



A NOTE FROM DARRIN ERICKSON

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RECENT MARKET VOLATILITY...OPPORTUNITY TO BUY

As you are aware, global equity markets have sold-off aggressively from the highs reached only two weeks ago. The primary cause is the Covid-19 virus and the uncertain impact it will have on global economic growth. This has been compounded by historically low interest rates as well as the fact that this is coming on the back of the US-China trade war. With interest rates already at low levels, investors are concerned about the ability of central banks to provide sufficient stimulus to offset the economic impact of the virus.

The efforts designed to contain the spread of Covid-19, including restrictions on travel and the closing of some factories in China, have dampened global trade and prompted some investors to reduce risk by selling equities and buying bonds. This has driven bond yields lower and forced the FOMC and other central banks, including the Bank of Canada, to implement emergency cuts in their policy rates. In fact, US Treasury yields have reached all-time lows, with the US 10-year yield closing at 0.7623% on March 6, 2020. The exuberance following the 50 bps reduction in the Fed Funds rate on March 3 was short-lived as investors quickly refocused on the Covid-19 virus.

Our expectation is for a temporary slowdown in global economic growth, but not a recession (defined as two consecutive quarters of negative economic growth). Prior to the outbreak of Covid-19, the International Monetary Fund expected the global economy to grow by 3.3% in 2020, accelerating from the 2.9% growth experienced in 2019. The IMF is now forecasting that growth will drop below the 2019 rate as a result of the virus. As investors become increasingly certain that the virus has been contained, the recent interest rate cuts by the world's major central banks will provide a fresh boost to the global economy.

Equity valuations, which were reasonable before the market correction began, are quickly becoming attractive. We remain confident that the current sell-off represents another great buying opportunity for long-term investors.

"It's been an ideal period for investors: A climate of fear is their best friend. Those who invest only when commentators are upbeat end up paying a heavy price for meaningless reassurance." – Warren Buffet

It is moments like this when owning good businesses that can continue to grow and increase their dividends is most important. The bottoming process may take time, and we will take advantage of that to build ownership in great businesses that will enhance future returns for clients.

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