



SPRING NEWSLETTER 2020

To all of our clients and friends:

WHEN THINGS CHANGE, THEY SURE CHANGE FAST!

First of all, I hope you have all managed to avoid any sickness and are able to make the most of your time in social isolation. The extent of the shutdown has been amazing to observe and, in my case, a street I often walk on that is generally nose - to - tail with cars today had no traffic at all for minutes at a time!

When I wrote the last commentary a couple of months ago, our concerns were mainly around things that now don't even make the news. Brexit was front and center, along with the completion of the new NAFTA, not to mention the US - China trade negotiation and the US presidential primaries. The news is now dominated with reports of lockdowns, personal tragedies and aid packages being promised by governments everywhere. There are not any professional sports of any kind being played so there is not even a sports report with any substance!

In January, I had a small comment on the Corona Virus which had just started making the news. I observed that in 2003, the SARS Virus had triggered double digit declines in the markets but they had been short lived. The world we are in now is considerably different with declines having exceeded over 30% in most markets although at the time of writing we are seeing substantial rebounds. Interest rates have declined in many countries to near zero "handles" and central banks worldwide have been providing massive amounts of liquidity coupled with governments ramping up deficits to keep money flowing. The main problem global economies are facing is behavioral because personal habits have changed dramatically in the last 6 weeks. No matter how much money some may have right now, they will not change their behavior of not traveling, going to a movie, car lot or even a grocery store. That will not change until there is a vaccine or therapy to combat the virus. Those who have spoken to me over the years will know my mantra that I never want to make investment decisions in front of government policy announcements or court rulings and now I can add another one - beware of pandemics!

With respect to the mountain of debt covered in the newsletters over time, what can I say now? The US government has had a two trillion dollar aid package, Canada's package has exceeded \$80 billion and similar amounts have been spent in other jurisdictions worldwide. For now, that is likely the best plan, but what happens as we get to our new normal. For the consumer, the challenge, from an economic perspective, is when they are comfortable enough being back at their jobs to start to spend on things other than necessities. If they have foregone mortgage, car or tax payments for three months, how will they be able to deal with the fallout? For companies, how does one ensure supply chains are still intact and then try and project when business will start to return in a more reliable fashion? Bringing that to ground level begs the question about how the debt can be repaid and I can only think there will be some sort of significant defaults or high rates of inflation. Whatever happens, the odds are high that the trajectory coming out of the current recession will be slow and likely painful.

I do not think my commentary would not be complete if I did not consider some of the related human problems caused by both the global pandemic and the global economic slowdown. It is a well-known fact that in the US the highest rates of depression and suicide occurred during the great depression of the 1930's. During that period of economic distress, there was no social distancing so the side effects happened when people could still socialize. Because self-worth is often associated with a job, financial situation, or other social interactions, the lockdowns and stay-at-home restrictions in place now are only going to serve to intensify that sort of emotional stress. Therefore, we sincerely hope there is some light at the end of the tunnel sooner rather than later. Isolation is also a good reason to reach out to those you know who may be shut in or unable to pick up simple items from the store! I think seniors could be particularly vulnerable.

For our managed portfolios, we reacted after the tone changed in the markets and increased our bond and cash positions and reduced the more volatile equities while utilizing some modest hedging strategies. As a result, our market volatility has been remarkably less allowing our other positions to bear more volatility. While we are currently seeing a dramatic rebound, we have our doubts about the sustainability of the bounce because ultimately stock pricing is a function of profits and sales which at this point are moving targets and very difficult to predict.

We have been trying to keep you informed with some email updates and we hope they have been helpful. For more information on the Federal changes regarding RRIF withdrawals and tax reporting just let us know. We are all working from remote locations until further notice, but will be responding to emails.

Please note for team members. Sandra (sandra.leah@cibc.ca), Arthur (arthur.iliffe@cibc.ca) and Matt (matthew.macewan@cibc.com). While the telephones are working, please email us rather than leaving a voice mail.

As always, we are here to answer any question so please do not hesitate to reach out.

All the best and STAY HEALTHY!

Sincerely,



W. Arthur C. Iliffe, CIM, FCSI
Vice-President, Portfolio Manager



Matthew MacEwan, CIM
Portfolio Manager

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