NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

The Market Letter

February 28, 2020

Market Commentary

2019 was a tremendous year for stocks. After a dismal end to 2018, 2019 saw the TSX return +22% while the S&P500 returned a whopping +29%. The long-awaited signing of a Phase 1 U.S. – China trade deal buoyed markets into the end of the year and this rally continued into February 2020. After a wonderful run, extreme volatility returned to the markets last week as panic over Coronavirus and its potential impact on the global economy began to set in. Here at home, Canadian stocks have also had to contend with the blockading of rail lines and other transportation corridors. As I write this, the TSX is now down -10% from last week's all-time high and the S&P500 is down -14%. We are now officially into correction territory.

Despite all the hysteria portrayed in the media, there is hope. As with past virus outbreaks, it's important to keep things in perspective. As I write this, we have had nearly a week of more recoveries than new infections. Although pockets are appearing in other parts of the world, the situation does seem to be tapering off in China. To date, there have been approx. 2800 deaths while over 36,000 people have recovered. ***Compare that to the CDC's estimates that the standard flu impacted 35 million people and was responsible for over 34,000 deaths last year in the U.S. alone.***

In terms of economic impact, there is little doubt that global growth will be affected due to travel restrictions and as companies temporarily shutter operations. ***They key point here is that this is all transitory***. Past pandemics have shown that rather than completely collapsing, corporate spending is simply delayed. This could lead to a quick recovery in global growth and equity markets once the worst of the virus passes. Following the SARS outbreak of 2003, stocks had completely recovered 6 months following the first case. During the H1N1 scare of 2009, the global MSCI All-Country Stock Index was up +25% 6 months after the first case. The bottom line is that the Coronavirus too shall pass. ***Global monetary policy remains accommodative and we are still in the 6-month period of favourable seasonality for stocks, leading me to speculate that a recovery in stock prices could come more quickly than some think.***

How should one position their portfolio? First and foremost, it should not be forgotten that it is in the very nature of stock markets to experience bouts of heightened volatility and fear. Since 1990, the U.S. stock market has experienced an average annual correction of -13% despite finishing higher 24 out of 29 years by an average of +11%. ***For investors who avoid borrowed money and have a medium to long-term time horizon, the current correction should be viewed as an opportunity to scoop-up good quality companies***. For example, Canadian bank stocks are yielding over 4% on their dividends alone and just came through a strong quarterly reporting season, with Royal Bank and TD both raising their dividends.

Core Holdings Update

For Canadian exposure, our **Growth & Income Private Portfolio (Basket)** consists of 16 high-quality Canadian companies with a focus on defensive stocks with growing dividends. ***Our 1-year return to January 31st was +19% vs +11% for the TSX***. In the 4th quarter of 2019, we added a new position to the portfolio – **Toromont Industries**

(TIH). Toromont operates one of the largest Caterpillar dealerships globally and has a geographical skew towards Eastern Canada, meaning they are less suspectable to cyclical resource sectors. Management has an impressive track record of driving shareholder returns over the long-term and we expect this to continue. Also in the 4th quarter, we added to our position in **Alimentation Couche-Tard (ATD.B).** Couche-Tard is the 2nd largest convenience store operator in North America and has been an impressive growth story over the years. New forays into Europe and potentially Australia look promising for driving growth going forward. ***For investors looking for active management at a reasonable cost, or who are looking to shed their high fee Canadian mutual funds, I highly recommend our Basket.***

For exposure outside of Canada, we continue to recommend the **Canoe Global Defensive Equity Fund**. Canoe uses an active hedging program that helps dampen price movements when market volatility increases to the downside. This helps preserve capital in periods when markets are challenging and allows for outsized returns over the long term. ***In 2019, Canoe returned 19% to investors while in the past week, the Fund has dropped approx. half that of the S&P500.***

For very risk-adverse investors who have a medium to long-term investment horizon, our **Flex-GIC's** offer the best of both worlds: market-like returns but the peace of mind of a fully government guaranteed GIC. Our current Flex-GIC has a 5-year term and will pay off 2.1x the return of the TSX Low Volatility Index at maturity. ***For example, if the TSX Low Vol Index were to return just a modest 20% over 5 years, this GIC would pay off a 42% return at maturity***. With rates on traditional GIC's so low right now, Flex-GIC's are a good alternative.

Financial Planning Reminders

Taxes:
Tax season is about to gear-up and we are in the process of mailing out realized gain & loss reports to clients who had taxable dispositions in 2019. If you receive this report, please keep it with your official tax slips to provide to your accountant. ***Some tax slips are not mailed until late March so please hold off filing your tax return until early April.***

TFSA Contributions:
Make sure your tax-free savings accounts are topped-up. The 2020 contribution limit is $6000.

RESP Contributions:
Get your contributions in for 2020. All contributions up to $2500 qualify for the 20% savings grant ($500 on $2500).

Estate Planning:

1. ****IMPORTANT** Be sure to designate beneficiaries on your registered accounts (RRSPs, RRIFs, and TFSAs).**
2. If you have already designated a beneficiary, this is indicated on your NBF portfolio statement. Please check to make sure these designations are correct and up-to-date.
3. Be sure to review your Wills and Power of Attorneys (PoA) to make sure they are up-to-date. Please contact us if you require the name of a Lawyer to draft a Will or PoA.

4. Review your insurance policies to ensure they provide adequate coverage or are still relevant to your current situation. We have an excellent insurance specialist in our office who can review your policies. Please contact us for further information.

Fixed Income Rates

Daily Money
NBI Cash Performer (CAD) = 1.85%
NBI Cash Performer (USD) = 1.15%

GICs
1-year = 2.02%
2-year = 2.15%
3-year = 2.20%
4-year = 2.25%
5-year = 2.30%

Rates are as of March 1, 2020 and are subject to change at any time.

Mortgage Rates

1-year fixed = 3.09%
2-year fixed = 2.89%
3-year fixed = 2.74%
4-year fixed = 2.74%
5-year fixed = 2.64%

5-year variable rate = Prime (3.95%) – 0.90% = 3.05%

Rates are as of March 1, 2020 and are subject to change at any time.

Referrals

My clients often ask me if it's okay to refer family and friends. I want to emphasize that this is highly encouraged! My business is built on word of mouth and I am always happy to sit down with a prospective client to discuss my process. If you feel it is appropriate, please feel free to pass along my contact information.

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