MONTHLY

InvestmentMonitor

MARCH 2020

February in Review

Equities began the month moving higher, with major indices hitting record highs before markets corrected quickly and dramatically near the end of the month. As the COVID-19 virus continued to spread beyond China, investors began to digest the potential impact. Efforts-to-date to contain the spread of the virus have resulted in mass quarantines, factory shut-downs, and supply-chain disruptions. Equities experienced broad weakness across all major indices in the month. Global stocks sold off, with the MSCI EAFE, MSCI Europe, and MSCI World down 9.01%, 8.46%, and 8.41%, respectively. U.S. stocks pulled back, with the S&P 500 down 8.23%, while the S&P/TSX Composite declined 5.90%. Canadian stocks were led lower by the Health Care, Materials, and Consumer Discretionary sectors, down 16.66%, 7.55%, and 7.33%, respectively. Bonds continued the trend of strong performance, with a gain of 0.71% in February. U.S. and Canadian federal bonds showed the strongest performance. Commodities generally pulled back. WTI crude oil declined by 13.39%, natural gas dropped by 10.71%, and gold declined by 1.34%. Copper was the outlier, increasing by 0.67% in the month.

Here are some of February's most notable headlines:

German economy confirmed to have stalled in Q4/2019. A German economic report showed no growth in the German economy in the fourth quarter of last year. This was driven by stagnating household and government consumption. Capital and equipment investment contracted for a third consecutive quarter. This comes as Germany's export-driven economy is being hit by a slowing world economy and increased uncertainty related to Brexit and various trade disputes. China is a critical trading partner for Germany, as German manufacturers rely on China as the source of their supply chains, as well as demand for their products. The rebound many observers were hoping for in 2020 may be pushed back by the effects of the coronavirus.

U.S. retail sales rose a modest 0.3% in January. Sales at clothing stores declined 3.1% in January, the most since March 2009. However, this was offset by growth in sales at building material stores, up 2.1%, which were likely boosted by unseasonably mild weather. Sales at restaurants and bars were also solid, up 1.2%. December retail sales growth numbers were revised down to 0.2% instead of the growth of 0.5% reported previously. These data suggest a possible loss of momentum in U.S. consumer spending.

Concern grows with the sudden rise in COVID-19 cases outside of mainland China. There has been a deceleration in new cases in China, the epicenter of the virus, leading many to believe that the virus had been contained and the worst was behind us. However, there has been a sharp jump in cases in other major economic powers, such as Japan, Italy, and South Korea. Economists are now expecting lower economic growth for 2020 than previously thought, and several companies have provided earnings warnings, due to disrupted supply chains, and disrupted consumer behavior.

Navigating Volatile Markets

While the ups and downs of equity markets are largely unpredictable, their effect on investor behaviour very often is quite the opposite. Recent market volatility provides the opportunity to do a "gut check" on your comfort level with risk. Spikes in market volatility, while unsettling, may prompt you to abandon your long-term plan for the short-term reprieve that cash and other liquid investments offer. If the temptation to retreat to the sidelines takes hold, ask yourself if the market or economic events fuelling the downturn changes your long-term goals.

See page two for our thoughts on how to approach market volatility.

INDEX†	1 Mth	Change (%) YTD	1 Yr	Index Level
Treasury Bill (FTSE Canada 60 Day T-Bill)	0.16	0.30	1.71	165
Bonds (FTSE Canada Universe Bond)	0.71	3.64	9.10	1165
Canadian Equities (S&P/TSX Composite)	-5.90	-4.26	4.86	16,263
U.S. Equities (S&P 500, US$)	-8.23	-8.27	8.18	2,954
Global Equities (MSCI World, US$)	-8.41	-8.93	5.26	2,141
Emerging Markets (MSCI Emerging Markets, US$)	-5.26	-9.68	-1.54	1006
CURRENCIES†	**1 Mth**	**Change (%) YTD**	**1 Yr**	**Exchange Rate**
C$/US$	-1.15	-3.00	-1.61	0.75
C$/Euro	-0.63	-1.43	1.39	0.68
C$/Pound	1.77	0.26	1.71	0.58
C$/Yen	-1.46	-3.54	-4.62	80.67
COMMODITIES (US$)†	**1 Mth**	**Change (%) YTD**	**1 Yr**	**Price**
Gold Spot ($/oz)	-1.34	2.45	15.81	1,566.70
Oil WTI ($/barrel)	-13.39	-25.91	-23.57	44.76
Natural Gas ($/MMBtu)	-10.71	-21.64	-35.99	1.68

†Total Return, as at February 28, 2020. Indices are quoted in their local currency.
Source: Bloomberg

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Navigating Volatile Markets

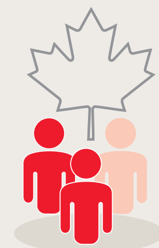
Staying invested during market ups and downs is straightforward – but not always easy

"Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it."

— Warren Buffet

61%

of Canadians believe if they stick to their financial plan, they will be able to weather any economic downturn



Source: Ipsos Syndicated – Canadians and Financial Advice 2017.

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Manage risk, don't avoid it . Taking on investment risk doesn't need to be an all or nothing approach. Consider finding a middle ground with an investment solution that offers a balanced approach to risk and return. Not surprisingly, reducing your exposure to riskier investments will help to lower the overall risk of your portfolio, but taken too far, you could increase your exposure to other issues, such as longevity risk – the risk that you'll outlive your retirement savings. It is also a good idea to consider the impact of inflation over time. As the price of goods and services increases over time, a higher amount of savings is required to maintain the same level of purchasing power in the future. The key to long-term investment success is balancing growing your savings in line with your needs and expectations with a mix of investments that will let you sleep at night.

Put diversification to work. Often equated to not putting all your eggs in one basket, diversification is a technique that combines different types of investments – stocks, bonds, cash, for instance – in a portfolio to help reduce risk. By including investments that have different reactions to economic trends and events – as one type of security falls the other may rise – can help buffer the negative effects. Fixed income securities offer some stability to a portfolio, and provide excellent diversification, helping to smooth out some of the peaks and valleys experienced by equities markets. Scotia offers one-stop solutions that provide the right amount of diversification for your needs.

A glass half full view of volatility. While a market correction can be very uncomfortable, it is useful to maintain perspective. Over the past decades we have seen a variety of negative events that have caused market corrections, or even bear markets. However, with the benefit of time markets have always recovered, and grown to new highs. While we don't know what markets will do in the near-term, over the long-run we know that markets tend to move higher. Offering even greater benefits, investing small amounts in regular increments through a Pre-Authorized Contribution (PAC) plan not only helps to eliminate the guess work of when to buy, it's a convenient and simple way to save without even thinking about it. It also provides a disciplined way to buy when the market is declining and trading at a discount.

Focus on the big picture. Be realistic and measured. When looking at historical rates of returns, don't focus solely on the upside. Although it's practically impossible to forecast when the next upward or downward spike in the market will take place, having a well thought out investment plan can help provide a sense of confidence that you can ride out the volatility. Working through some of your concerns with an advisor can allow you to make reasoned investment choices, view your portfolio with less unease, stick to your plan and ultimately help keep you on track to meet your financial goals. Keeping an eye on the long-term strategy will ultimately help keep you on the road during the short-term bumps and turns. Contact your Scotiabank advisor today to review your current plan or develop a plan that makes sense for you.

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