



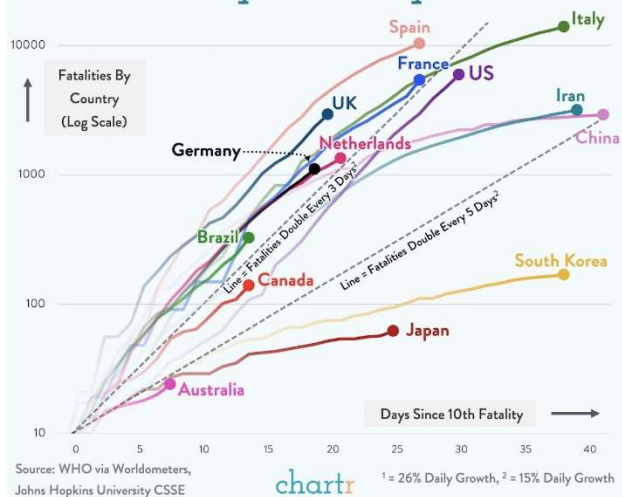
HARBOURFRONT
WEALTH MANAGEMENT

GILMAN | DETERS
PRIVATE WEALTH

Q1 – INVESTMENT UPDATE
MARCH 31st 2020

So much has happened since our last Quarterly update, it is hard to compile these thoughts into a concise message. When the year began, we were all marveling at the images of Chinese construction workers scrambling to build an entirely new hospital in just seven days. “How could they accomplish such an incredible feat in such a small amount of time?” Taken aback by the “how”, many of us were distracted from understanding “why”, and what would ultimately follow.

Tracking Covid-19 Trajectories: Fatalities By Country



When the year began, the Corona virus was barely even a Pan-Asian issue. By the end of January cases were popping up all over the globe, and by March 12th the WHO officially declared COVID-19 a global Pandemic. In a matter of weeks, a seemingly localized problem in one Chinese province has become an unprecedented Global event that has isolated us, yet interestingly also connected us. There is a level of commonality amongst us all these days, that we never expected. For the first time in our lives, the world is committed to a singular cause.

As countries grapple with controlling the spread of the virus, this unprecedented health event has also led to an unprecedented economic event. Some of us are fortunate enough to be able to continue our jobs from home. Others are not so fortunate, as small businesses everywhere have been forced to shut down to protect the ones we love.

The effect on our economies will be substantial, and stock markets are quick to remind us of that.

Markets fell sharply in Q1 2020. At the end of it all, the S&P 500 and the TSX Composite had fallen 20% & 21% respectively. To make matters worse for some, a dispute between

Russia and Saudi Arabia led to a substantial increase in Oil production at a time when global demand was falling fast. As a result, a barrel of Canadian Oil today costs slightly less than a Big Mac meal at McDonald’s. The situation for families in Alberta and Saskatchewan is very dire indeed.

While we are not immune from this environment, we are proud of our response. Owning great companies, having a bias towards the US dollar, increasing our cash position, and allocating money to private investments are all examples of actions we have taken to protect our clients from most of this volatility. After surveying the lackluster performance of some of the largest mutual funds in Canada, we are confident that our approach has paid off.

The great debate amongst investors today, is where things go from here. The question is not “Will” markets recover, but “When” and “How long” it will take. Comparisons are not only being drawn to the Global Financial Crisis of 2008/09, but also to Y2K, 1987, and the Great

Depression. In the last week of March, markets began to rally. Our current belief is that markets are rallying on headlines and hope, rather than understanding the full economic impact to follow.

We believe that, although the various government stimulus measures to this point have been enormous, the cost will far exceed what has been announced thus far. We believe that in the medium term, this pandemic will be a catalyst for positive change. In the near term, however, we believe that companies will begin to report their earnings, and markets will resume a downward path heading into the summer.

To borrow from one Chief Investment Strategist in Canada yesterday – “*We will see better times. But...the initial condition for a significant strategic shift away from defensive portfolio posturing probably requires a bottom in the economic outlook. There are still no signs of that bottom.*” – Myles Zyblockⁱ

In determining our investment strategy for the coming months, it is important to consider which sectors of the economy stand to perform better than others. One of the ways we are viewing stocks right now is by categorizing companies into four groups:

- Companies whose business has not been interrupted or substantially impacted by COVID. Examples are consumer staples like **grocery stores, cleaning products, toiletries**.
- Companies whose business has been interrupted but should quickly return to normal once COVID ends. Examples are **medical companies** who make equipment and devices for elective surgeries like hips and knees; or **technology companies** that provide services and software to power business and communication.
- Companies whose business will return quickly but may face some after shocks from COVID. Examples are **banks** that have exposure to mortgage defaults and lower interest rates.
- Companies whose business will not return quickly and who may experience significant impairment. Examples are **energy stocks** with very low oil prices and **travel and tourism** stocks like hotels, and cruise lines.

We expect more clarity in the coming weeks. For now, we are comfortable maintaining a defensive posture.

It's nearly 7:00pm in BC now, and time to head outside to cheer on our Health Care and frontline workers that are making sacrifices to look after our loved ones. It's also the anniversary of Vimy Ridge today. So wherever you are, we hope that you are safe, that your loved ones are healthy, and that you will join us in feeling grateful for today and hopeful for tomorrow. Take great care.

-The Gilman Deters Private Wealth Team

ⁱ Myles Zyblock, Dynamic Funds. Insights on Recent Market Events - April 8 2020.

- *I have prepared this commentary to give you my thoughts on various investment alternatives and considerations which may be relevant to your portfolio. This commentary reflects my opinions alone and may not reflect the views of Harbourfront Wealth Management. In expressing these opinions, I bring my best judgment and professional experience from the perspective of someone who surveys a broad range of investments. Therefore, this report should be viewed as a reflection of my informed opinions rather than analyses produced by Harbourfront Wealth Management Inc.”*
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