MARKET COMMENTARY & FORECAST

MARCH 31, 2020

Black Swans are surprises that change the current norm and can radicalize conventional thinking, and COVID-19 qualifies as a Black Swan big enough for the history books. The markets received the full-fledged details of the potential economic and corporate toll from the pandemic and it was not pretty. The talk was no longer about whether we were going to enter a recession, but rather how long will it be? Governments globally imposed radical conditions as to how people and economies can function, aggressively requesting social distancing with people staying at home and thus shutting down economic activity. The result is that airplanes are grounded, streets are empty, and factories are shut – this is not the definition of good times. At least one-quarter of the US economy has suddenly gone idle amidst the coronavirus pandemic. This is an unprecedented shutdown of commerce that has never occurred on such a grand scale in our lifetime.

After a 5% retrenchment in Q1 GDP, estimates for a Q2 GDP contraction of 25% had markets on edge for the entire month of March. To comply with government lockdowns, global corporations created a tsunami of job losses when they shuttered manufacturing and retail stores around the world, resulting in a wave of job losses. US employment figures, which showed a staggering rise in the initial unemployment claims number of 6.65 million, we estimate are now in the neighbourhood of 12-14% plus.

The consensus opinion from economists and analysts is that the data will get worse before it gets better, so at Stone we are bracing for more negative economic news in April. This is a huge, extraordinary hit to the North American economies since they are driven by consumer activity. The ensuing March market volatility resulted in the S&P 500 fluctuating daily by an average of 5.2% for the entire month. This is truly a remarkable figure.

MARKET RETURNS % (in native currencies):

Index	March	QTR/YTD
MSCI World	-13.5	-21.4
TSX	-17.4	-20.9
S&P 500	-12.4	-19.6
Dow Jones	-13.7	-23.2
Nasdaq	-10.1	-14.2
Hang Seng	-9.7	-16.3

Recapping the TSX market activity, for the second consecutive month every sector of the TSX was down for the month of March. Leading the way down were the heavily weighted financials sector down 18.6%, real estate down 27.6% and energy down 47.8%. There was no place to hide as defensive sectors such as gold, consumer staples and utilities were also down. Gold and consumer staples both declined 5.4%, and utilities 7.2%. This is indicative of a fragile market in panic mode, seeking liquidity at any expense. Investors were forced to liquidate stocks to offset losses, satisfy margin calls and to deal with their emotional fears.

Without contacting Captain Obvious, we asked ourselves what should we be doing? For the team at Stone the answer was to stick to our knitting, focus on preserving our client capital, build a cash reserve for future opportunities and own portfolio insurance to protect from future market volatility. Our total return portfolios had been overweight US financials with a minimal exposure to energy and REITs which we liquidated, raising our cash balances in the rage of 13-19%. Within our mutual funds we completed a full review of our dividend-paying investments seeking to sell companies that would have a risk of cutting their dividend. Within our growth mandate we were sellers of any companies we believe cannot sustain revenue growth once the North American economies attempt to return to normal. The objective for our growth and total return mandates is not to be defensive but to be prudent, seeking to preserve capital and have money to purchase quality businesses that provide the opportunity for growth revenues and/or dividends.

We believe that when the market's recent panic selling behaviour was irrational, the best course of action was to stand aside and let the panic selling run its course. Late in March we began to see an effort for the market to find a foundation and stability, and we raised cash by selling into strength. Our day-to-day work now is to find clarity about what future earnings are going to look like and to be comfortable with the price we should be paying to own a business.

At Stone we believe patience is a virtue at this time. Looking forward we expect to see a strong market rally followed by a sell off which is when we would want to be buyers of outstanding businesses.

I'm constantly fascinated by the market's compulsive behaviour to monitor the US Federal Reserve's statements and action. Since 2008 the Fed's strategy has been very clear. Where real estate is about location, location, location, the Fed is about liquidity, liquidity, liquidity. In the 1930s, the then-equivalent to the Fed chose to tighten monetary policy. This is believed by historians of that era, such as former head of the Fed, Ben Bernanke, to have been the catalyst for an extended depression. In the beginning of the 2007-08 global financial crisis, Bernanke chose to not repeat the events of the 1930s and began what we now call "QE", Quantitative Easing. The arrival of the COVID-19 Black Swan has begun QE4 and what concerns us is the Fed's willingness to acquire higher-risk assets for their balance sheet in an effort to provide liquidity.

This link to Visual Capitalist's piece on **The Fed's Balance Sheet: The Other Exponential Curve** is an excellent historical review of the Fed's actions, and can provide meaningful insight into the current situation.

We use our proprietary investment process daily and in volatile market conditions such as these, we seek to ensure that we can manage downside risk and adjust the portfolio accordingly while seeking to achieve our long-term investment goals.

We remain invested and are committed to companies that provide revenue growth, improving free cash flow and higher earnings per share. We are active portfolio managers with a disciplined investment process including the implementation of various risk management tools to benefit our investors.

Kindest Regards,

Stone Asset Management Limited

Richard G. Stone
Chief Investment Officer

FUND PERFORMANCE - Series F/FF @ March 31, 2020	1 mo	3 mo	6 mo	YTD	1 yr	3 yr	5 yr	10 yr	Since Inception	Inception Date
Stone Dividend Growth Class Series F	(9.9)	(12.2)	(9.2)	(12.2)	(3.9)	2.5	2.8	6.6	8.7	07/31/2003
80% Morningstar® Canada Index, 20% Morningstar® US Large Cap Index	(15.2)	(19.0)	(15.7)	(19.0)	(11.4)	0.1	2.7	6.2	7.1	
Stone Global Sustainability Fund (Formerly Stone EuroPlus Fund) Series F	(5.5)	(13.8)	(8.8)	(13.8)	(10.9)	(2.1)	(0.5)	5.5	2.6	05/31/2008
Morningstar® Global Markets	(9.0)	(14.5)	(7.4)	(7.4)	(5.9)	1.4	1.9	6.5	3.8	
Stone Global Balanced Fund Series FF	(5.0)	(5.8)	(3.1)	(5.8)	(2.0)	3.0	3.0	6.3	7.4	12/31/2008
15% Morningstar® Canada Index, 15% Morningstar® US Large Cap Index, 30% Morningstar® Developed Markets Large-mid Cap Index and 40% Morningstar® Canada Liquid Bond Index	(7.4)	(8.9)	(5.9)	(8.9)	(1.9)	3.5	4.1	6.7	7.7	
Stone Growth Fund Series F	(4.3)	(7.8)	0.5	(7.8)	0.3	6.4	3.0	7.1	6.2	09/30/2001
50% Morningstar® Canada Index and 50% Morningstar® US Large Cap Index	(11.7)	(15.6)	(11.1)	(15.6)	(6.5)	3.2	4.6	7.2	7.2	
Stone Global Growth Fund Series F	(4.5)	(5.1)	1.3	(5.1)	1.7	10.3	9.3	12.6	8.5	07/31/2003
Morningstar® Developed Markets Large-mid Cap Index	(8.1)	(13.4)	(7.8)	(13.4)	(4.3)	4.4	5.7	10.3	6.7	
Stone American Dividend Growth Fund Series F	(5.5)	(12.0)	(6.1)	(12.0)	(5.3)	(2.2)	1.8	n/a	4.3	07/17/2014
Morningstar® US large Cap Index	(5.8)	(9.8)	(3.2)	(9.8)	1.9	8.5	9.8	n/a	13.2	
Stone Dividend Yield Hog Fund Series F	(17.7)	(21.8)	(20.3)	(21.8)	(16.3)	(7.7)	(7.3)	0.3	0.3	02/07/2006
Morningstar® Canada Index	(17.6)	(21.3)	(18.7)	(21.3)	(14.6)	(2.1)	0.8	4.1	3.8	
Stone Global ESG Strategy Fund (Formerly Stone Global Strategy Fund) Series F	(2.0)	(5.6)	(0.6)	(5.6)	(0.5)	0.6	2.1	7.2	3.8	09/22/2006
15% Morningstar® Canada Index, 15% Morningstar® US Large Cap Index, 30% Morningstar® Developed Markets Large-mid Cap Index and 40% Morningstar® Canada Liquid Bond Index	(8.1)	(12.7)	(9.0)	(12.7)	(5.1)	2.4	3.4	6.4	5.5	
Stone Covered Call Canadian Banks Plus Fund Series F	(19.2)	(23.2)	(20.6)	(23.2)	(14.1)	(4.1)	1.2	n/a	0.8	07/17/2014
S&P/TSX Financial Services Index	(18.6)	(21.9)	(21.8)	(21.9)	(16.6)	(5.3)	(0.1)	n/a	0.2	
Stone GaleForce Dividend Growth Pool	(7.3)	(11.1)	(9.4)	(11.1)	(5.7)	1.6	2.2	n/a	4.7	05/17/2012

The returns set out above are historical annualized compounded returns net of all fund fees and expenses. The returns assume a re-investment of all distributions. Historic returns are provided for general information purposes only and may not be indicative of future returns or fund performance. Performance data of other Series of the Funds may differ from those shown above due to differences in fees. Please visit our website at www.stoneco.com for performance data of all Series.

CANADIAN FACTS – KAYAK: THE HIGH-SPEED HUNTER

The kayak is the hunter's boat in name; it means exactly that in Inuktitut, the language of its creators. The kayak is also the hunter's boat in design; it is fast and maneuverable, used by Inuit hunters with equal effectiveness on rivers, inland lakes, and coastal waters. The kayak is old. Inuit hunters have relied on them for at least four thousand years. The classic vessel is constructed entirely out of natural materials, made of stitched sealskin or the skins of other animals stretched over a frame made of wood or whalebone. The cockpit is covered with a jacket of skin that creates a waterproof seal and secures the paddler if the kayak capsizes in rough waters. Each kayak is unique to its owner. While the concept of the kayak may be uniform – a small, narrow boat with a cockpit in which a hunter sits and that is propelled by means of that man equipped with a double-bladed paddle – each kayak is fitted to the dimensions of the person who propels it. Traditionally made by males, each kayak was three times as long as its builder's arms stretched out, as wide at the cockpit as his hips plus two fists, and as deep as his fist plus an outstretched thumb. Today, the kayak is used far and wide by women and men for many purposes. Kayaks are made to race in white water, surf big waves, navigate sea swells, and just glide along. The high-speed hunter has also been used by British commandos and US Navy Seals in covert operations, often dropped by parachute into operation with its paddlers.

Adapted from *Ingenious - How Canadian Innovators Made the World Smarter, Smaller, Kinder, Safer, Healthier, Wealthier, and Happier*
By David Johnston & Tom Jenkins

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