highest number of deaths from the coronavirus. The U.S. has confirmed 19 new cases and 1 death in the last 24 hours, bringing the total confirmed cases to 148 and 10 total deaths. See the latest Situation Report - 46 from the World health Organization. Meanwhile, the Democratic primary race narrowed substantially this week, with four candidates ending their campaigns and former Vice President Joe Biden amassing huge wins on Super Tuesday. (MarketWatch, WSJ) For the week, DJIA is up 1.79%, S&P up 0.61%, and NASDAQ up 0.1%.

It is too early to tell if the coronavirus and its follow on impact will result in the U.S. falling into recession. Historically, we have seen "growth scares" in the market when investors fear recession, but ultimately recessions do not materialize. The table below illustrates examples of such pullbacks when falls have been in the double digits, only to recover and post double digits return in the ensuing months. As we have indicated previously, in times of high volatility that we are in now, it is best to be patient with the markets. Remember, your asset allocation is set to your risk tolerance and structured with various market peaks and valleys to deliver return over the long-run.

S&P 500 "growth scare" pullbacks post 2010
Peak-to-trough declines and performance after the troughs

Peak date	Trough date	Duration (# calendar days)	Decline (%)	Peak current year P/E level	Trough current year P/E level	Performance after the trough: 1-month return	3-month return	6-month return	12-month return
04/23/10	07/02/10	70	-16.0%	14.2	12.0	10.1%	12.1%	23.0%	31.0%
04/29/11	10/03/11	157	-19.4%	13.9	11.2	14.7%	16.2%	28.6%	28.7%
05/21/15	02/11/16	266	-14.2%	18.0	15.4	10.6%	12.9%	19.5%	26.6%
09/20/18	12/24/18	95	-19.8%	18.0	14.4	12.4%	19.0%	25.3%	37.4%
Median		126	-17.7%			11.5%	14.5%	24.1%	29.8%
Average		147	-17.3%			11.9%	15.0%	24.1%	30.9%

Source - RBC Capital Markets U.S. Equity Strategy, RBC Wealth Management, Bloomberg, FactSet, Thomson

The Union of Concerned Scientists (UCS) has issued a Presidential Science Blueprint for the next administration to advance the government's science initiatives as the current Trump administration has not been very supportive in backing science. UCS has documented 123 attacks on science from the Trump administration, including censorship of scientific languages; a lack of consideration of science; and cutbacks on scientific studies. Will the UCS succeed and revive the government's science integrity? Their chances will be highly unlikely if the current administration gets reelected this November. (UCS) Adding fuel to a brewing science dilemma, a Trump sympathizer muscled his way in the Interior Department and urged scientists to insert misleading claims about climate change in their scientific report. The report is used by the agency in making decisions about water and mineral rights affecting millions of Americans. A couple of the false narratives that he had inserted in the report is that increased carbon dioxide in the atmosphere is beneficial because it "may increase plant water use efficiency" and "lengthen the agricultural growing season." (NY Times)

Global carbon emissions level stayed flat over the past year. In 2019, 33.3 billion metric tons of carbon dioxide were released, comparable to the 2018 emission levels. Here is a link to the global carbon emissions chart from 1990 to 2019. Some say having the same carbon emissions level is better news than an increased amount since the world economy expanded by nearly 3% in 2019. The slight increase in renewable energy sources such as wind and solar was attributed to this positive news. We also say this is good news but we are still far from relying on renewables for our main sources of energy. (USA Today) Meanwhile, the tropical forests in Africa and the Amazon have reached their carbon dioxide limit; experts say these once pristine forests used to absorb as much as 17% of the carbon emissions but that this number has now dropped by a third. We are at risk of choking our forests, our planet and ourselves. Although planting billions of trees is not a silver bullet to solving the climate change crisis, it sure is a big step in mitigating higher emissions levels and placing less strain on existing forests. (Bloomberg)

Last week, we lost a mathematical genius and environmentalist who studied climate change in the 70s and suggested that carbon dioxide levels in the atmosphere could be controlled by planting fast-growing trees. Freeman Dyson died at 96. (NY Times)

A new report released by Morningstar on Monday reveals that the number of women fund managers in the U.S. dropped close to 3% in 20 years with less than 1,000 women money managers, while men accounted for 7,400. Some put the blame on the largest fund companies whom have not taken big steps to reduce gender-based inequality gaps and are not doing enough to create more effective maternity benefits. Based on the report, less than half of the fund companies who were asked to disclose gender pay gaps and to show the steps they have taken to reduce gender-pay inequality through shareholder action showed support for the resolution. (Barron's)

As always, please reach out to us with any questions or commentary! Have a great weekend!

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