

Another Tough Day in the Markets

March 9, 2020

Today was another tough day. We want to let you know we are working to ratchet you into a better position, and we are here if you would like to chat.

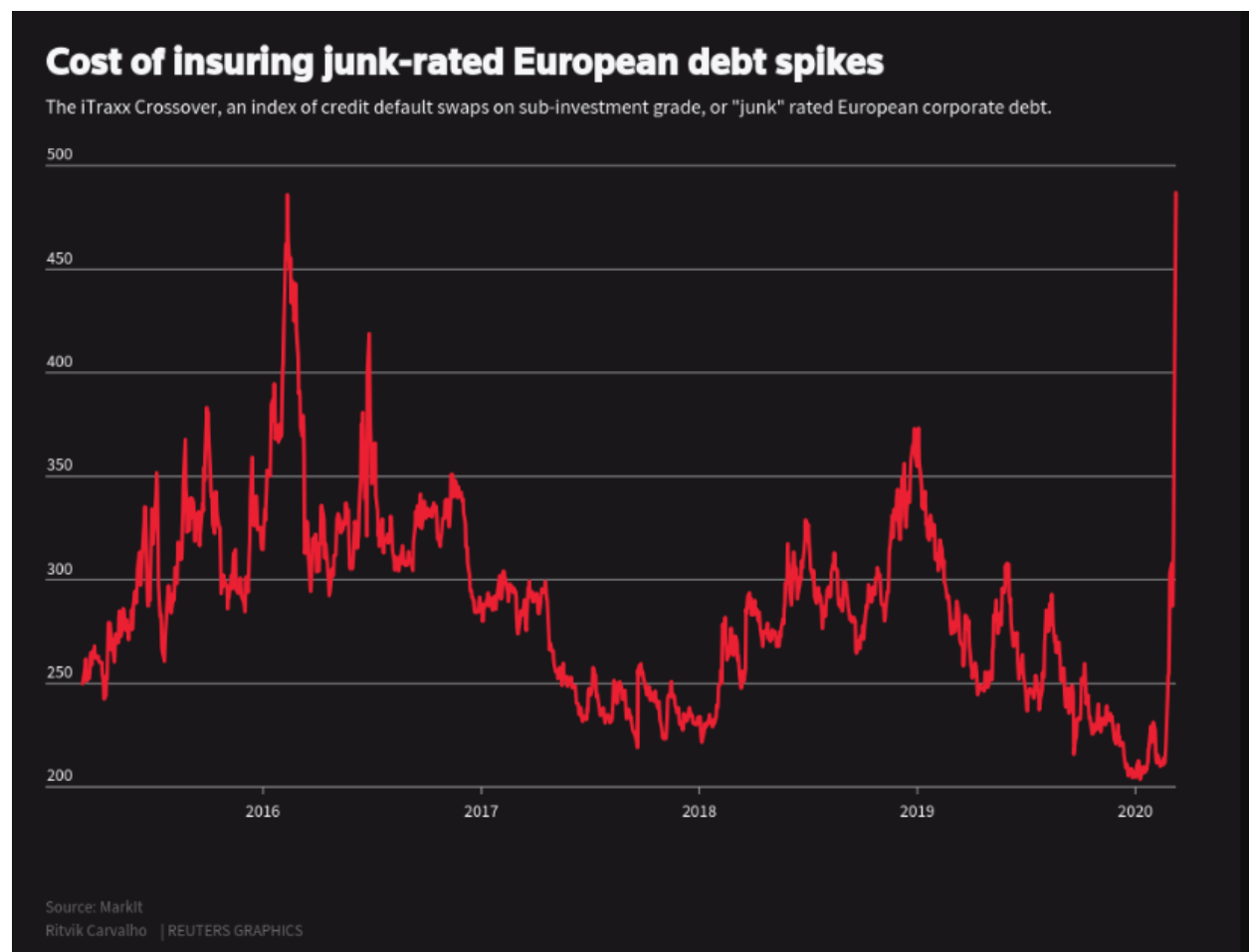
Quick Market Updates:

1. Today equity markets fell another 10 per cent.
2. 10-year U.S. treasury bonds hit a 0.42 per cent yield
3. Oil fell to \$32.00 per barrel

What Caused All This?

Saudi Arabia's decision on the weekend to increase oil production sent oil falling to \$32.00 WTI, which in turn has put most oil and gas-related debt at risk and sparked concern for the chartered banks' exposure to the debt. This concern spread to other corporate debt, triggering fear of a debt contagion.

This is clearly seen in the chart below.



Putting Things into Perspective

Markets are now trading back down to where they were back in June 2019, giving back the 22 per cent they gained since then. The S&P 500 is now trading at 20 times trailing earnings versus SAGE companies at 13 times.

Where We See Things Going

The world's efforts to contain COVID-19 are having a dramatic effect on the economy. Even if it were resolved today, we would still be looking at a two-quarter earnings recession. Despite this contraction in the global economy, the companies we hold will continue to be profitable and pay dividends, yielding four per cent today.

What Are We Doing about It?

To start with, we do not hold any Canadian banks (or any other banks for that matter) or Canadian oil E&P stocks. So we are not directly exposed to this potential debt contagion. We did add to a few stock positions today. We do not know when the bottom will form, but we do know "risk is a function of price".

It is our intention to keep these notes brief. Please do call us if you would like more information.