QV UPDATE

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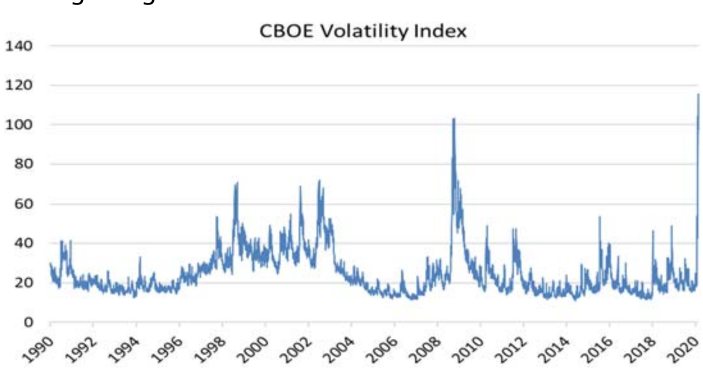
Uncharted Waters

Governments around the world are taking unprecedented action to limit the human and economic toll of COVID-19. We know that our clients are well informed about the pandemic. We have no special insight into how effective governments will be in arresting the spread of the virus. We want to share with you what we are observing in markets and what we are doing in client portfolios.

Central banks have undertaken significant measures to support economies by slashing interest rates and resuming bond purchases. Lower interest rates will help reinvigorate economies – some parts of the economy will receive an immediate boost, while others respond with a time lag. For example, mortgages have become more affordable for new homebuyers and those renewing, which will help households lower their expenses and increase their spending power. Lower interest rates will also act to support business investment, but with a longer lag. Governments are also responding with fiscal policies to help with solvency and liquidity issues. Examples include deferral and reduction of tax payments, direct financial support for businesses, easier qualification for unemployment benefits and paid sick leave, to name a few.

The uncertainty and anxiety regarding the potential fallout of the coronavirus has resulted in global equity markets dropping 20-30% (in $CAD) or more this year, depending on the region. Liquidity demands and program trading have added to the market calamity. The CBOE Volatility Index (VIX), commonly known as the "fear index", has exceeded the highs previously achieved during the global financial crisis.



Source: Bloomberg

Many investors (speculators, really) are forced sellers because they borrowed money on margin to invest, a risk we've been warning about for some time. Some investors are learning that their risk tolerance ebbs and flows with the price of stocks and are selling equities out of fear of further loss.

Some of the policy actions to date have improved the functioning of the financial system, but significant parts of the market are less functional. Investment-grade corporate bonds, for instance, are frequently "no bid" or transacting at absurdly low prices (high yields). We are witnessing a demand for cash at nearly any price. We say this not to alarm clients but to inform them. People who live prudently and within their means should be fine. And it is during times like these that wealth transfers from the irresponsible to the prudent.

Our conservative asset mix positioning has been helpful in preserving capital throughout the recent market weakness. We have been neither overly aggressive nor fearful in our actions. We have been opportunistically putting cash to work in our equity funds. We've also been rebalancing many of our client accounts back to their targets by selling bonds and purchasing equities. You can expect us to continue taking small steps (one way or the other) as we learn more and as markets adjust to this new world reality.

What we are tasked with as investors is to make decisions under conditions of uncertainty. For long term investors, there are and will be opportunities to buy good businesses at attractive prices. During this challenging time, our hands are steadied by the conviction of our research. Sound company fundamentals may not hold much weight day to day as the world digests new developments, each one more dire than the last. Over the long term, however, we believe fundamentals will matter. Until then, know that we are here working to ensure you can focus on what is important – your family and their well-being. Together, we will get through this. We will endeavour to keep you abreast with investment and operational updates.