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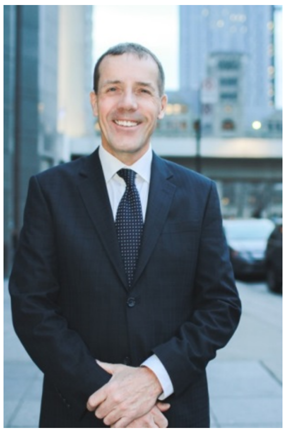

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Dear client

Photo : 123rf

For several months now, newspapers, governments, social media and other sources of information have submitted and continue to transmit us about multiple subjects related to the health situation and the others aspects that will have an impact on our lives, on those of our governments and on those of our businesses following the arrival of the COVID-19 pandemic.

This Financial Letter will focus more on a variety of perspectives related to the current market volatility.

At the outset, I will provide you with a first quote from Howard Marks: "Skepticism and pessimism are not synonymous. Skepticism calls for pessimism when optimism is excessive. But it also calls for optimism when pessimism is excessive".

This quote was inserted in light of the current context you are familiar with (COVID-19 pandemic), which imposes a higher level of emotion at this time, considering the estimated and underestimated damages in the reality of people, businesses and governments. A number of people are anxious and pessimistic about the global economic situation and about their own financial situation, including their investment portfolio. This quote also refers to the idea that opportunities arise when the market is down and the level of pessimism is high.

The second quote explains the recipe for investment success according to Warren Buffett (famous investor involved in the Berkshire Hathaway company). "To be a successful lifelong investor, you don't need to have an exceptional IQ, an innate business sense or insider information. What you need is a strong intellectual framework for decision making, and the ability to prevent emotions from interfering with that framework.''

I added this quote because we have implemented a strategy and process in place for our clients in order for them that they have to stay disciplined so that their emotions won't interfere with your long-term plan.

The first chart below is from one of our U.S. colleague at RBC Capital Markets, shows the duration of historical bear markets for the S&P 500 and how long it took to return to previous highs.

S&P 500 Post-war Bear Markets							
Peak		Trough		Recovery		Number of Days*	
Date	Close	Date	Close	Date	% Drop	Peak to trough	Trough to recovery
02/19/2020	3386.15	03/23/2020	2237.40	????	-33.9%	24	????
04/29/2011	1363.61	10/03/2011	1099.23	02/24/2012	-19.4%	112	105
10/09/2007	1565.15	03/05/2009	682.55	03/28/2013	-56.4%	368	1061
04/07/2000	1516.35	10/09/2002	776.76	09/18/2007	-48.8%	654	1290
07/17/1998	1186.75	08/31/1998	957.28	12/18/1998	-19.3%	32	80
07/16/1990	368.95	10/11/1990	295.46	02/11/1991	-19.9%	64	88
08/25/1987	336.77	12/04/1987	223.92	07/26/1989	-33.5%	74	429
11/28/1980	140.52	08/12/1982	102.42	11/03/1982	-27.1%	445	60
09/21/1976	107.83	03/06/1978	86.9	09/12/1978	-19.4%	380	137
01/11/1973	120.24	10/03/1974	62.28	07/14/1980	-48.2%	451	1508
11/29/1968	108.37	05/26/1970	69.29	03/06/1972	-36.1%	388	465
02/09/1966	94.06	10/07/1966	73.2	05/05/1967	-22.2%	173	151
12/12/1961	72.64	06/26/1962	52.32	09/03/1963	-28.0%	141	311
08/02/1956	49.74	10/22/1957	38.98	09/24/1958	-21.6%	319	242
06/15/1948	17.06	06/14/1949	13.64	01/09/1950	-20.0%	261	150
05/29/1946	19.25	05/19/1947	13.77	06/09/1950	-28.5%	254	800
				Average	-30.1%	259	458
				Median	-27.5%	258	242

*ignores holididays

Source: RBC Wealth Management, FactSet, Bloomberg; data through 3/23/2020.

RBC Capital Markets data shows that when evaluating data from the last 12 recessions between the period of 1937-38 (but excluding 2001, which was a large outlier), equities hit their lowest level, on average, five months before the end of the recession".

We can see from the first table that the current bear market (33.9% drop in the S&P 500) is a record in terms of speed, only 24 days versus the median (middle) point of 258 days

The lowest level reached by the S&P 500 of -33.9% on March 23rd is above the average of 30.1% decline. We can therefore claim that at the March 23rd level, we were closer to a bottom than to a top.

Moving up to the third quote. During a conference call on April 27, 2020 Jim Alworth, a member of the RBC Dominion's team of strategists quoted the following: “The “value” of an individual business and of the equity market as a whole is the present value of *all future earnings*— i.e., investors are buying into a multiyear stream of earnings. Looked at that way, even big, unexpected changes in the near-term earnings outlook shouldn’t have a large impact on the market value of corporations. But they usually do because, for a while, investors come to believe that the performance of the economy and market today are pointing to an altered trajectory for economic and earnings growth in the future.

“Looking back at a century of pandemics, wars, nuclear disasters and more, that sort of conclusion has not been useful. Within a year or two, the forces of global population growth and rising prosperity tend to reassert themselves and, before that has happened, stock markets have gone back to capitalizing future earnings appropriately.”

In other words, this last quote implies that sooner or later, the growth prospects of companies on the stock market will return to normal levels, implying that sooner or later the market will start to rise again. As long as you have high-quality companies in your portfolio and are sufficiently diversified, there is no reason to worry.

Severe equity market corrections present attractive entry points

S&P 500 worst quarterly performance since 1950

		Forward price returns			
Date	Change	Near quarter	Next year	3 year (annualized)	5 year (annualized)
09/30/1974	-26.1%	7.9%	32.0%	15.0%	11.5%
12/31/1987	-23.2%	4.8%	12.4%	10.2%	12.0%
12/31/2008	-22.6%	-11.7%	23.5%	11.7%	15.4%
06/29/1962	-21.3%	2.8%	26.7%	1[illegible].4%	10.6%
03/31/2020	**-20.0%**	?	?	?	?
06/30/1970	-18.9%	15.8%	37.1%	12.8%	5.5%
09/30/2002	-17.6%	7.9%	22.2%	14.7%	13.4%
09/28/2001	-15.0%	10.3%	-21.7%	2.3%	5.1%
09/28/1990	-14.5%	7.9%	26.7%	14.5%	13.8%
09/30/2011	-14.3%	11.2%	27.3%	20.4%	13.9%
12/31/2018	-14.0%	13.1%	28.9%	?	?
06/28/2002	-13.7%	-17.6%	-1.5%	6.4%	8.7%
03/30/2001	-12.1%	5.5%	-1.1%	-1.0%	2.2%
09/30/1975	-11.9%	7.5%	25.5%	6.9%	8.4%
06/30/2010	-11.9%	10.7%	28.1%	15.9%	14.9%
Average		5.4%	19.0%	11.1%	10.4%
Positive Outcomes		86%	79%	92%	100%
Negative Outcomes		14%	21%	8%	0%

TSX Composite worst quarterly performance since 1950

		Forward price returns			
Date	Change	Near quarter	Next year	3 year (annualized)	5 year (annualized)
09/30/1998	-23.8%	15.5%	23.9%	6.8%	5.7%
12/31/2008	-23.5%	-3.0%	30.7%	10.0%	8.7%
03/31/2020	**-21.6%**	?	?	?	?
09/30/1981	-20.2%	3.8%	-14.9%	8.3%	9.6%
06/30/1970	-19.4%	12.1%	23.1%	12.3%	5.4%
12/31/1987	-19.0%	4.9%	7.3%	1.0%	1.2%
09/30/2008	-18.8%	-23.5%	-3.0%	-0.4%	1.7%
03/31/1982	-18.7%	-13.9%	35.8%	18.1%	18.7%
09/30/1957	-18.5%	-10.6%	10.0%	1.2%	3.4%
09/30/1974	-17.5%	1.4%	17.2%	6.3%	16.0%
06/28/1974	-16.9%	-17.5%	4.6%	0.7%	9.9%
06/29/1962	-16.6%	-0.1%	17.8%	14.0%	9.2%
03/30/2001	-14.8%	1.7%	3.2%	4.1%	9.7%
06/30/1982	-13.9%	17.2%	79.0%	25.7%	22.3%
12/29/2000	-13.9%	-14.8%	-13.9%	-2.7%	4.8%
Average		-1.9%	15.8%	7.5%	9.0%
Positive Outcomes		50%	79%	86%	100%
Negative Outcomes		50%	21%	14%	0%

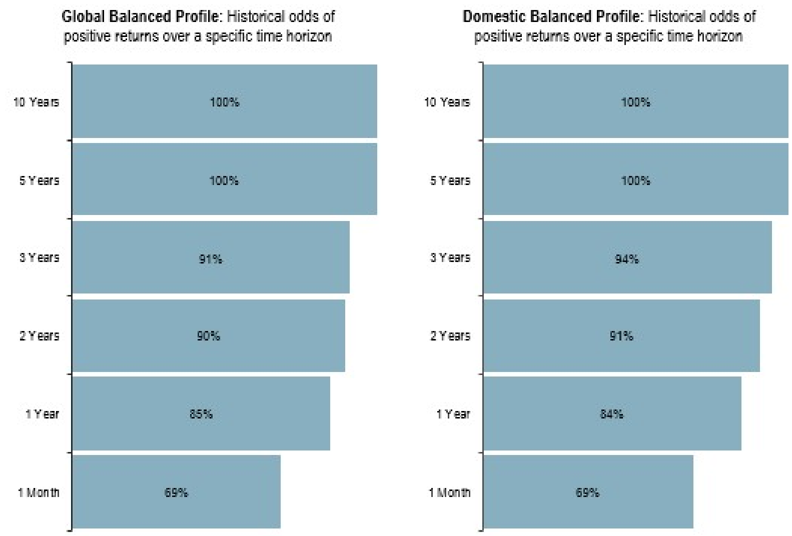
Source: RBC Wealth Management, Bloomberg. Calculations based on price return index.

From the table above we can see that the return of the U.S. stock market (S&P 500) generated positive results in a proportion of 79% in the year following the worst quarterly returns since 1950. On a 3-year basis (annualized), positive results are 92% of the time.

Also the Canadian stock market (S&P/TSX) generated positive results in a proportion of 79% the year following the worst quarterly returns since 1950. On a 3-year basis (annualized), positive results are 86% of the time.

Diversification and time: An investor's most valuable asset

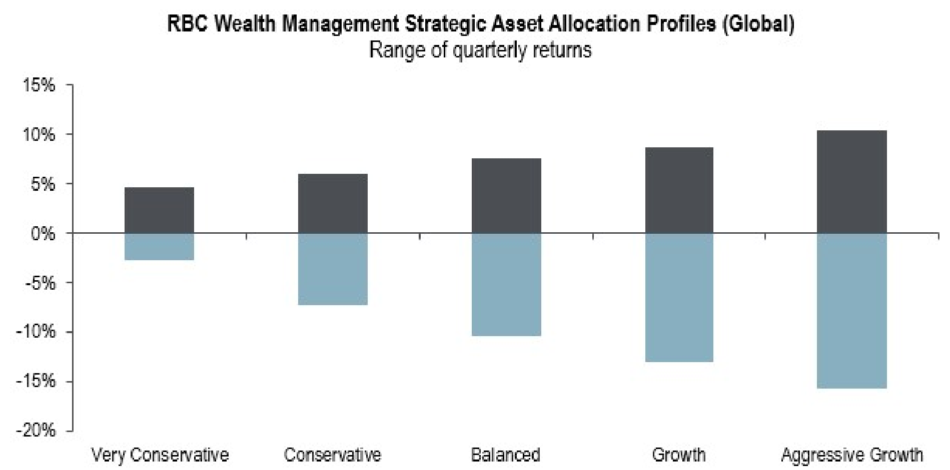
RBC Wealth Management: Balanced Asset Allocation Profile	Long-term targets % of portfolio	
	Global	Domestic
Cash	2%	2%
Fixed Income	43%	43%
Core	32%	32%
Government Bonds	9%	11%
Corporate - Investment Grade	13%	16%
Global Bonds (CAD Hedged)	10%	5%
Non-Core	11%	11%
Canadian Preferred Shares	3%	3%
High Yield	4%	4%
Emerging Markets	4%	4%
	Global	Domestic
Equities	55%	55%
Canada	20%	33%
U.S	20%	12%
Developed International	10%	6%
Emerging Markets	5%	4%



Source: RBC Wealth Management, FactSet. Calculations based on monthly data from 1990 to 2019.

From the graph above, for a global balanced portfolio (profile 55% in equities and 45% in fixed income), if an investor has an investment horizon of 5 years or more, the historical probability of positive returns is 100%. Again, if you have a financial plan and a good strategy in place that you are comfortable with, the odds are on your side.

Strategic asset allocation: Relationship between risk and reward

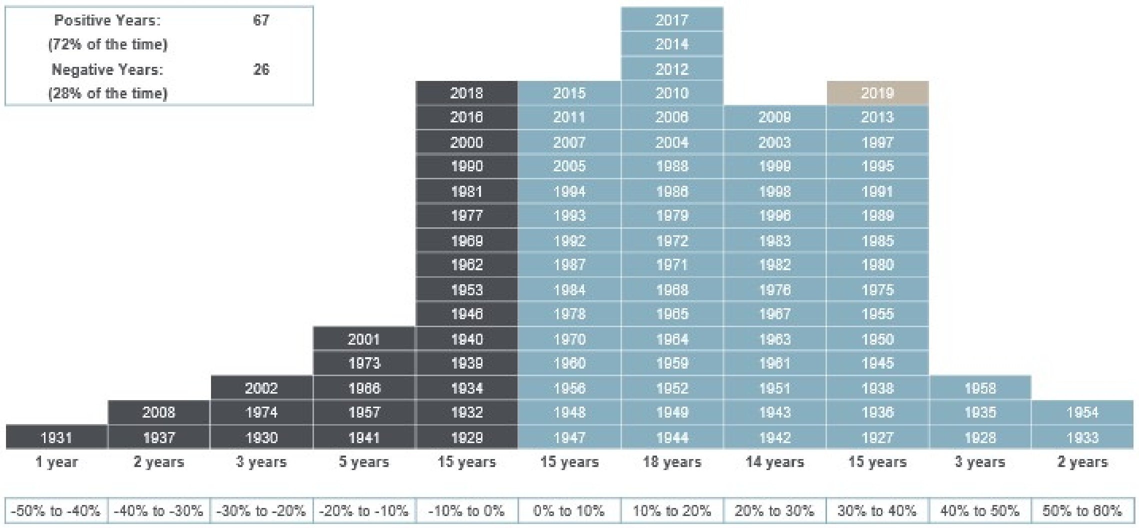


Cumulative 10-year returns				
56%	68%	86%	95%	113%

Source: RBC Wealth Management, FactSet. Calculations based on quarterly data from Q1/2010 to Q1/2020.

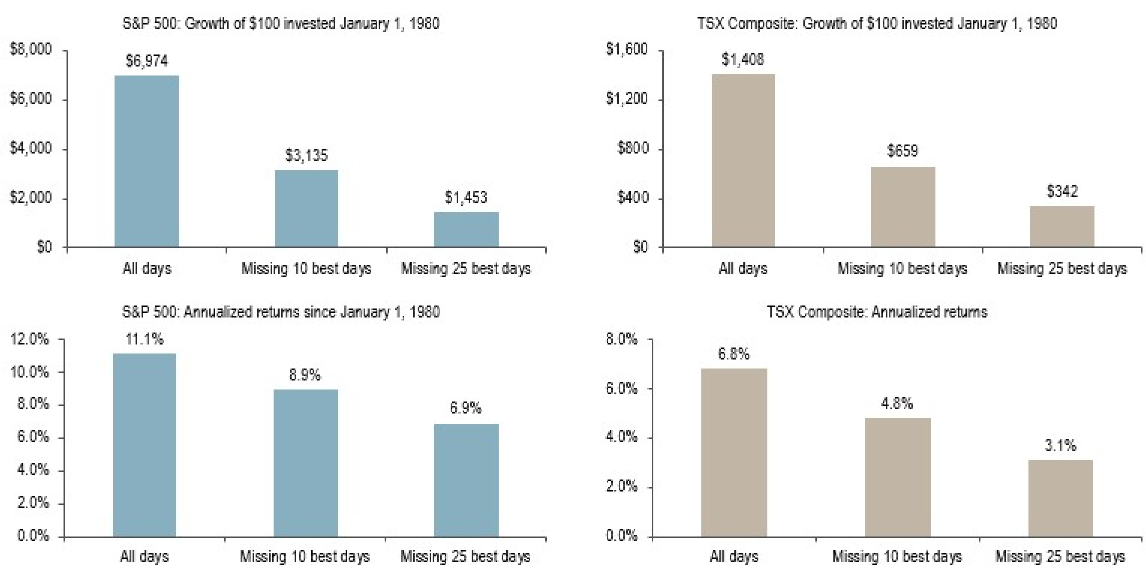
It can be seen from the graph above that the higher your growth profile (holding a higher % in equities), the higher the potential returns, but you have to accept/support higher volatility. This graph is a reminder that every investor should know their level of tolerance.

S&P 500 annual return distribution range (1927 – 2019)



Source: RBC Wealth Management, Bloomberg.

Staying disciplined and invested crucial to achieving long-term objectives



Source: RBC Wealth Management, Bloomberg. Calculations based on daily data from January 1980 to March 2020.

The last chart above shows that you should stay invested at all times because it is very difficult to predict when the markets may go down or up. Trying to anticipate market highs and lows is very difficult and if you make a mistake, the result can be damaging as shown in the graph above.

A Balm for the investors in April

	S&P 500 (United States)		S&P/TSX (Canada)
Value as of 12/31/2019	3,231		17,063
Value as of 03/31/2020	2,585		13,379
Decrease after 3 months as of Mars 30 2020	-20.0%		-21.6%
Peak value on 02/19/2020	3,386		17,925
Value as of 03/23/2020	2,237		11,228
Lowest Drop	-33.9%		-37.4%
Value as of 04/30/2020	2,912		14,781
Rise in April 2020	12.7%		10.5%

The table above is another example of the volatility outlook that we wanted to express with this financial letter.

Thus, while the U.S. equity market (S&P 500) fell 20% after three months as at March 31, it rose 12.7% in April alone. In fact, this was the best month since 1987.

From our point of view, despite the fact that the stock market has recovered strongly since March 23rd, we are maintaining a conservative and prudent approach and are holding primarily portfolio companies (stocks) that:

- have a healthy balance sheet;
- are managed by good management teams;
- which preferably have barriers to entry to their activities versus the competition;
- that operate in growth sectors;
- are profitable.

Our rigorous selection process allows us to withstand market movements and remain calm even in difficult times such as the current situation.

Although we have just listed a series of data and perspectives concerning returns (among others), these must be compared to your long-term financial plan.

Do you believe that the evolution of your wealth (including your portfolios) is behaving as desired over the medium to long term? If so, congratulations.

What are your projects, objectives and/or questions that would require a discussion with us if necessary?
Once again, do not hesitate to contact us if necessary. We have all the resources to help you with your financial planning.

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