



Market update (as of March 12, 2020)

The current market volatility illustrates the uncertainty facing investors, especially regarding when the markets will recover. The following information has been provided by the Plan's investment managers, TD Asset Management (TDAM) and Leith Wheeler Investment Counsel (Leith Wheeler).

TDAM: March 2/20 - [Click here for the full article](#).

"With a number of major market events making headlines, including the S&P 500 Index declining approximately 13% from its recent highs, 10-Year Treasury yields hitting a new record low of 1.18%, and gold set to break multi-year highs, we want to highlight a few important points."

"As we currently stand the major known unknown is how COVID-19 will evolve. If the coronavirus doesn't become a worldwide epidemic, then risk assets will likely recover quickly. But in a worst-case scenario where the outbreak morphs into a pandemic, the resulting market downturn could get somewhat worse."

"We are of the view that the most probable outcome is the economic impact of the virus will be short lived for the following reasons:

- As economic activity is suppressed, we believe it is driving global inventory levels to fall rapidly. Low inventory levels should create pent up demand that will boost economic growth in the following quarters.
- The Peoples Republic of China will move away from financial de-risking and return to aggressive fiscal and monetary easing in order to help ensure a swift domestic economic recovery.
- It is important to remember that prior to the viral outbreak, the global financial outlook for 2020 was generally positive as market participants felt that the economic momentum had slowly turned the corner after a soft 2019.
- In addition, and unlike the global financial crisis of 2008, economic imbalances are generally smaller now than a decade ago.
- And finally, global monetary policy remains highly accommodative.

We expect these factors to support a rebound in capital markets once the virus has run its course or has been contained."

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Leith Wheeler: March 2/20 - [Click here for the full article.](#)

“Why did markets fall? The most straightforward answer is that markets have become increasingly concerned that the coronavirus (also known as COVID-19) could materially reduce global economic growth.”

“How did markets fall? The first place that recession fears show up is in the fixed income markets. This past week government bond prices rose, showing both a demand for certainty and a view that central bank will need to lower rates further in 2020 in order to support the economy. The premium required to hold corporate bonds also increased, reflecting investor nervousness about carrying the risk of default – but only rose back to levels seen in recent months.

The recent declines in equity markets have been global in nature, as the coronavirus mutated from a health scare to a financial one. Both high – and low – quality stocks dropped, irrespective of how exposed they might be to changes in economic growth, how vulnerable they might be to fluctuations in their cash flow (i.e. highly indebted and new cash companies alike), what their growth profiles is, their level of management skill and so on.”

“The coronavirus may fizzle out in a month, or it could get much bigger. We could see trade flows normalize, or we could see a further global economic slowdown. “

“[W]hen you are investing for the long term, market fluctuations – even large ones that persist for quarters or even years – will just prove to be bumps on the way to your ultimate goal. Market corrections are a normal occurrence, but lenders and investors always find a bottom; business builders move on and build again; and markets rise again – ultimately to new highs.”

“As long term value investors, we have the benefit of knowing the *value* of businesses without the benefit of a stock quote, so our homework pays off when others are losing their heads and selling good companies out of fear. We use these corrections as opportunities to buy those quality businesses when they’re on sale. Beyond that, it’s business as usual.”

Please contact our office if you have any questions.

Sincerely,

Katherine Strutt
General Manager

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