

PIM Quarterly Update



Wealth Management
Dominion Securities

Quarter Ending March 31st 2020



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Stock markets in 2020 came out of the gate strong and the bull continued its run right up until February 21 when markets hit a peak. We all know what happened then: The black swan named Covid-19. The S&P/TSX index declined **37.8 per cent** from Feb. 20 to March 23 due to concerns about the impact of COVID-19 and the expected slowdown of economic activity. Although it has recovered 45 per cent of the decline since March 23 given the momentum of COVID-19 cases has slowed, the key question is, where do we go from here?

As usual there are many different theories on recovery scenarios and only time will tell. Obviously much will depend on how quickly the labor force can get back to work so the economy can get back on track. Current economic news is very bleak and what we know for sure is that markets will be very volatile over the next year as a clearer picture emerges. While it's natural to fixate on the short term, it is extremely difficult to consistently forecast and time the market with any accuracy so my focus during this time period has been two-fold. One, to evaluate the current investments in the models on their

ability to weather and recover from this storm, and to regularly rebalance the models so that we can dollar-cost average in an effort to “buy low, sell high”.

In the last quarter I made no changes to the fixed income portfolio as I am very happy with the performance. While both funds dropped 2.8% in the quarter mainly due to high yield exposure, I expect them to recover quickly as spreads continue to narrow.

In the **Canadian Equity** model, I decreased the weight in Atrium to reduce risk and sold the 2.19% weight in Air Canada as the recovery time for airlines and the travel industry is extremely uncertain. I increased the portfolio weights in **Shopify and Cargojet** as they will be benefactors in the explosion of ecommerce. The model's zero exposure to energy and materials also greatly reduced the downside risk. The price of WTI crude oil was \$61/barrel to start 2020 and as of March 31, the price was \$20/barrel—a 66% drop.

In the **US Equity** portfolio I reduced **Americold REIT** to a half weight so that I could add **Prologis**. **Prologis** owns warehouse and storage locations around the world and will benefit from the increased shift to ecommerce as Amazon is a major customer. I also reduced **Starbucks** and increased **Home Depot**, as a defensive move. I sold **Cisco** which had held up nicely so that I could buy **J.P. Morgan** and **AT&T**, two stocks that offered great entry prices after falling hard.

In the **International portfolio** I made no changes as Manulife Global Equity and World Investment easily outperformed their indexes (-9.7% vs -15.28% and -9.68% vs -17.02%).

Although these volatile markets are very challenging, the merits of PIM and its focus on risk management clearly emerged during this tumultuous period. Sector diversification, small position sizes and “best in class”, high quality stock selection all cushioned the blow.

This next quarter should prove to be very interesting as we embark on the next phase and restrictions start to be lifted. As always please don't hesitate to contact me with any questions or concerns

The next Quarterly Portfolio Summary results will arrive mid-July.

Stay healthy!!

Sheila



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