



Stranger Things – Welcome to the Upside Down

Like the Netflix hit series 'Stranger Things', the global COVID crisis has turned the lives of billions of people upside down for the last three months. Daily tasks such as commuting, working, shopping and socializing have taken on a sense of caution and worry for many. Although many countries are slowly reopening parts of their economy, this strange new world with social distancing will likely exist until a vaccine is developed.

Global investors have also experienced their own strange world over the last three months, as markets dropped from near all time highs to a 35% decline over four weeks then had a sharp six-week 30% rally. The pendulum has quickly moved from the fear of losing money to the fear of missing out on a recovery rally. The investment world has also turned upside down with 10-year government bond yields under 0.75%, corporate bond yields at 2.5% and governments running massive deficits and ever-growing debt. Negative headlines about unemployment, depression scenarios and a 'black swan' event continue daily by market pundits, since fear sells faster than good news. As long-term investors we know that humans by nature are pessimistic and when faced with negative or unexpected situations, most people think on a linear basis rather than imagining how things could improve.

So, given this recently upside-down world, how do investors make money in this new environment? Whether you are just starting your career, in mid-career or in retirement the answer is the same. Let me introduce you to TINA, who is an old friend. TINA stands for There Is No Alternative but equities. In the 2008/09 Great Recession many investors wrote off TINA; they were damaged, scarred and stayed out of the stock market, but then missed the largest and longest (11 year) bull market in history. Think about TINA as being in a relationship, there are always some bumps in the road but there are many more good times than bad. Once every ten years you have a major fight (a recession) and you think about breaking off the relationship, but then you realize over the long term that you've both been good for each other and decide to make up. Today is no different, given a likely long period of ultra low interest rates, investors need TINA now more than ever. Cash invested in savings accounts, GICs and money markets funds is generating a negative return when accounting for inflation, which in March was 0.9% or 1.7% (excluding energy costs) nationally. However, looking at my own monthly expenses including food, property taxes and utilities, my family's inflation rate is likely closer to 3% plus.

If my target is to make at least 4% per year to cover inflation and taxes, what are my options in this new strange world? Do I invest in preferred shares, convertible bonds, private debt or structured income products? I would then have to take into consideration potential interest deferrals, illiquidity, risk or high built in fees. Matco's focus is on dividend sustainability, not just reaching for yield. So, it looks like we are back to our long-lost love TINA again!



We own what we believe are many sustainable dividend paying companies in the Matco Canadian Equity Fund and the Matco Small Cap Fund. As of April 30th, the Funds were yielding 4.1% and 5.2% respectively and both currently have a higher dividend yield than the TSX Composite Index at 3.5%, with significantly lower commodity exposure. In this new upside-down world, we feel dividend income investing has taken a higher priority, given that we are likely to see more 'Stranger Things' now that the U.S. Presidential election is less than six months away. Despite how strange things may get, do not forget about TINA - it is a long-term relationship that keeps on giving.

If you have any questions on the Matco Canadian Equity or Small Cap Funds or would like to learn more about our strict M-Factor investing process, please contact your Matco Portfolio Manager.

Stay Safe. Stay Healthy.

Anil Tahiliani, MBA, CFA

Vice President & Portfolio Manager



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