SEAMARK

THE LATEST

INSIDE

INVESTMENT TEAM

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28 Years at SEAMARK
40 Years in Industry

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CIO Commentary

June 30, 2020

During the second quarter, the world economy witnessed one of the worst economic performances ever recorded. A shut down of major economies was invoked to battle a world health pandemic, a truly draconian measure undertaken to save lives. As a result, Canadian GDP dropped by a whopping 11.6% in April, following its 8.2% decline in the first quarter. Jobs, consumer spending and capital investment were all slashed instantly. Notwithstanding these dire economic indications, we watched stock prices march higher in Q2, regaining much of the ground lost in the first quarter. The S&P 500 and Dow Jones Indexes rose 20.0% and 17.8% respectively, in USD. Canada's S&P/TSX Composite Index didn't fare as well, but still rose 16.0% in Q2. A 4.1% rise in the Canadian currency had the effect of reducing USD returns by that amount, allowing the S&P/TSX to outperform the broad-based U.S. market averages when seen through the eyes of a Canadian investor. Canadian Bonds did well too, as monetary authorities throughout the developed world moved mountains (of cash), to provide an offset to the effects of the managed shutdown of the economy. The 10-year Canada bond yielded 0.53% at the end of June, versus 0.69% at March 31 and 1.70% at year end. Against the background of declining rates, the FTSE Canada Universe Bond Index recorded a 5.9% return in the April-June quarter.

How can the rise in stock prices be explained within the backdrop of such dismal economic numbers, especially in the U.S. where the rebound in share prices has been most pronounced? Over 40 million Americans lost their jobs. U.S. retail sales shrunk almost 15% in April before beginning to rebound as the quarter progressed. Capacity utilization in the U.S. is running 15 percentage points below its long-run average of 80.1 (1972-2019), and 1.9 percentage points below its trough during the Great Recession of 2008/09. To date, many factories have only resumed partial operations following suspensions of operations related to COVID-19.

A re-opening of the U.S. economy is certainly part of the picture supporting some recovery in share prices. Q2 is widely seen now as having the worst behind us. Businesses of every description have been reporting upticks in sales as the quarter progressed. And importantly, the Federal Reserve and its world counterparts have continued to support economies with unprecedented waves of stimulus. Recently, Jerome Powell, head of the U.S. Fed noted: "…we're not even thinking about thinking about raising rates." That sentiment, backed by monetary and fiscal actions in the trillions of dollars have provided the system with the liquidity that went missing in March, when stock markets quickly plummeted by some 35%, in just a matter of weeks.

Equity investors have taken their cue from this flush of liquidity and reversed their stance to a 'risk-on' trade in Q2. In fact, this had been the mindset even last fall, when equity investors were betting on the Fed to continue with its practice of monetary easing and accommodation, particularly leading up to the U.S. election. So, a confirmation of an accommodating Federal Reserve has provided more encouragement to Wall Street than even the re-opening of the economy.

Continued on next page…

…CIO Commentary continued

In fact, on Main Street USA, that re-opening may prove to have been premature, given the rapidly increasing cases of Covid 19 in recent weeks. But re-opening isn't the only contributor to a rebound of the virus. Memorial Day gatherings and street protests against aggressive police practices have furthered circulation of the virulent virus. Everyone agrees that re-opening the economy must be a priority. But so is public health. It is quickly becoming apparent that certain businesses, such as bars and nightclubs cannot be opened safely, at this early stage of the process. Nor has a sufficient proportion of the population yet adopted the simple but efficacious practice of wearing a mask, when unable to maintain a six-foot distance from other people. These are actions that have worked effectively in other countries that have been able to re-open their economies, without the surge in cases and hospitalizations that the U.S. has experienced.

The liquidity that has been pumped into the system has also been a boon to bond prices, driving interest rates down to unprecedented levels. Only the flush of liquidity can explain higher stock prices when interest rates continue to plumb their lows. Interest rates on marketable securities have so far failed to confirm the recovery in the economy – higher rates would be an important signal that we might be out of the woods.

That said, progress is being made, on the economic front, and also with therapeutics, and one or more vaccines that will eventually tame the Coronavirus. That progress can't come fast enough for a world gripped in the middle of a health catastrophe.

Notwithstanding the liquidity that has buoyed the system, we can't ignore that the progress being made on Main Street is happening at a much slower pace. Markets are facing a lot of uncertainty in the next few months. Rebounding coronavirus numbers and a possible second wave in the fall are first and foremost. Economic progress is questionable, depending on how successfully the economy can re-open, as well as wean itself from trillions of dollars of stimulus. And of course, the U.S. faces an important election in November. Canada faces similar challenges, save the election. With all of that, we are positioning portfolios in a more conservative manner, leaning more to the 'risk-off' assets. To the extent that these less risky assets have underperformed the risk-on assets in Q2, we believe that our more cautious positioning will provide investors with a better risk/reward scenario for the months ahead.

Sincerely,

Robert G. McKim, CFA
Chief Investment Officer

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2019 Pooled Fund Capital Gains Tax Deferrals

	Tax Loss Carry Forwards*
SEAMARK Pooled U.S. Equity Fund	$ 21,670,194
SEAMARK Pooled Total Equity Fund	$ 17,800,236
SEAMARK Pooled Low Volatility Equity Fund	$ 4,625,983
SEAMARK Pooled Canadian Equity Fund	$ 4,967,080

*Audited Financial Statements, as at December 31, 2019

Some of these tax loss deferrals are significant compared to the assets in the respective Pools.

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Composite Performance Update

Calendar Year Performance

	Q2 2020	2019	2018	2017	2016	2015	2014	Since Inception	Inception Date
SEAMARK Balanced Composite (%)	**8.6**	**14.6**	**-5.2**	**4.9**	**8.8**	**6.0**	**12.8**	**6.7**	12/31/2009
Balanced Benchmark* (%)	10.9	15.3	-1.4	7.4	7.8	3.9	10.7	7.0	
SEAMARK Low Volatility Equity Composite (%)	**6.1**	**15.5**	**-2.4**	**6.7**	**12.4**	**7.0**	**15.1**	**8.4**	12/31/2010
S&P/TSX Composite Index (%)	17.0	22.9	-8.9	9.1	21.1	-8.3	10.6	4.6	
SEAMARK Canadian Equity Composite (%)	**12.0**	**19.5**	**-12.7**	**5.2**	**19.8**	**-6.3**	**13.8**	**4.6**	01/31/2011
S&P/TSX Composite Index (%)	17.0	22.9	-8.9	9.1	21.1	-8.3	10.6	4.5	
SEAMARK Total Equity Composite (%)	**11.7**	**19.1**	**-6.0**	**5.9**	**12.2**	**6.7**	**16.0**	**9.6**	09/30/2011
Total Equity Benchmark** (%)	15.6	22.8	-4.0	12.1	13.2	5.3	14.2	11.1	
SEAMARK Fixed Income Composite (%)	**5.6**	**5.6**	**1.6**	**2.6**	**1.8**	**3.8**	**8.4**	**3.8**	04/30/2012
FTSE Canada Universe Bond Index (%)	5.9	6.9	1.4	2.5	1.7	3.5	8.8	4.2	
SEAMARK U.S. Equity Composite (%)	**14.5**	**17.5**	**2.4**	**3.4**	**13.9**	**14.1**	**18.5**	**12.7**	04/30/2012
S&P 500 Index (CAD) (%)	15.8	25.2	4.0	13.8	8.6	21.0	24.0	17.1	

*Effective 30 Sep 2018, the SEAMARK Balanced Composite Benchmark is 5% FTSE Canada 91 Day TBill Index, 40% FTSE Canada Universe Bond Index, 27% S&P/TSX Composite Index, 20% S&P 500 Index, 8% Morningstar Developed Markets ex North America GR Index
**50% S&P/TSX Composite Index, 35% S&P 500 Index, 15% Morningstar Developed Markets ex North America GR Index

Links to Q2 2020 Pooled Fund Profiles

Balanced Canadian Equity Low Volatility Equity Canadian Bond U.S. Equity Total Equity

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