Quarterly Outlook – Global Equities

LOOKING BEYOND THE IMMEDIATE DISRUPTION

MAY 2020
David Eiswert
Portfolio Manager, Global Focused Growth Equity Strategy

KEY INSIGHTS

- While economic growth conditions were favourable for global equity investors going into 2020, there has been a marked deterioration amid the spread of the coronavirus and sharp oil price declines.
- The implementation of lock-down measures to varying degrees globally has led to a drastic decline in economic activity—as a result, we believe the global economy will enter a recession in the next one to two quarters.
- Although volatility and crises may cause near-term panic, it is important to look beyond the immediate disruption we are experiencing and keep a long-term perspective.

We entered the year with global growth troughing and expectations of modest growth throughout 2020. Specifically, the deceleration from the 2018 U.S. tax cuts and the U.S.-China trade war were creating a favourable environment for equities, backed by low rates and high multiples as markets anticipated earnings acceleration throughout the year.

CORONAVIRUS IMPACT AMPLIFIED BY SHARP OIL PRICE DECLINES

The coronavirus began to affect the markets in late December, and spread rapidly during January and February from its epicenter in Wuhan in the Hubei province of China, morphing into what the World Health Organization labeled a global pandemic. The uncertainty this created was amplified by sharp declines in oil prices triggered by a breakdown in talks between the Organization of the Petroleum Exporting Countries (OPEC) and Russia. This prompted Saudi Arabia to slash its official selling prices to significantly below-market levels and announce plans to ramp up its oil output, which brought further uncertainty to markets.

RECESSIONARY CONDITIONS AHEAD

The implementation of lock-down measures to varying degrees globally has led to a drastic decline in economic activity—as a result, we believe the global economy will enter a recession in the next one to two quarters. However, governments and policymakers have been responding in tangible ways to help the economy, and we expect testing and treatment for the coronavirus to improve and accelerate. We anticipate that U.S. infection rates will peak in the next couple of months.

“While economic growth conditions were favourable for global equity investors going into 2020, there has been a marked deterioration amid the spread of the coronavirus and sharp oil price declines.”

INVESTING FOR THE LONG TERM

Against this uncertain backdrop, we want to own the companies that will come out the other side of the crisis in a stronger position. Although volatility and crises may cause near-term panic, it is important to look beyond the immediate disruption we are experiencing and keep a long-term perspective. While being respectful of risk control, both our experience and investment framework tell us that if we focus on great assets that we believe are on the right side of change, we have the potential to reap rewards for our clients over the long term.

RISKS

The following risks are materially relevant to the portfolio.

Country risk (China) – all investments in China are subject to risks similar to those for other emerging markets investments. In addition, investments that are purchased or held in connection with a QFII licence or the Stock Connect program may be subject to additional risks.

Country risk (Russia and Ukraine) – in these countries, risks associated with custody, counterparties and market volatility are higher than in developed countries.

Currency risk –changes in currency exchange rates could reduce investment gains or increase investment losses.

Emerging markets risk – emerging markets are less established than developed markets and therefore involve higher risks.

Small and mid-cap risk – stocks of small and mid-size companies can be more volatile than stocks of larger companies.

Style risk – different investment styles typically go in and out of favour depending on market conditions and investor sentiment**.**

General Portfolio Risks

Capital risk –the value of your investment will vary and is not guaranteed. It will be affected by changes in the exchange rate between the base currency of the portfolio and the currency in which you subscribed, if different.

Equity risk –in general, equities involve higher risks than bonds or money market instruments.

Geographic concentration risk –to the extent that a portfolio invests a large portion of its assets in a particular geographic area, its performance will be more strongly affected by events within that area.

Hedging risk –a portfolio's attempts to reduce or eliminate certain risks through hedging may not work as intended.

Investment portfolio risk –investing in portfolios involves certain risks an investor would not face if investing in markets directly.

Management risk –the investment manager or its designees may at times find their obligations to a portfolio to be in conflict with their obligations to other investment portfolios they manage (although in such cases, all portfolios will be dealt with equitably).

Operational risk – operational failures could lead to disruptions of portfolio operations or financial losses.

202005-1177460