PRIVATE WEALTH MANAGEMENT

CIBC WOOD GUNDY

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Perspective on the Current Global Health & Market Crisis

I wanted to share some perspective on the current market volatility we're all experiencing. It's natural to be concerned and have questions about the recent global developments—including the spread of COVID-19 and the decline in oil prices—and their impact on the markets. Remember that your investment portfolio has been built for the long term using prudent asset allocation principles and is designed to minimize risk during these times.

I want to reassure you that market ups and downs are a normal part of investing. I know that uneven market behavior can be unsettling, but it also presents opportunities. We're well positioned to help you take advantage of these opportunities while managing short-term fluctuations.

Market/Investment comment

Regarding the markets, we have officially hit what I believed (in January) could be the worst-case levels; at that time global pandemic was not something I even thought about. We are well diversified and positions we hold are in good financial shape, but it's impossible to know how far the market takes this. In 2008, the US banks failed because of stretched capital and the market dropped 50%. Today the US and Canadian banks are in great shape, this event is about life and death, not a financial problem and the market is down close to 30%. The government response has been decisive, both Canadian and US central banks made significant assurances by cutting interest rates and adding financial resources to keep the financial systems working without fear of interruption.

Canadian Banks

The Canadian banking system more broadly, and CIBC specifically, are strong, well capitalized and are in excellent shape. The share price decline of all the banks has created an opportunity to lock in some very attractive yields, and BMO for example, is capitalizing on this as an opportunity to buy back their own stock in the market at these bargain price levels.

Energy

This has been a double whammy for oil. On March 6th there was a breakdown between Russia and OPEC which flooded the market with oil and led to the 2nd largest price decline ever for the price of a barrel of oil. Now with airplanes and cruise ships parked and travel suspended, excess oil will continue to build causing prices to continue to fall. Good news for consumers to fill their tanks, bad news for the Canadian stock market.

Pipelines

Enbridge, for example, has consistently provided stable exposure to the energy sector through its pipelines as well as providing North American refineries with a reliable stream of supply. Given the unpredictability and variability in the global crude oil market following the recent collapse in oil prices, Enbridge provides stabile cash flows and a strong balance sheet. This should not affect the business of delivering energy to consumers yet shares are down 27% and yields got close to 9%. That is not rational, but when people panic and hoard toilet paper it is those kinds of opportunities that will present themselves during times like this.

Let's get to the point: are we likely on the brink of recession?

Unfortunately, yes. Hit by both the virus and oil markets, Canada and the US are likely to join a growing list of countries facing an economic contraction. We expect to see output dropping in both the second and third quarters in the US and Canada.

For the US, the second quarter could be the worst, while in Canada reductions in activity seem to be a few weeks behind and we might end up with a weaker Q3. We're bracing ourselves for annualized declines in the 3% range for Canada in each of the next two quarters. Output for the year, as a whole, will show no growth in 2020 even with a Q4 rebound. Because the US is less tied to oil, they will be slightly better off.

Stern measures —school closures, cancelled events, and so on— will be needed to slow the contagion rate to keep the US and Canada from looking like Italy or Wuhan in the months ahead. Those economies ended up nearly fully shuttered. But even milder forms of social distancing than we needed in those severe hot spots have economic consequences. About a quarter of Canadian consumer spending is in discretionary goods and services that will be pared back if we hunker down in our homes. The spread may be inevitable, but this will stretch out how long this last, which is essential in preventing an overrun medical system - the lesson learned from the Italian experience currently.

Corona Virus Key Points:

- Not a household name till now but this is the 7th Coronavirus we have experienced and survived, SARS and MERs were less widespread but much deadlier
- Epidemic = disease that spreads rapidly
- Pandemic = disease that spreads geographically and affects an entire country or World
- According to the Johns Hopkins Corona Virus Resource Center as of March 16, 2020 = 174,995 cases worldwide, 6,706 deaths, 77,658 people have recovered
- Real time stats link here: https://coronavirus.jhu.edu/map.html
- We have learned from and weathered prior storms = we have been here before and we have learned from the recent experience in China and Italy

1. **Spanish Flu (Year 1918)[1]**
- 20% to 40% of world became ill
- Approx. 20,000,000 deaths worldwide
- 500,000 deaths in the USA
- S&P (24.7%) in 1918
- S&P +8.9% in 1919
- Other macro events affecting market sentiment World War 1

2. **Asian Flu (Year 1957)[1]**
- Approx. 1M to 2M deaths worldwide
- 70,000 deaths in USA
- S&P +24% in 1957
- +2.9% in 1958

3. **Hong Kong Flu (Year 1968)[1]**
- Approx. 1M deaths worldwide
- 34,000 deaths in USA
- S&P +12.5% in 1968
- +7.4% in 1969

4. **Bird Flu (Year 1997)[1]**
- Not one case in USA
- S&P +32.6% in 1997
- S&P +28% in 1998

5. **Swine Flu (Year 2009)[1]**
- 22,000,000 cases in the USA, 4,000 deaths in USA
- S&P +23.45% in 2009
- S&P +12.78% in 2010

6. **SARS (Year 2003), 8,096 Cases, 774 Deaths worldwide[1]**
- S&P -13% in 2003
- Also, the year of the Tech Bubble

[1] Don Connelly 247. Coronoa Virus – This Too Shall Pass. Retrieved from https://www.donconnelly247.com/articles/webinar-corona-virus-this-too-shall-pass?utm_source=Coronavirus+FREE+Webinar+Replay&utm_campaign=Webinar&utm_medium=email

7. MERS (Year 2012), 538 Cases, 173 Deaths worldwide[1]

- S&P 13.41% in 2012
- S&P +29.6% in 2013

Of the prior 15 epidemics and pandemics, the market, on average, increased by 9.9% within 12 months as (per Calamos Wealth Management)

Conclusion

As I write this email, the reaction by the NBA and NHL suspended their seasons, the NCAA basketball will cancel March Madness, European travel cancelled, universities and colleges are closed and kids are advised not to return from March break is just the start of what we can expect. At the very least, expect malls and all other public places to be closed and I am preparing to work from home if needed. If we follow the path that Italy is on, we can expect full martial law where entire cities, with the exception of essential services, will be shut down. I expect the situation to get worse before it gets better, there will be panic and the public reaction such as hoarding toilet paper will be absurd. Either way, this will pass, and life will resume as normal. Therein lies the silver cloud and opportunity as the fog clears.

*"**The best investment outcomes begin during times of great discomfort**"*

The selling has been violent and indiscriminate putting many of the greatest companies on earth on sale, significantly. This on par with any market crash experienced ever. The difference today is program trading, Algorithms and other computer based synthetic models exploiting the situation for short term profits. To what extent? This situation has run down prices creating yields of 8% on world class companies such as CIBC or Enbridge. These computer traders continue to run the show and I am not going to pretend we can second guess what will happen, how bad it will get or when things improve, there is just no way to know. These computer programs work till they don't work and eventually sanity will prevail, and markets will return to normal. Here is what I do know, anyone that rode out, or better yet, bought after the 1987 crash, during the depths of September 11, 2001 or during the 2008 financial crisis did very well and I am very confident patient or opportune investors today be similarly rewarded. This enclosed document highlights the benefits and importance of long-term investing. It also shows how capital markets improved a year after major indices were impacted during different global crises in past decades.

Your best interests are my top priority. Volatile markets mean I am working harder to help ensure you remain on track to reach your goals. It's at times like these that I most value the trust you've placed in me.
If you have questions, please call me at my office (519) 972-2972, or my cell (519) 999-6030.

Sincerely,

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