TRIASIMA

# Triasima Canadian Equity Fund

Second quarter 2020 commentary

## The economy

The COVID-19 pandemic erupted in March 2020 and the world spent the second quarter dealing with its repercussions.

In advanced countries, infection cases first rose, peaked, and then began to fall. A glaring exception is the United States where cases have kept going up. The pandemic reached many emerging regions later and their number of infection cases was still ramping up at the end of the quarter. Africa, Latin America, and India are all in this situation.

Economic activity everywhere dropped off a cliff in March and April as populations around the globe were told to self-isolate and businesses were shut down.

Job losses have been massive while Purchasing Managers Indices fell to lows of 41.5 in the United States and 33.4 in Europe. In Canada, retail sales collapsed 26% from March to April and GDP declined month over month, 7.5% in March, and 11.6% in April, a record. Comparatively, the Canadian economy had contracted an estimated 7% during the Spanish Flu of 1919, a much smaller drop.

Governments and central bankers were quick to implement fiscal and monetary measures to ease the extraordinary shock caused by this Great Lockdown. Programs were set up to give or lend money to individuals and corporations and short-term interest rates were driven down.

A gradual reopening began mid- May and economies started to rebound, to gained further momentum in June.

Yield curves in Canada and the United States are upward sloping which portends an acceleration of their respective economies. Meanwhile, credit spreads, after widening up spectacularly earlier in the pandemic, contracted due to central banks bond buying programs and optimism over the economies.

In terms of socio-political developments, we note the allegations that China and the World Health Organization were slow or deficient in scaling up the risk caused by the SARS-C0V-2 virus. The antagonism between the United States and China escalated over this, as well as over the heavy-handed manner in which China is asserting its authority over Hong-Kong. The USA has been threatening to delist Chinese stocks trading in the country in retaliation, as well as for insufficient financial reporting.

Of note, is the skirmish that has flared up on the China-India border with casualties on both sides. The two countries have talked down the recent altercation, but it bears watching when the two Asian superpowers collide.

## The Canadian equity market

To say that stocks climbed a wall of worry in recent months would be an understatement. After collapsing early in the pandemic, equity markets subsequently shrugged off the bad news and retraced most of their losses. In fact, the technology heavy NASDAQ ended the quarter higher than its pre-crisis levels.

The S&P/TSX Composite Index was thus up 17.0% over the second quarter and is “only” down 7.5% at the half-year mark.

The Growth factor dominated both value and defensive names. The Technology and Consumer Discretionary sectors were strong while the Financial, Communication Services, and Utilities sectors barely bounced back. Banks, soft-cyclical value names within the Financial sector, are handicapped by low interest rates, concerns over upcoming large credit losses, and a moratorium on dividend increases.

Of note is the behavior of the e-commerce company Shopify, now Canada’s largest company. Its stock rose 119% in the quarter and now make up 62% of the Technology sector.

Finally, the Materials sector was propelled by the 51% return by the Gold producers sub-sector. Gold is


900 de Maisonneuve Blvd. West, Suite 2520
Montreal, Quebec H3A 0A8
T 514 906-0667

attractive in the current context of uncertainty and low real interest rates. In addition, gold producers are more profitable due to the elevated price for the commodity and their diligent cost control efforts of recent years.

## The Fund

The Triasima Canadian Equity Fund posted an extremely strong second quarter with a 18.5% return. This performance is ahead of its benchmark, the S&P/TSX Composite Index, and reduces the large first quarter pullback to a much smaller value of 4.3% after six months.

Many holdings contributed nicely. After failing to live up to their defensive reputation in the first quarter, gold producers caught up with holdings such as SSR Mining and Kinross Gold rocketing upward 81% and 74% respectively. Real Matters, a software solution for mortgage lenders, raced up 89% on sustained strong mortgage refinancing activity in the United States, while technology name Shopify climbed 119% as the pandemic accelerated demand for effective e-commerce management software.

Security selection in banks, where we favored National Bank and Royal Bank, and the Financial sector underweight, have been significant positive contributors.

The only substantial performance detractors were security selection in the Energy sector and the drag from the cash reserve. The later averaged 5% in the quarter.

Turnover was very high due to the violent movements in stock prices and the realignment of growth expectations. Key themes were adding to gold equities, supporting the growth factor exposure through Technology and Industrial names purchases, and maintaining selective exposure to cyclical value through addition to the Energy sector. Due to poor prospects, banks and insurance companies were pared down.

At the sector level, Materials and Technology grew in importance and the Financial sector shrank in the portfolio and in the index as well.

Valuation measures indicate the Fund is slightly more expensive than the S&P/TSX Composite Index. However, profitability, growth, and expectations parameters are better.

## Conclusion

Equity markets have already written off the extraordinary events of the first half of the year and the profits collapse that came along. With the market rebound of the second quarter, it appears investors are looking forward, anticipating further economic progress in the second half of 2020 and ensuing improved corporate profitability in 2021.

However, having quickly accounted for the economic reopening, and being expensive on a future earnings basis, bourses may have reached some sort of temporary equilibrium at this time. At a time when each corporation learn to deal with its new set of circumstances and diminished forward visibility, we expect progress in equity markets to be slower over the coming months.



900 de Maisonneuve Blvd. West, Suite 2520
Montreal, Quebec H3A 0A8
T 514 906-0667