LEE, TURNER & ASSOCIATES INC.
INVESTMENT QUARTERLY

REVIEW July 2020

Our world was turned upside down. At first, we were afraid. We were petrified. Kept thinking we could never live with the virus at our side. But we survived. Yes, we survived; our world did not end. The COVID-19 pandemic seemed to have come under containment and the worst of its ills minimized. However, the economic harm this virus inflicted on the world was, to put it mildly, huge. A nearly complete shutdown of people's everyday activities throughout the world for almost 3 months would, of course, seed a severe and lengthy global economic recession. On this front, we should prepare you for the grim news headlines that will surely surface in the coming weeks as economic statistics pertaining to the second quarter of this year are released. The media will likely paint a very stark picture, with hyperbolic comparisons to the Great Depression, of global economies suffering a recession of epic proportions. Do not be alarmed by these sensational findings, they have been well anticipated since the day global economies were locked down back in March. Today, we can tell you that economies around the world are indeed in the midst of a severe recession, but signs of a rebound are already evident. Earlier in this downturn, investors were very much afraid but have since steeled their nerves and turned their sights onto the hopes of a recovery. Since reaching bottom over the last days of March, stock markets rebounded sharply. The Dow Jones Industrials Average rose 17.8% while the S&P/TSX Composite Index climbed a near identical 17.0% in the past 3 months. Bond markets found strength from powerful supporters, the Central Banks. Between rate cuts and bond buying programs from the Central Banks, North American yield curves shifted down considerably over the quarter. Canadian bonds had a 5.9% total rate of return. The yield curve remained fairly steep even though long maturity bonds showed sharper price gains than the short maturity ones.

FORECAST

The near-term outlook for our economy is anything but clear. Never have we experienced an economic moment like the present, massive fiscal and monetary policy actions taken to revive economies from self imposed recessions. The uptake and effectiveness of the stimulus programs have had some fits and starts so far, but mostly they have helped in putting the worst of the recessions behind us. Economic data of the moment is a mixed bag of good and bad news, but amongst which are signs confirming that the worst of the pandemic has passed and that a nascent economic recovery has begun. The fact that global economies have been allowed to re-open since the middle of May is of course encouraging. As well, the incredibly large doses of fiscal and monetary policy relief that have been injected into the global economies will, in time, give meaningful traction and momentum to the recovery process. One point of clarity that we have today is that the virus still looms large in our lives and the way forward for our economies is still very much dependent on the fight against it. What the world needs is to have everyone overcome their fears of this virus and to have the confidence to resume normal living again. When and how such a state can be achieved, we do not know; we just hope that it is soon.

Suite #790 - 999 West Hastings Street
Vancouver, BC V6C 2W2
Telephone: 604-689-3289

INCOME STRATEGY

Bonds

Both the Federal Reserve and the Bank of Canada have taken bold and unusual actions in their respective bond markets. First, the Central Banks wanted to ease credit conditions and add liquidity to their economies. Hence, they suppressed their yield curves by taking their administrable interest rates all the way down to nearly zero and then expressed their intent of keeping them there until December 2022. Second, the Banks wanted to normalize their yield curves, to give them steeper positive slopes (no thoughts of "flattening the curve" here). Here, they released details of bond buying programs in their respective home bond markets; they will commit, indefinitely, an unlimited amount of funds to purchase as much bonds as they feel necessary to maintain market liquidity and to drive bond yields to the levels they prefer. In essence, the Banks said: Know this, as of now, we are the definitive market makers and we will be making market results out in our favor for as long as we want. Never has the old saying "Don't fight the Fed" hold more meaning than today. Clearly, no rational investor would want to fight against Banks that are armed with infinite resources in pursuit of their designed outcomes. So, if you can't fight them, join them? We would rather not. We prefer to deal in markets that are free from interference, regardless of the legitimacy of the people running the interference.

Income Trusts

Concerns for the Real Estate Income Trusts' ability to collect their rental income grew as economic lockdowns wore on. By the end of April, every listed REIT had reported having some due rents falling into arrears. The REIT's are currently hard at work with those tenants who are victims of the current lockdowns' liquidity crisis to find amiable solutions. Ideally, arrangements can be made where rents can be deferred temporarily but repaid fully in the not too distant future. To date, only a few of the REIT's have pared back their payouts because of missed rents, the majority have not. As lockdowns ease and economies re-open, the REIT's should see a slow but eventual return to a normal operating environment. At this difficult time, we certainly can empathize with REIT investors who are faced with a difficult dilemma, stick it out or get out. We would choose to stick it out. Despite some near-term deterioration in real estate's overall valuation (due to emptied store fronts, emptied office spaces, uncollected rents), we strongly believe that real estate assets must be held for the long term in order to fully realize their intrinsic value. The REIT's that we hold in our portfolios own valuable, strategically located, irreplaceable, properties. Their tenants' short-term liquidity difficulties are just for now, not forever.

EQUITY STRATEGY

With a strong rebound since late March, stock prices currently give the appearance of being overly optimistic in anticipation of a sharp economic recovery. Our view, however, is that stock prices of today are in fact well supported by the Central Banks' omnipotent monetary policies. So much liquidity has been pumped into the economies that it is only logical to assume that some of it has found its way into the stock markets. As well, bonds yields have been set so low that on a relative basis, stock yields are just too good for most investors to pass up on. It seems the Central Banks have achieved their objective of directing investment funds towards the stock markets. And they are not finished yet. Their stimulus programs are far from over. We would buy stocks selectively.

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