HEWARD
INVESTMENT MANAGEMENT INC.

One of the most commonly used expressions around our office is to "expect the unexpected". Trade wars, geopolitical concerns and most anything involving the U.S. president have made up the majority of issues over the last few years with what we can call the "obvious risks". The outbreak of the Coronavirus on the other hand, is not that. In spite of the early uncertainty over the human toll and economic impact, financial markets were initially acting like they have been inoculated against risk by the tried and true application of "lots of easy money". However, with the contagious virus having escaped China's borders, and seemingly out of control in the rest of the world (ROW), markets have reversed course. With supply chains now being disrupted, travel and tourism collapsing and an oil price war that has sent oil prices plunging, stocks have careened into bear market levels for the first time in 11 years.

For veteran investors recent price action has been reminiscent of the dark October days of 2008. As stocks tumbled across the world triggering circuit breakers, liquidity dried up, rallies were sold and equities continued to close near their lows. Today's markets have followed a similar pattern. The coronavirus outbreak is truly a black swan event, unforeseen, unpredictable and hitting right as the markets were priced for perfection. With equities nearing bear market territory, many indicators are now flashing oversold signals, and a relief rally is quite likely in the short run. The bounce and sustainability of any relief rally will likely depend on the progression of the virus outside of China, especially in the U.S., along with any stimulus packages that have or are likely to emerge from global central banks and governments.

The falling stock market on its own isn't likely to trigger a recession. It didn't cause the financial crisis in 2008 but it did help expose the excesses of the mortgage-backed securities market and inflated real estate prices. While some stresses are emerging (especially in credit markets), and "highly unusual disruptions in the U.S. bond market that forced the Fed to ramp up support" (Barron's) have occurred, there is no reason to believe that anything of that magnitude is lurking within the financial system today.

Our most likely scenario for the economy and markets in the near future (once the virus is contained) remains the same as it had been prior to the outbreak. The overriding positive theme for equities remains intact as the goldilocks combination of extremely low interest rates and growth that is not too weak and not to strong, will continue. Global growth will resume, profits will continue to rise, a serious financial crisis will continue to be avoided and the bull market in equities and other risk assets will go on. From our perspective, we are treating this setback as a temporary interruption of the upward momentum that was developing at the end of 2019. With regards to the "Oil Price War", we also view this as a short-term game of "Chicken" being played out by Saudi Arabia and Russia. This too should be resolved in time as prices at these levels are not in any ones' interests. Having come into 2020 with higher cash levels than normal and having raised additional cash early in the new year, our portfolios find themselves conservatively positioned. We will continue to revisiting asset allocation, rebalancing portfolios by using market opportunities to initiate new or add to existing positions.

Having gone through the first quarter with higher than normal cash positions, we have/had the flexibility to take advantage of the market correction.

As we approach our 40th year of managing our clients' wealth and building relationships with them, it is at times like this (stress, anxiety and market volatility) that we earn our keep. We would like you to know that I and the rest of our team is available to talk to you at your convenience. We have mobilized and made preparations that to work from home (should that be necessary), and that we are a simple phone call (or meeting) away.

We thank you for your trust and ask for your patience as we endure these markets. It is human instinct to seek safety during times of uncertainty, but when it comes to investing this could be more detrimental than helpful over the long-term.

Yours Truly;

James Heward
President