STONE
ASSET MANAGEMENT LIMITED
Sleep well.

MARKET COMMENTARY & FORECAST

June 30, 2020

UP, UP AND AWAY - ONLY ICARUS HAS TO WORRY

June 2020 Market Review

The markets continued their seesaw activity and yet managed to eke out the month with more positive gains and one of the best quarters in decades. The S&P 500 Index was up 1.84% for the month and a staggering 19.95% for the quarter giving it its best quarterly return since 1998. Let us take a trip down memory lane to 1998. The top grossing films in 1998 were Armageddon, Saving Private Ryan and There's Something About Mary! The largest market capitalization companies in 1998 were Microsoft, General Electric, Exxon and Shell. As of June 30, 2020, Amazon has added $210bn in market cap year to date, which is more than the current market cap of ~95% of the S&P500. This market recovery comes only three months after investors were lamenting the end of the bull markets as equities had plunged 35% in less than 6 weeks. The subsequent rebound has been just as brisk. The MSCI World Index gained 2.51% in June and 18.84% for the quarter. The Dow Jones was up 1.69% in June and 17.77% in Q2 and the Nasdaq led all markets with a 5.99% jump in the month and an astounding 30.63% in the quarter.

The TSX also kept pace with a 2.12% gain in June and 15.97% gain in Q2. This is a remarkable comeback as the nation went from a full shutdown to a gradual reopening. As is most often the case, Canada's diverse sectors led to a mix of returns. The best-performing sector was the information technology sector with a 13.52% gain in June and a remarkable 68.2% move in Q2. Shopify, now the largest publicly traded company in Canada, has seen its shares skyrocket as the lockdowns have forced businesses to use their software to create an online presence. The materials sector was strong with a 4.32% gain in June (and 41.6% gain for the quarter) led by the gold sector rally. The virus outbreak and resulting money printing by central banks have pushed investors into safe haven assets such as gold. The yellow metal is up 17% for the year. The heavyweight financials sector had a 3.44% jump in June and 4.85% gain for the quarter. The lagging sectors include energy (-5.28% for June), communications (-3.55%) and utilities (-0.99%).

Market Returns (price returns as at 06/30/20 in native currencies)

Index	June	Quarter
MSCI World Index	+2.51%	+18.84%
TSX Composite Index	+2.12%	+15.97%
S&P 500 Index	+1.84%	+19.95%
DOW Jones Industrial Average	+1.69%	+17.77%
Nasdaq Composite	+5.99%	+30.63%
Hang Seng Index	+6.38%	+3.49%

With over 40% of US companies pulling their forward guidance for earnings outlooks, the market really is walking a dangerous tightrope. Just a reminder of the multiple steps in our wall of worry: US-China tensions, poor economic data, COVID-19, civil unrest, US elections and lack of clarity on corporate outlooks. The market is either resilient or delusional.

The COVID-19 data and news continue to worsen in certain populous states such as Florida, California and Arizona, and Latin American countries are seeing an explosion of new cases. Whether we call it a second wave or just a continuation of the first wave, the data is not good. Re-openings are being either shut down or paused in these areas of concern, especially for high-risk places such as bars, restaurants, and beaches. This grueling marathon of a pandemic feels like we are in a 15-round heavyweight boxing fight. At best it is a classic tug of war with vicious COVID-19 flareups and reclosures on one end, battling against lavish policy spending on the other end. The US election has an unending amount of hot-topic issues both old and new. One of the more interesting debates surrounds Trump's desire to preserve statues and monuments as part of American history at a sensitive time with an intense pandemic and race relations. Trump hopes to protect the nation's iconic markers and the pro-American voter.

The economic picture continues to be bleak with 20 million people losing their jobs in the US and retail sales suffering a deafening blow compared to pre-pandemic levels. Even though there was an uptick in the job creation figure in the past month, the risk is that the recovery will get cut short with the number of new COVID-19 cases on the rise. The volume of bankruptcy protection filings is staggering and across multiple industries – Hertz Car Rental, JC Penney, Chesapeake Energy, Whiting Petroleum, 24-Hour Fitness, J-Crew and Neiman Marcus, just to name a few.

This is certainly not the way we or many other experts expected the markets to perform – Nasdaq hitting new highs (and S&P only off 3% from highs) while a once-in-a-lifetime global pandemic shuts down the global markets and changes the way we live our daily lives. It is almost as if any type of news is good for the market. Bad news on the virus or the economy prompts elicit fiscal/monetary response while good news is also good for markets. One certain thing is that the digital adoption by the consumer has been an overwhelming success. From work-from-home to working-out-from-home to online shopping and video-streaming services, people have been forced to adapt and they are doing so with alacrity. Some of this consumer behaviour is likely to stick after the pandemic and that is why we are seeing companies invest millions into this growing sector of the economy. One example of this move is Lululemon buying home fitness platform company Mirror for $500 million. Investors have correctly rewarded companies – from technology adopters (Amazon, Netflix, Zoom, Square, Apple, and Microsoft) to grocers (Amazon, Costco) and exercise & lifestyle companies (Peloton, Lululemon).

The markets may be close to all time highs, but the market internals are painting a different picture. While the S&P 500 Index is above its 200-day moving average, we have mentioned before that it is just a handful of stocks that is driving the markets higher. In fact, only 27% of US companies are above their 200-day moving average, reflecting a very select market. This two-tier market would have to expand to the lagging equities such as value and cyclicals for the market to be more convincing.

Stone Asset Management Limited
Private Client Update – July 2020

In addition to our regular update, we're sharing our recent commentary to our Private Clients. This includes an overview of SAM's critical thinking as it relates to preserving our investors' capital.

CLICK TO READ:
Stone Asset Management Private Client Update July 2020

We hope you enjoy our insights and perspective.

All the SAM-managed Stone portfolios have been structured with a bias to preservation of capital. We believe the best way to invest in these markets is to have a total return focus. Investors should be rewarded by buying companies with strong balance sheets, the ability to sustain a reasonable level of growth during difficult times, and sufficient free cash flow to sustain dividend payments.

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 for our clients.

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 @ June 30, 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	1.8	11.0	(2.5)	(2.5)	4.2	6.7	5.6	8.3	9.2	07/31/2003
80% Morningstar® Canada Index, 20% Morningstar® US Large Cap Index	2.2	17.3	(5.0)	(5.0)	1.4	5.9	6.3	8.5	8.0	
Stone Global Sustainability Fund (Formerly Stone EuroPlus Fund) Series F	0.9	15.8	(0.1)	(0.1)	5.8	1.0	2.6	8.2	3.8	05/31/2008
Morningstar® Global Markets	1.6	14.6	(2.0)	(2.0)	5.4	4.5	5.0	9.2	4.0	
Stone Global Balanced Fund Series FF	1.8	11.5	5.1	5.1	8.3	6.0	5.5	7.8	8.3	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	1.7	12.1	2.2	2.2	7.4	7.6	6.9	8.2	8.6	
Stone Growth Fund Series F	1.8	16.7	7.6	7.6	16.8	13.1	6.1	10.0	7.0	09/30/2001
50% Morningstar® Canada Index and 50% Morningstar® US Large Cap Index	1.7	16.7	(1.5)	(1.5)	6.6	9.1	8.2	9.5	8.0	
Stone Global Growth Fund Series F	2.7	20.9	14.7	14.7	20.9	15.2	13.1	15.7	9.6	07/31/2003
Morningstar® Developed Markets Large-mid Cap Index	1.1	14.4	(0.9)	(0.9)	7.5	8.6	8.9	12.8	7.4	
Stone American Dividend Growth Fund Series F	(0.2)	8.1	(4.9)	(4.9)	2.3	1.0	3.8	n/a	5.4	07/17/2014
Morningstar® US Large Cap Index	0.8	15.7	4.3	4.3	15.4	13.7	13.4	n/a	15.4	
Stone Dividend Yield Hog Fund Series F	1.3	5.2	(17.8)	(17.8)	(12.3)	(5.8)	(5.6)	1.4	0.7	02/07/2006
Morningstar® Canada Index	2.6	17.7	(7.4)	(7.4)	(2.0)	4.0	4.5	6.4	4.9	
Stone Global ESG Strategy Fund (Formerly Stone Global Strategy Fund) Series F	(0.0)	8.6	2.3	2.3	5.5	2.7	2.8	6.9	3.1	09/22/2006
Morningstar® Global Markets	1.6	14.6	(2.0)	(2.0)	5.4	4.5	5.0	9.2	4.0	
Stone Covered Call Canadian Banks Plus Fund Series F	3.1	7.5	(17.4)	(17.4)	(10.1)	(1.1)	2.6	n/a	2.0	07/17/2014
S&P/TSX Financial Services Index	3.4	4.8	(18.2)	(18.2)	(14.6)	(3.2)	1.1	n/a	1.0	
Stone GaleForce Dividend Growth Pool	1.5	6.9	(5.0)	(5.0)	(0.9)	4.4	4.0	n/a	5.4	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 – AIRCRAFT MASS PRODUCTION: THE QUEEN OF THE HURRICANES

Elsie MacGill's life was one of firsts: the first woman in Canada to earn a degree in electrical engineering; first woman in the world to be awarded a master's degree in aeronautical engineering; first woman to design a plane; first woman to hold the position of chief of aeronautical engineering a tan aircraft company; and the brains behind the world's first mass-produced aircraft. Soon after World War Two erupted in Europe, Elsie's Canadian Car and Foundry in what is now Thunder Bay, Ontario, was selected to manufacture the Hawker Hurricane for the Royal Air Force in 1939. Elsie swung into action. She took control of production, streamlined operations to churn out increasing numbers of aircraft, and even designed a series of modifications to equip the fighter for cold-weather flying. By 1943, the company had produced more than 1,400 Hurricanes and its workforce had grown from 500 to some 4,500 – more than half of them women. Elsie had devised and perfected the mass production of aircraft, a mode of production that was soon the norm worldwide. No wonder this Canadian woman of firsts was crowned "Queen of the Hurricanes."

Adapted from *Ingenious - How Canadian Innovators Made the World Smarter, Smaller, Kinder, Safer, Healthier, Wealthier, and Happier*

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Sleep well, knowing you'll have the financial resources to live well.

There are risks associated with investing in mutual funds. Please refer to the simplified prospectus or offering memorandum for details of the risks associated with these funds.

All mutual funds carry the risk that the mutual fund may decrease in value. The degree of risk varies depending on the investment objective and strategies of the mutual fund. Before investing in any mutual fund discuss with your financial advisor how it works with your other investments and your tolerance for risk. Please refer to the simplified prospectus or offering memorandum for more information regarding the risks associated with these funds. The principal risks associated with the Stone Funds are as follows:

Stone Dividend Growth Class – market risk relating to fluctuations in the stock market and equity risk relating to fluctuations in individual securities.
Stone Global Balanced Fund – market risk relating to fluctuations in the stock market, equity risk relating to fluctuations in individual securities, credit risk associated with investments in bonds and interest rate risk associated with fluctuations in interest rates.
Stone Growth Fund – market risk relating to fluctuations in the stock market and equity risk relating to fluctuations in individual securities.
Stone Global Growth Fund – market risk relating to fluctuations in the stock market, equity risk relating to fluctuations in individual securities and foreign investment risk associated with investments in foreign companies.
Stone Global Sustainability Fund – market risk relating to fluctuations in the stock market, equity risk relating to fluctuations in individual securities and foreign investment risk associated with investments in foreign companies.
Stone GaleForce Dividend Growth Pool – market risk relating to fluctuations in the stock market and equity risk relating to fluctuations in individual securities.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the simplified prospectus or offering memorandum before investing. Any indicated rates of return are the historical annual compounded total returns including changes in security value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. The payment of distributions is not guaranteed and may fluctuate. The payment of distributions should not be confused with a fund's performance, rate of return, or yield. If distributions paid by the fund are greater than the performance of the fund, then your original investment will shrink.

Distributions paid as a result of capital gains realized by a fund and income and dividends earned by a fund are taxable in your hands in the year they are paid. Your adjusted cost base will be reduced by the amount of any returns of capital. If your adjusted cost base goes below zero, then you will have to pay capital gains tax on the amount below zero. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated.

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