The Beacon

Timely Market Monitoring from Lighthouse Wealth Management

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What Now

We would like to start this report by wishing you and your families good health and wellness in this challenging time. We are understandably getting many questions and requests for guidance on what to do in the current environment. The short answer is that there are many factors to consider and readers need to understand the range of potential outcomes from COVID-19 is very wide.

We believe good advice is very valuable at this juncture. For specific questions, we encourage you to contact us, or your trusted advisors, to discuss questions or concerns as they relate to your individual circumstances.

We have been saying for some time that caution and prudence were warranted in financial markets, and unfortunately, we now need to extend this to daily life as the economic consequences of the virus are just one area of concern.

As we are in uncharted territory, the probability of being wrong at this time is high and we believe that everyone will need to adapt to a new normal. In our view, the benefits of a balanced portfolio have never been more glaring in light of recent volatility.

While today's event are no doubt troubling and unsettling, we suggest this is not a time for panic, rather a time to review the robustness of plans and preparations against what are admittedly a wide range of potential health, social, and economic outcomes – none of which look particularly appealing at this time.

In this communication, we provide updates and thoughts about the virus and the responses being taken by the authorities to combat it. We have also constructed three potential scenarios to try and understand how economic output (which is equivalent to the income of the economy) will be affected by virus containment measures and how this will impact key areas of the financial markets.

When developing our scenarios, our goal is to capture 95% of probable outcomes, which means we might be missing the 2.5% tail risk on either the upside or the downside of possible outcomes. Once we set the goal posts, we offer our subjective probabilities on the likelihood of each outcome, knowing we are likely to be wrong - which is why we encourage the reader to apply their own weights.

The common element with our scenarios is one day this virus will pass, and daily life and economic activity will return to something that approximates normal. Daily life is likely to feel different than before, as social and business norms adapt, and we will see both good and bad adaptations.

We believe there are four main factors that will determine the ultimate impact of COVID-19:

- The containment and orderly treatment of the virus to minimize health impacts;

- The length of time that self-isolation/quarantine is required;
- The ability and capacity of authorities to respond with programs which will keep income flowing to households and credit flowing to businesses during the shutdown;
- The ability of the economy to regain momentum once the virus subsides and the shutdown ends.

There is a great deal of uncertainty within each factor and they are interrelated with second and third round effects, making the job of forecasting difficult.

As our clients expect and require a plan to manage financial risk and their wealth, we believe creating three scenario forecasts is essential. We will use these forecasts to provide suggestions to navigate this difficult period and position for the eventual bottoming and rebounding of equity markets. In periods of upheaval, there will be winners and losers. In our view, this is when active management is able to excel in generating returns and managing risk.

Our belief is those with robust plans to manage the impacts of COVID-19 on their daily lives, which includes managing wealth, risk, and income during this difficult period, are better prepared to work through this period than those who do not.

We will continue to update you with regular communication and are exploring options to provide commentary in audio and video formats in the coming weeks.

Of Note This Week:

- On Monday, the US Federal Reserve announced it would purchase unlimited amounts of US Treasuries and mortgage backed securities. It also set up a number of significant lending facilities to manage liquidity issues for corporate bonds and US dollars internationally.

(MarketWatch, "Fed announces unlimited QE and sets up several new lending programs", March 23, 2020).

- On Wednesday, the Canadian Federal government announced the passage of a bill to spend $82 billion (roughly 4% of Dec 2019 GDP) as an emergency response to the virus outbreak in Canada. The stimulus is expected to be available starting April 6th. One component - the Canadian Emergency Response Benefit, as it is being called - provides benefits of up to $2,000 per month, for up to 4 months to those who lose their income as a result of the virus.

(Globe and Mail, "Ottawa to provide $2,000 a month to help workers affected by COVID-19", March 25, 2020).

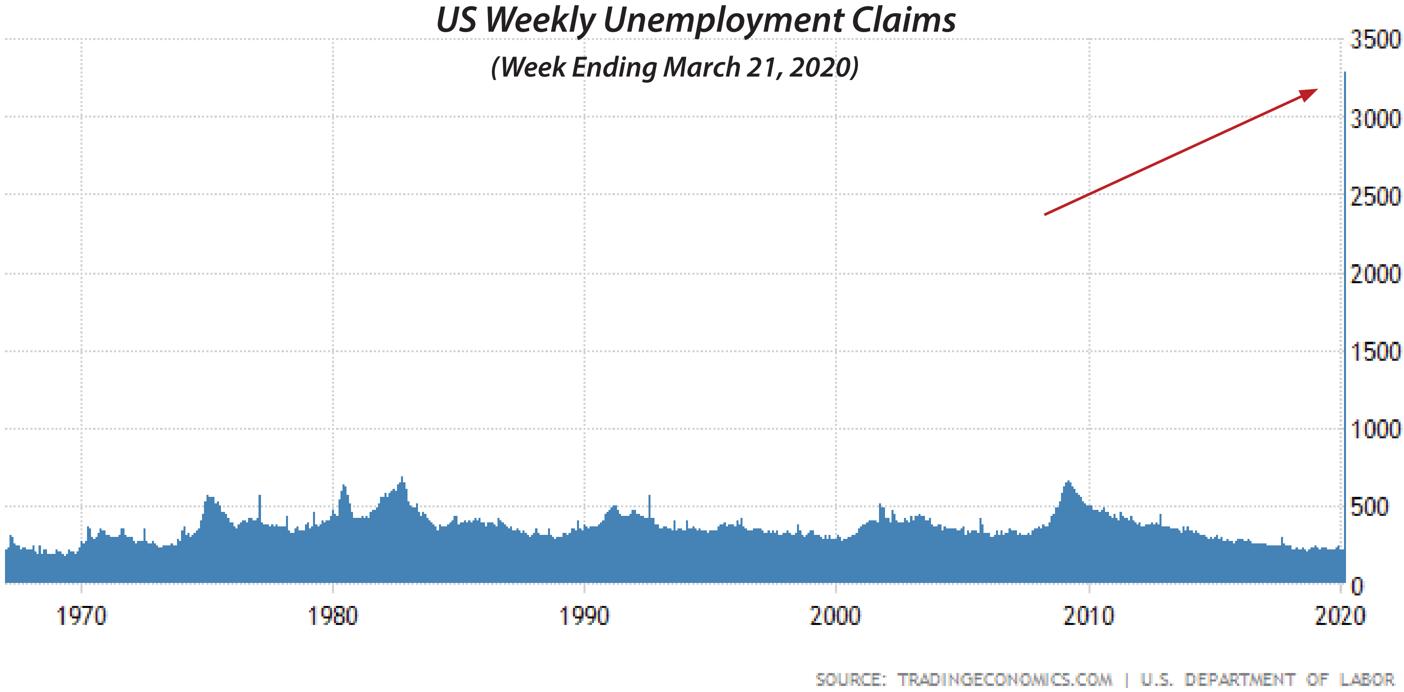
- The US Government passed a wide ranging $2trn (roughly 9.5% of GDP) emergency aid package for households and businesses. A key element of the package is income support for Americans making less than $75,000 ($1,200 per adult, $2,400 per couple with additional payments for children. Payments begin to phase out for income levels above $75,000).

(Financial Times, "What's in the historic $2tn US stimulus deal?", March 25, 2020).

- On Thursday, US jobless claims for the previous week increased to a record 3.3M, up from 282,000 the week before.

(Financial Times, "US jobless claims surge to record 3.3m as America locks down", March 26, 2020).

- The Bank of Canada cut its policy rate by 50 basis points to 0.25% and announced two new quantitative easing (QE) programs in Canada. The first



US weekly unemployment claims spiked to highest level on record - by a lot - this is not a typo. This week's number (reported next Thursday) is apt to rise further.

program targets purchases of Government of Canada bonds across all maturities at a minimum rate of $5bn per week. The Bank will also begin purchasing commercial paper to address liquidity issues in this market, the amount of purchases is not yet known.

(Globe and Mail, "Bank of Canada cuts key interest rate half-percentage point to 0.25%", March 27, 2020).

- The Government of Canada announced new emergency measures to increase wage subsidy levels and provide interest free loans to small businesses up to $40,000.

(Globe and Mail, "Ottawa boosts relief package for small and medium-sized business", March 27, 2020).

As developments are moving rapidly, this is by no means an exhaustive list of possible measures governments and central banks are taking to contain the health, economic, and social impacts of the virus. We expect as the virus continues to spread we will see more.

Scenario Forecasts

Our recent newsletter became stale in a matter of days. As one of our wittier readers noted (he's an Economist so I'm biased), "instead of calling our newsletter 'What is Going On?', it would have been more appropriate calling it 'What is NOT Going On?'" – and this is indeed the key question when it comes to managing your wealth, paying your bills, and meeting your needs as we deal with and forecast the consequences and risks presented by COVID-19.

The table and charts presented on the next page offer a summary of our forecasts for the Canadian and US economies.

Scenario Starting Points:

- We believe it is clear the world is facing a significant and evolving health challenge with COVID-19 which will continue to have real social and economic consequences.

- Authorities globally, albeit acting belatedly by some and causing them to fall behind the curve according to many experts, are responding with significant and unprecedented policies.

- We do not know how effective these policies will be or what the short, medium, and long-term consequences will be. Governments and financial markets appear willing to deal with these issues once the immediate crisis has passed. Those impacts are outside the scope of this report, and should not be overlooked by long-term investors and younger tax payers.

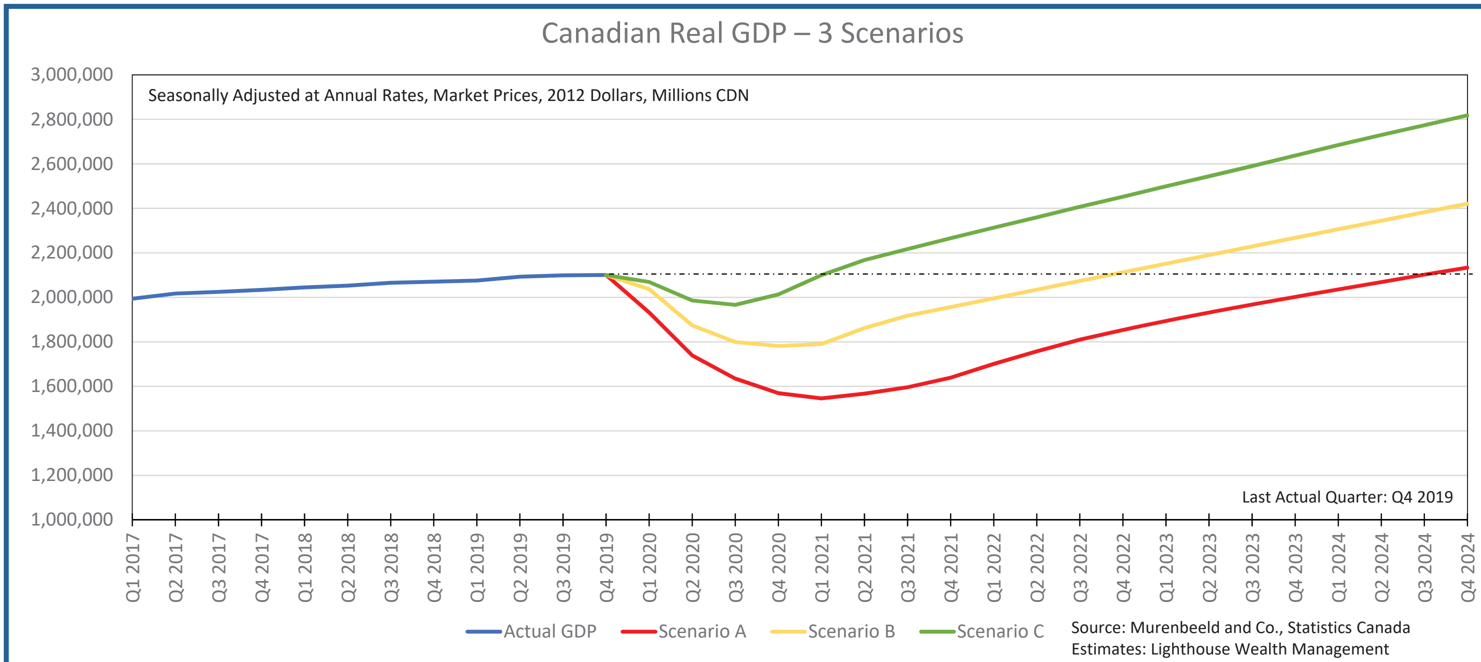
Canadian Real GDP
Year-over-year Annualized Growth Rates

	25% Bad (A)	50% Base (B)	25% Good (C)
Q1 2020	-8.0%	-3.0%	-1.5%
Q2 2020	-10.0%	-8.0%	-4.0%
Q3 2020	-6.0%	-4.0%	-1.0%
Q4 2020	-4.0%	-1.0%	2.4%

- To date, we believe the Canadian government is taking the virus seriously and calmly executing containment measures better than the US. The US fiscal response is larger so far, although today's announcements may significantly increase the size of the Canadian response.

- The impacts on the economy will only be known as we start to see the data – which make no mistake, is going to look bad and may yet get worse depending on how this evolves.

- This crisis will pass and we will ultimately see a bottoming of equity markets and the economy; equity markets will almost certainly bottom and begin to rise before the



A recession is all but assured in Canada and the US. The questions that remain are how deep it will be and how long it will last. Year-over-year declines in real GDP for Canada in our scenarios range between 4% - 25%.

economy does.

Scenario Summary Points

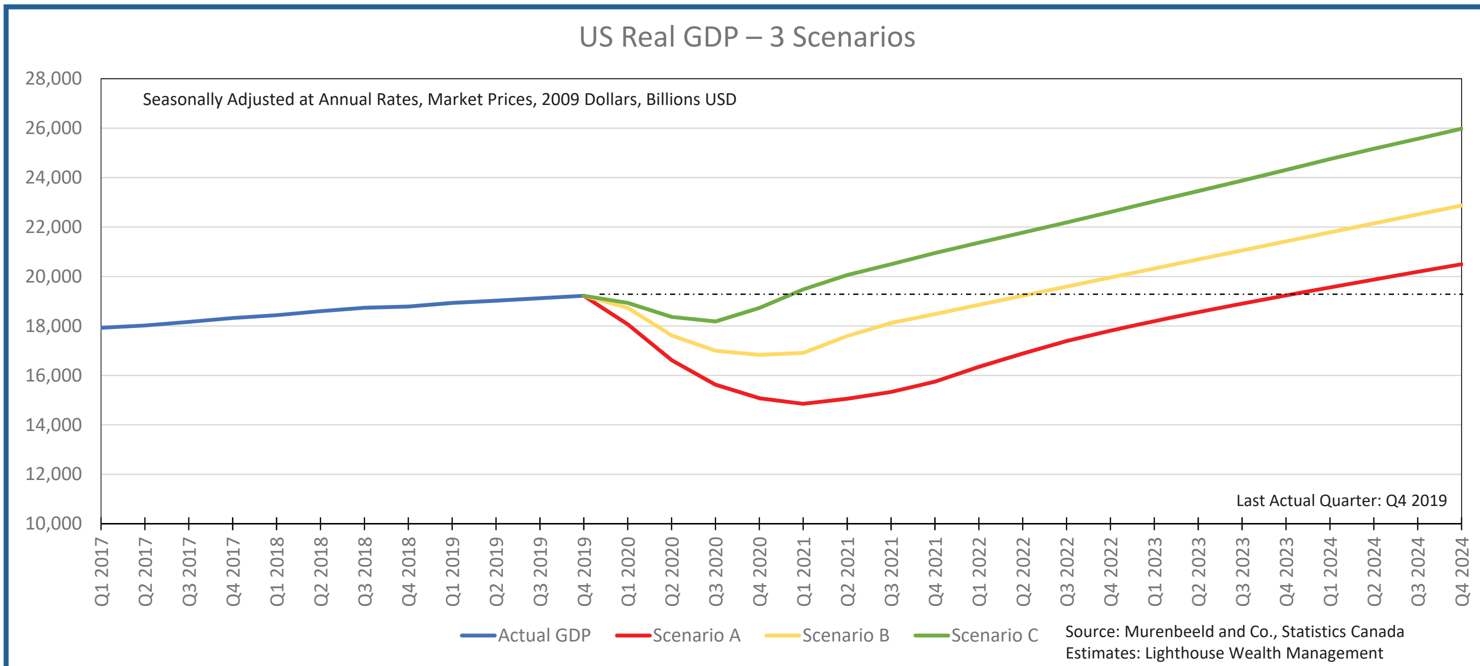
- The US economy is expected to weather the initial effects of the economic shut-down better than the Canadian economy due to the relative size of fiscal stimulus and central bank actions. The US economy was on much stronger footing than Canada before the crisis and is less reliant on external trade.

- The Trump administration is weighing the health effects of the virus against the economic and social effects of shutting down the economy.

US Real GDP Year-over-year Annualized Growth Rates	25% Bad (A)	50% Base (B)	25% Good (C)
Q1 2020	-6.0%	-2.5%	-1.5%
Q2 2020	-8.0%	-6.0%	-3.0%
Q3 2020	-6.0%	-3.5%	-1.0%
Q4 2020	-3.5%	-1.0%	3.0%

- In the event the effects of the virus are milder than expected, this approach, combined with large stimulus measures already taken, suggests a shallow and short US recession followed by a 'V' shaped recovery. This is possible, but we believe is a low probability outcome and the potential health risks to the US and other countries from opening up the economy too early could potentially be much worse than the short-term economic benefit. We hope to see a middle ground and balancing of health, social, and economic issues.

- The trajectory of economic impacts is highly dependent on the characteristics of the virus which are not yet



The US fiscal and monetary policy response has been significant and we believe it will help. Accordingly, the year-over-year declines in real GDP for the US in our scenarios range between 2% - 22%, a bit better than our expectation for Canada.

known. Negative economic impacts may be the result of some governments imposing economic lock-downs, or due to voluntarily shutdowns due to fear of infection; either outcome halts economic activity and increases the potential for social unrest.

- Year over year (Dec 2019 - Dec 2020) real GDP declines range between 4%-25% in our scenarios for Canada, and between 2% - 22% for our US scenario. We believe the US has lower downside risk due to fiscal measures to be put in place by the US Federal government and the Federal Reserve's expressed willingness to ease without limit, after already enacting significant stiumuls in response to the crisis.

- A recession is virtually assured in many countries. We believe fiscal stimulus will prevent the Bad outcome in the US, but this is subject to infection rates in North America and Europe peaking before too long.

- Yields on high quality sovereign bonds will grind lower and enter negative territory across all maturities in the US in the Bad scenario (yields are still negative for shorter maturities in our Base and Good scenarios).

- Yields on lower quality sovereign bonds remain low in the Base and Good scenarios, but rise in the Bad scenario as they are shunned by investors seeking safe havens. (Yields on Italian, Spanish and Greek bonds rise to Eurozone crisis levels in the bad scenario)

- Equity markets, as represented by the S&P500 may have already bottomed with the S&P500 around the 2200 level if we are in the Good scenario. We believe equity markets will be fast to rebound in the Good scenario, but are expected to decline further in our Base scenario (S&P500 to around 2000), and would challenge pre-financial crisis levels in our Bad scenario (a peak-to-trough decline of roughly 55% is forecast in this scenario - we have seen about 34% so far).

- The US dollar is expected to be strong, at least initially across all scenarios as high demand for the world's safe haven currency is likely to persist as long as the crisis does. However, as the crisis passes and economic activity starts to resume, we believe the US dollar will start to weaken. In the Good scenario, the dollar starts to weaken first and to the greatest extent, followed by the same pattern to a lesser extent in our Base scenario, and remains firmly priced in our Bad scenario.

Conclusions

The key questions we are trying to answer right now are how deep and how long this recession will be, and whether or not assets are priced appropriately in financial markets based on how the situation is expected to evolved.

The high degree of uncertainty as to how the situation will evolve gives rise to the need for caution and prudence. However, even in this environment, we cannot overlook the potential for significant price changes that do not reflect reality for some assets, and are likely to provide good long-term opportunities that strike the appropriate balance between risk and reward.

The gross re-pricing of assets and risk, the drying up of liquidity, and the complete shredding of previous forecasts and expectations for financial markets and economic growth we have witnessed this past week has been simply remarkable.

Discussing how to manage wealth amidst a health crisis can seem callous, and we do not want to overlook the tremendous human cost and suffering the COVID-19 crisis is causing - and we remain concerned as the virus moves to India and Africa.

We remain optimistic and hope for a best case outcome that we believe is possible with everyone working together to minimize the health, economic and social consequences of COVID-19. We are comforted to see so many Canadians coming together to fight the impacts of the virus and we will keep doing our best to contribute to these efforts.

Managing the economic and social consequences of the virus requires that households and businesses maintain a baseline ability to operate; households require income to buy goods that businesses produce, and business need to be able to produce and re-invest in their businesses with these incomes.

A great deal of this income and investment capital is generated and stored in investment portfolios; we use this capital and the returns it generates to support consumption and allow businesses to invest the excess capital that is saved by households. For these reasons and more, we believe managing this wealth effectively at times like this is an important support for the inevitable economic recovery that will take place after this crisis.

There will be trade-offs between the health, economic, and social consequences of the virus that will impact how we manage it and the ultimate costs we bear in doing so as a society.

These trade-offs and the resulting decisions will dictate the level of economic activity we can anticipate to return, and more importantly, will fundamentally impact the prospects for different types of businesses for a long time – and perhaps permanently if the risk of a health-related crisis alters society's behaviours and preferences.

In times of economic and financial upheaval, capital has a tendency to leave weak holders and land in stronger ones. These dislocations, while inevitably painful for some, provide significant opportunities to others who can identify them and have the resources and ability to act.

Due to the changes we expect to see, we believe active management will play a prominent role after many years of losing market share to index investors (we do not call this "passive" investing as many active decisions are still being made even when 'so called' passive vehicles are being used).

The table that follows on the last page of this report lists our thoughts on the sectors of the economy which we believe are well positioned for success once the crisis passes. Going into more detail is outside the scope of this report, and we encourage those interested to contact us about specific ideas.

While opportunity may arise from recent events in financial markets, we highlight the potential risks that remain and continue to suggest balance in portfolios.

In closing, we wish you good health and wellness.

Market Sector Table

Sectors where we see opportunity:	*Sectors we fear are challenged:*
Water Software Semiconductors Hardware Telecom (5G -Celluar, Bandwidth - Network - Connectivity, Cloud Storage and Computing) Technology and Automation (Internet of Things) Renewable Utilities Health Care REITS (Multi-Family, Industrial, Warehousing, Healthcare) Online Retail Delivery, Transportation (Trucking, Rail, Pipelines) Infrastructure Fin-Tech/Bio Tech Precious/Rare Metals Complex (Gold, Palladium, Lithium, Silver?) Agriculture (Fertilizers, Equipment)	Non-renewable energy Bricks and mortar retail Commercial real estate Banks

We believe we are in a period of fundamental economic change and the virus will accelerate this process. Society will continue to develop and apply new technology to try solve real world problems like public health, ageing populations, and climate change. There are going to be winners and losers in this process, but we believe the changes we expect will yield many good investment opportunities that also benefit society.

What We Believe You Should Know:

The views and opinions in this report are our own and we have prepared all of the information. These views and opinions could be incorrect, and while we believe we have sourced the information in the report from reliable sources, we cannot warrant their accuracy. The content of this report should not be considered investment advice as it may not be suitable for your personal circumstances, and is not a solicitation to buy or sell securities. We encourage you to speak to an investment professional before making any investment related decisions. This report may also discuss topics that overlap with tax-related matters. We are not tax advisors and we recommend that you seek independent advice from a professional advisor on tax-related matters.

Lighthouse Wealth Management is a personal trade name of David Charlebois and Stephen Gaskin.

What You Need to Know:

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