CUMBERLAND
Private Wealth

GLOBAL EQUITY AND CUMBERLAND INTERNATIONAL FUND STRATEGIES

First Quarter 2020

Introduction

After a very strong year in 2019, and a very strong start to 2020, the global equity markets have sold off very significantly. Unfortunately, the reason for the decline requires no explanation - it is primarily due to the significantly negative economic impact that the coronavirus containment measures are having on the global economy.

Market Review

Despite a strong start to the year, global equity markets fell significantly in the second half of the first quarter, as investors realized the severity of the economic impact that the coronavirus was likely going to inflict (not to mention the terrible impact on humanity).

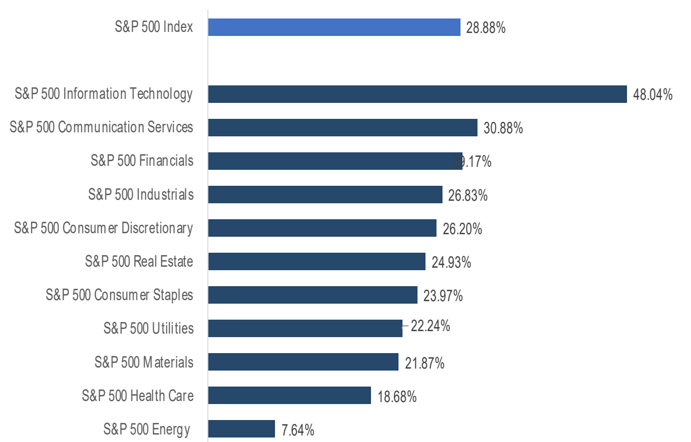
Q1 S&P 500 Performance

Source: Bloomberg

The decline was exacerbated by a lack of liquidity in many markets, as well as leveraged investors (those who invest with borrowed money) aggressively selling securities as they were forced to de-lever (forced to pay back their loans). However, the market did begin to rebound in the last week of March.

Information Technology was by far the best performing sector in 2019.

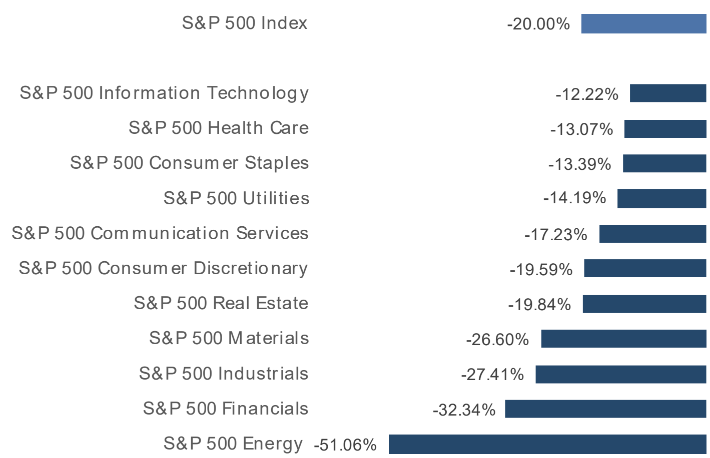
2019 S&P 500 Index Sector Performance



Source: Bloomberg

When looking at year to date sector performance in 2020, despite the fact that it performed so well in 2019 (a very strong year for equity markets), Information Technology is also outperforming so far in 2020 (a weak market year to date). While the Information Technology sector has declined in the first quarter, it has declined significantly less than the overall market as shown in the chart below.

Q1 2020 S&P 500 Index Sector Performance



Source: Bloomberg

This outperformance illustrates that this sector is benefiting from strong, long term, secular growth trends. These growth trends are not as dependent on the growth of the overall economy (e.g. trends toward more digitization, social media, online advertising, the migration of computing to the "cloud", etc.). Because these trends are less dependent on the overall economy, this sector has the ability to outperform in both good and bad economic times. We continue to have a favourable long term outlook for this sector. Despite the very real near term challenges that the economy is facing, we also continue to have a favourable outlook overall for our high quality, growth oriented businesses that we have invested in on your behalf.

Portfolio Review

The performance of our global and international strategies has been similar to the trends we have seen with the technology sector discussed above, but of course in a much less dramatic fashion. Our strategies performed much better than the overall market in 2019, a very strong year for equity investors around the world. In the first quarter of 2020, although the returns for our Global and International strategies were negative, they were much less negative than that of the overall global and international equity markets.

Outlook

The current environment has been a very challenging one, from both a financial and a health and humanity perspective. Economic estimates, profitability estimates, and other estimates are also changing very rapidly. However, there have been some positives that have come to light very recently.

First, let's look at valuations. In the past two significant selloffs that we have experienced since the Global Financial Crisis, the S&P 500 has bottomed at a trailing P/E (Price/Earnings ratio) of about 15 times.

Multiple Down to 2013 Level

Source: Bloomberg Intelligence

On Monday March 23rd, the market hit a near term bottom at about 14.6 times trailing earnings. Will this prove to be the ultimate bottom of this selloff? Unfortunately, no one knows this for sure. But several other recently published research reports have suggested that at trailing P/E of 14 or 15 times could represent a floor. If this proves to be the case, it would be a welcome development.

Second, some of the more extreme volatility levels experienced by individual bonds, bond ETFs (Exchange Traded Funds), major equity market indices, and even very large market capitalization stocks such as Nike (US$123 billion) are beginning to dissipate. Many bond ETF units were recently trading at significant discounts to their Net Asset Values(NAVs), but these discounts to NAV also peaked on March 23rd, and have since normalized i.e. the ETF unit price is back in line with its NAV.

Third, while the economic downturn we are about to experience is likely to be severe, there are some encouraging estimates on the significant recovery we are likely to see as well.

Global GDP

Source: JP Morgan

In a report published in the last week of March, J.P. Morgan research noted that:

> **"While the synchronized 1H20 (first half of 2020) global growth collapse should feel similar to the dark days of the Great Financial Crisis, the expected relaxation in extreme containment measures, combined with building policy supports are expected to produce a dramatic 2H20 (2nd half of 2020) snap back as activity begins to normalize. We forecast global GDP to rise at a 13.3% annualized rate in 2H20. If as we expect, the recovery continues in to 2021, next year will likely generate the strongest global growth outcome in over four decades."**

To be sure, investor sentiment is weak, and there is still many risks and uncertainties that we are monitoring very closely and carefully. We continue to favour high quality, conservatively managed, growth-oriented businesses that often have significant barriers to entry. We will also continue to emphasize more secular growth-oriented companies, sectors and geographic regions that we feel will prosper over the medium term. Overall, there are many challenges ahead, but equally important to note, there does seem to be a bit of light emerging at the end of the tunnel.

Craig Millar
Lead Manager,
Cumberland* Global and International Equities
April 6, 2020

*Cumberland refers to Cumberland Private Wealth Management Inc. (CPWM) and Cumberland Investment Counsel Inc. (CIC). CIC acts as sub-advisor to certain CPWM investment mandates including the CPWM Global and International mandates with Craig Millar as its lead Portfolio Manager. Craig Millar is a Portfolio Manager at CIC.