

Market Update

MARCH 2020

March 24, 2020

As you are no doubt aware, 2020 has started out as a very difficult one for equity markets. With the world now facing both the global spread of the COVID-19 virus, and a full-blown oil-price war between the Saudis and Russia, fear has taken the wheel and the broad equity indices are seeing indiscriminate selling, cutting into the gains equity markets have achieved since the 2008 global financial crisis. Meanwhile, lower-risk assets such as government bonds have been seen as “safe havens” and had large positive moves, despite lingering concerns around their valuation levels.

We in no way mean to diminish the potential human impact that COVID-19 could have for people, however, from a long-term investment perspective, we continue to view the current “market shock” in the same vein as many other past exogenous events. That is, we expect a much more pronounced short-term effect than permanent one.

While emotions can outweigh more reasoned thought in the markets over short-term periods, we still believe that valuation will remain the key driver of long-term returns. The intrinsic value of a company, while impacted by short-term cash flows, is influenced more by long-term cash-flow generation. So, while the current headlines are driving current prices, the real value of a company is in the long-term cash-generating abilities of the underlying business, which for many companies, will not be permanently impacted.

We continue to believe strongly in the quality of our portfolios and their ability to protect against the permanent loss of your capital.

What Have We Been Doing?

We continue to monitor the companies we own in our equity portfolios for potential long-term negative impacts of both COVID-19 and the oil price decline, and will act on these positions according to our process. We are also looking for opportunities to purchase new, high-quality long-term holdings, where these companies are now priced with an attractive margin of safety.

Within fixed income, we are carefully watching the credit metrics of our investments to ensure they continue to meet our quality criteria.

For balanced accounts, we will continue to rebalance as needed to keep the portfolio asset allocation in line with our asset mix views.

Office and Staff

Within the Beutel Goodman office, we have instituted enhanced health-and-safety measures and eliminated business travel. We are closely monitoring health recommendations and are prepared to quickly increase our precautionary measures as warranted by the changing situation. We have a fully tested business continuity plan that allows us to operate through whatever working conditions should arise. Other steps include having our staff work from home. In any case, please know that your portfolios will continue to be managed appropriately and we will be available to speak with you when you need us.

We will have more to say about markets and your portfolios in our first quarter report, but thought it important to reach out to share our general approach in this environment.

If you have any questions or concerns, please feel free to reach out to your relationship manager.

Best regards,

Tim Hylton, CFA

Senior Vice President, Institutional