THE COERENTE VIEW

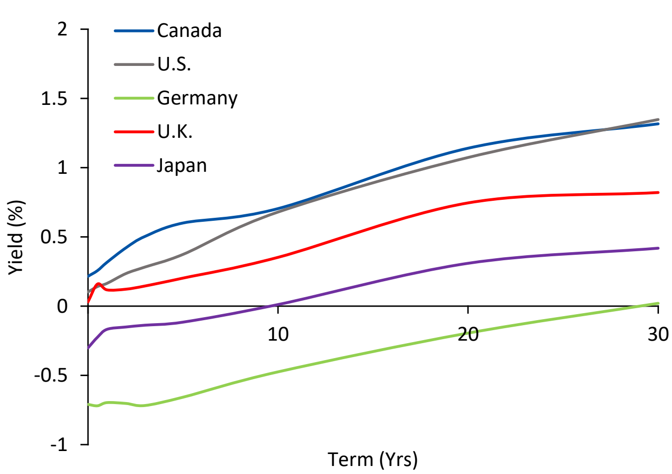
Market Statistics

	Mar/20	Dec/19	Sep/19	Mar/19
Yields (%)				
90 Day T-Bill	0.26	1.66	1.66	1.67
10 Yr. Canada Bond	0.70	1.70	1.36	1.62
30 Yr. Canada Bond	1.31	1.76	1.53	1.89
Rates				
C.P.I. (annual %)	2.16	2.25	1.87	1.88
US$/C$	0.70	0.77	0.76	0.75
Euro/C$	0.64	0.69	0.69	0.67
Prices (US$)				
Crude Oil (bbl.)	20	61	54	60
Natural Gas (mm)	1.64	2.19	2.33	2.66
Gold (oz.)	1,583	1,520	1,466	1,293

Market Returns

	Periods Ending Mar. 31/20			
			Annualized	
	3 Mo.	1 Yr.	5 Yrs.	10 Yrs.
S&P/TSX	-20.9	-14.2	0.9	4.1
S&P 500 (C$)	-12.2	-1.3	9.1	14.3
S&P 500 (US$)	-19.6	-7.0	6.7	10.5
MSCI EAFE Net (C$)	-15.7	-9.1	1.6	6.2
MSCI EAFE Net (US$)	-22.8	-14.4	-0.6	2.7
MSCI World Net (C$)	-13.8	-4.9	5.6	10.2
MSCI World Net (US$)	-21.1	-10.4	3.2	6.6
Bond Universe	1.6	4.5	2.7	4.3
91 Day T-Bills	0.7	1.9	1.0	1.0

Yield Curves



The Economy

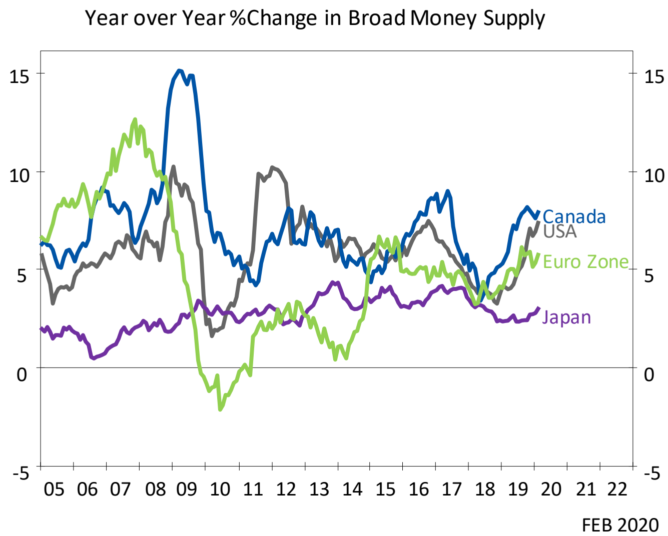
Most past global recessions were triggered by economic factors where investors and economists had data that enabled reasonable estimates regarding future growth. The effects of the coronavirus, are arguably much more difficult to analyze. The coming recession has been driven by consumers being told to stay home. This limits their spending and in many cases restricts any opportunity to work. More importantly, it is largely unclear how long it will take for the spread of the virus to subside and when we will be allowed to end self-isolation. Around the world there are few pockets of strength as the virus has affected all countries to some extent.

The optimistic view is that we follow the path experienced by China, perhaps with a lag as most developed countries (in particular the U.S) were late to react. This scenario suggests it will be the end of the second quarter before we normalise. The more pessimistic view would be that we continue with significant restrictions in place until a vaccine is tested, approved and widely distributed. Health experts suggest this is 12-18 months away. How bad or difficult the health outcomes become also remains very uncertain as we grapple with a lack of facilities, medical products and medicines. On the positive front, there have already been breakthroughs in medical technology and production which could improve the situation. Corporations are ramping up quickly to assist and provide solutions.

Central bankers have correctly acted aggressively in easing monetary policy (see chart on next page). The Federal Reserve and Bank of Canada have joined Europe with short-term interest rates being reduced essentially to zero. As the chart on the bottom of this page demonstrates, interest rates globally now hover on either side of zero at all maturities. This will ease the interest burden for all, regardless of the type of debt carried, and make the cost of investment less expensive. Quantitative easing (the purchase of bonds by central banks) has been resurrected with purchases moving beyond government issued securities and into the corporate bond market in order to maintain liquidity for all participants in the capital markets.

Governments have also acted quickly with financial assistance. The U.S. approved an unprecedented $2 trillion fiscal package (10% of GDP) which will distribute funds to most residents and in Canada programs totaling an estimated $180 billion (8% of GDP) will help support primarily individuals and small businesses. These packages, while sizable, will most likely only carry their respective economies for three or four months.

Money Supply Growth



Second quarter GDP forecasts for the world's largest economy, the U.S., suggest a contraction of as much as 30%; truly just a guesstimate. A bounce back could be relatively quick. Once people are allowed to leave their homes, spending and productive work will resume. Unlike in past recessions, no widespread restructuring of bad banks, loans or mortgages will delay the recovery. Although, there could be some drag on the updside as many small businesses will fail and there will be other larger industries that will need to be recapitalized such as the airlines.

The Markets

Returns were significantly negative in the equity markets during the first quarter with most major indices declining 20% or more. An 8% decline in the Canadian dollar to the 70 U.S. cent level reduced foreign equity losses for Canadian investors. Panic selling and significant activity by by quantitatively driven ETFs (exchange traded funds) drove all sectors down. For example, within the broadly based S&P 500 index, the technology sector was the best performer at -12% and energy the worst at -51%. The energy sector has seen weak demand as a result of the coronavirus and irrational behaviour by the Saudis and Russians who have increased supply in the face of weaker demand. Current oil prices (in the low $20s per barrel) are not sustainable given that only the Saudis and other Middle East countries can earn a profit at these levels. The next lowest cost producers are our Canadian oil sands companies and some of Russia's production which require a mid-$20s oil price to be cash flow break-even. All of the aforementioned producers, however, can only supply approximately 60% of the weakened global oil demand.

Volatility remains prevalent and it is difficult to suggest we have seen a bottom in the stock markets, mostly because it remains unclear as to when self-isolation ends. As time progresses however, it will become apparent which companies and industries are less affected or better able to adapt. To determine a company's value we must look beyond 2020 and focus on long-term earning potential. The severe share price declines already experienced by some companies appear to have more than accounted for a complete write-off of 2020.

Equities still remain our favoured asset class. We own shares of companies that have the ability to survive a prolonged battle with coronavirus. We do not own heavily indebted companies or those involved in the airline, cruise or other travel-related industries. Consistent cash flow has always been our preference but we recognize that some dividend cuts will likely occur, despite stable businesses, as companies preserve cash or adjust their business models. Even at reduced levels, dividend yields will exceed the extraordinarily low levels available in fixed income. The massive fiscal stimulus being implemented around the world will lead to sizable bond issuance by governments and eventually higher long-term interest rates (governments will have to offer higher yields to attract financing) and inflation. Long-term bonds will provide negative returns in such an environment dictating that bond maturities should be kept short. Given the uncertainty around the timing of a recovery, the short maturities will provide liquidity for any cash needs and some income. In times like these, liquidity is paramount.