PORTFOLIO DASHBOARD:
THE END OF CIVILIZATION AS WE KNOW IT?

No. Absolutely not. But, saying so, will we be accused of flippant bravado? Again, likely not. Why? We will strive to rely on facts, history, causality and an understanding of "crowd psychology."

The fact of the matter is that this latest virus outbreak of COVID-19 was anticipated by no one. It broadsided everyone. And, in part, that helps to explain why markets have performed so erratically in recent weeks.

To illustrate, over the past month of February, which country's equity market was stronger, China's or the U.S. (S&P500 -6.87%). The correct answer is China (2.47%, MSCI), the same nation in which was found the source and largest number of viral cases. Does that figure? There are many other such non-intuitive trends.

There are some key mitigating facts to consider. To recall, the last global epidemic, the Swine Flu, first appeared in 2009 — well before the new monetary tools of QE and "helicopter" money. Today we witness a very different landscape. Central banks and policymakers are in fear over global economic and financial fragility. They dare not rock the boat with an interest rate increase (or tax increases for that matter).

After a relatively deep correction in equity markets (and soaring sovereign bonds) and remaining questions about COVID-19, is there any future for investor portfolios? Before we answer that question, some perspective and proportionality will be helpful. The correction in the S&P500 to date, brutal as it may have seemed, has only wiped out gains since October of 2019 (less than 5 months ago). In fact, the one-year total return for the S&P500 remains up 5%, hardly an outlier in the history of modern money.

Looking ahead, many questions remain as to the nature of the COVID-19 virus and future economic trends. There is much information available from past epidemics that can be consulted. Firstly, how many major epidemics have threatened in the last four decades? Readers will have their memories refreshed.

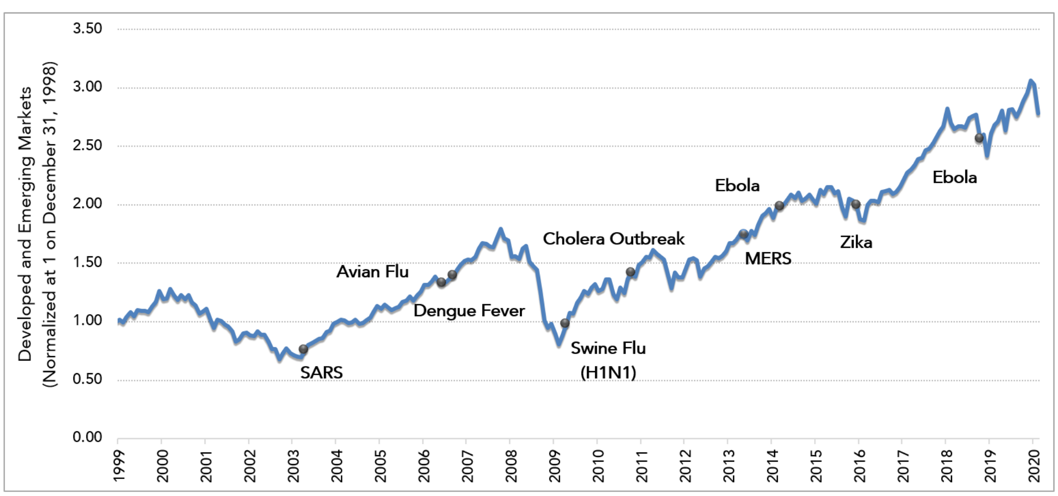
According to research from Morningstar Direct, there were nine major epidemics since 1983. In chronological order, they were SARS, Avian Flu, Dengue Fever, Swine Flu, a Cholera outbreak, MERS, Ebola, Zika and again Ebola.

Reviewing this period, markets and/or economies have always recovered very quickly. In the nine cases mentioned above, the S&P500 had an average price recovery of 16.3% within 6 months of the nadir of the epidemic crisis.

This brief retrospective of past instances where epidemiology and whitecoats were the prime movers of financial markets, ungirds three important conclusions. Firstly, the world is not ending; 2. Recoveries from past market scares were rapid; and 3. At some point, opportunities will again present themselves.

This year, we had positioned portfolios to benefit from a modest economic upswing in the latter part of 2020. That view was consistent with the fourth year of a presidential cyclical and a cessation in the trade wars. Moreover, another U.S. tax cut was in the air. Then the COVID-19 interrupted. Now, it is most likely that a slowdown (not a recession) will develop over the shorter-term horizon (possibly over the next three months).

As the saying goes, it is darkest before the dawn. Opportunities now follow. For one, sovereign bond markets are grossly over-extended — interest rates are hitting an all-time low in the case of U.S. 10-year treasuries. A continuing underweight is merited. Most of all, we expect a moderate economic growth surge to occur once the psychological and crippling claw hold of COVID-19 passes. Much pent-up demand will have accumulated due to shutdowns and disrupted production supply chains. Economies will go into catch-up mode. This can also be expected to manifest in rising commodity prices (including the energy sector). Also, we would not be surprised to witness major internal trends and market leadership changes to occur during this COVID-19 crisis period.



Source: Bloomberg, MSCI ACWI Net Total Return USD Index as at February 29, 2019

Past performance is no guarantee of future results. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges.

GLOBAL STRATEGY OVERVIEW

CASH

In today's yield-starved environment, we are increasingly supplementing cash positions in our strategies with high interest savings account ETFs. This enables us to enhance portfolio income with limited counterparty risk.

BONDS

Recently, the COVID-19 virus dominated all other factors that might impinge on the bond markets. This past month, all-time lows in 10-yr U.S. interest rates were logged (briefly dipping below 1.0% in early March). Investors sought safe haven in long-term treasury bonds as the "wild card"coronavirus epidemic roiled financial markets. Earlier, we were already of the opinion that bonds were over-priced. Bond values are now at an extreme extreme. We will continue to avoid the long end of the yield curve.

EQUITIES

The rapid spread of COVID-19 has significantly impacted equity markets. Extreme volatility was recorded as a relatively steep correction struck equity markets around the world. Interestingly, emerging equity markets have begun to outperform, reversing the lags that occurred in earlier months as China was the epicenter of the crisis. We expect the impact of the virus to pass … though its course is highly unpredictable. Relative to bonds, equities remain very attractively valued.

OPPORTUNITIES

During highly volatile times, diversification through multiple asset classes and opportunity assets will smooth downsides as well as upsides. However, in February, virtually all positions suffered choppy trends and rapid shifts. Most of our past arguments in favor of emerging markets remains intact with the exception of one existing imponderable: How soon will the outlook for a resumption in economic growth occur?

Portfolio	Inception Date	1 Month	Year to Date	1 Year	3 Year	5 Year	10 Year	Since Inception
CORE SERIES								
Core Income	Jul 1, 2008	-1.60%	-0.51%	5.23%	4.30%	3.84%	6.73%	6.93%
Core Balanced	Jul 1, 2003	-3.13%	-2.61%	4.30%	4.76%	4.21%	6.76%	7.07%
Core Growth	Jul 1, 2003	-4.57%	-4.50%	3.54%	5.16%	4.56%	7.53%	7.78%
GLOBAL SERIES								
Global Income	Jul 1, 2008	-1.37%	-0.59%	4.72%	4.73%	4.79%	7.76%	8.37%
Global Balanced	Jul 1, 2003	-3.20%	-3.34%	3.74%	5.18%	4.90%	7.80%	7.06%
Global Growth	Jul 1, 2003	-4.87%	-5.65%	3.20%	5.79%	5.45%	8.91%	7.94%
FOCUS SERIES								
Special Opportunities Focus	Jan 1, 2014	-4.28%	-5.54%	-0.68%	3.86%	2.91%	N/A	6.50%
Emerging Markets Equity Focus	Feb 1, 2019	-3.21%	-6.52%	-4.36%	N/A	N/A	N/A	-3.17%
Global Ex-North America Equity Focus	Dec 31, 2019	-5.06%	-7.32%	N/A	N/A	N/A	N/A	N/A

Gross-of-fees performance ($CAD) as of February 29, 2020. Returns for periods greater than 1 year are annualized.

Performance statistics for ETF Managed Portfolios are calculated from documented actual investment strategies as set by Forstrong's Investment Committee and applied to its portfolios mandates, and are intended to provide an approximation of composite results for separately managed accounts. Actual performance of individual separate accounts may vary with average gross "composite" performance statistics presented here due to client-specific portfolio differences with respect to size, inflow/outflow history, and inception dates, as well as intra-day market volatilities versus daily closing prices. Performance numbers are net of total ETF expense ratios and custody fees, but before withholding taxes, transaction costs and other investment management and advisor fees. Past performance is no indication of future results. A rate of return for one year or less is not annualized.