

NEWSLETTER

Message from the Managing Director, Private Client

As we enter the fifth month of the pandemic, all of us at Highstreet hope that you and those you love are getting through these unprecedented times. We continue to work hard to preserve and grow the funds you have trusted us with, and while we are not out of the COVID-19 crisis and aftermath yet, for the most part we believe the Highstreet Pooled Funds have performed reasonably well through the crisis. We remain vigilant as the investment climate changes regularly, often and sometimes against logic.

Since mid-March Highstreet staff and the Highstreet Pooled Funds Investment Team have been working remotely and during that time, one of the regular routines that keeps me sane is the daily investment briefing that we call into. I had a look back at my notes over just the past 5 weeks or so and here are some of the recurring words and themes I jotted down:

- There are record amounts of cash sitting on the sidelines
- Volatile, choppy markets
- This is a Fiscal and Monetary stimulus driven economy
- Disrupters such as riots in the U.S., and COVID-19 resurgence in many open states are dampening the economy just as it was just getting back on the road to recovery
- China is flexing its muscles over democracy in Hong Kong
- With Trump trailing in the polls, this is resulting in fears of a landslide by the Democrats as giving them control of Congress and the White House is worrying
- There is a huge disconnect between earnings and equity markets; recent corporate earnings results are (not unexpectedly) poor but markets are generally taking it in stride.

Nobody has all the answers of course and it is exceedingly difficult to predict the short and long term effects of these myriad variables on markets.

It has been a historic first half of the year with the impact of the coronavirus weighing on markets across the globe. During the first quarter of 2020, the outbreak and rapid spread of the coronavirus caused markets to correct at unprecedented speeds. The second quarter of 2020 saw extreme market moves as well, with the S&P 500, a proxy for the broad U.S. equity market, posting the strongest quarterly gain since the fourth quarter of 1998.

Markets rebounded as global economies began to reopen, economic data confirmed corporate commentary of improving demand trends, and governments provided financial aid for individuals and businesses. More specifically, stimulus provided by the U.S. government has amounted to over 44% of U.S. GDP while Canadian stimulus amounted to 33% of GDP. Governments continue to monitor the situation as further stimulus may be required.

The Highstreet Pooled Funds Investment Team is constantly monitoring proprietary quantitative tools to adjust the asset mix of the Highstreet Balanced Fund and the Highstreet Conservative Balanced Funds accordingly. As the correction unfolded the quantitative tools suggested that stocks were becoming more attractive versus bonds and the Funds were rebalanced to target by reducing fixed income and increasing equities.

The Highstreet Pooled Funds Investment Team continues to believe that equities look more attractive versus bonds in the short-term and as result have not rebalanced the asset mix within the funds. Within equities, the mix between Canadian, U.S., and Global stocks remain unchanged. However, the weighting in the fixed income component of the Highstreet Balanced Fund and the Highstreet Conservative Balanced Fund was changed. The weight in the Highstreet Short-term Bond Fund was increased and the weight in the Highstreet Money Market Fund was decreased.

New Asset Mix

Highstreet Balanced Fund	<ul style="list-style-type: none"> Maintained 55% Equities and 45% Fixed Income Within Fixed Income: -3.5% Money Market, +3.5% Short-term Bonds to a total of 11%
Highstreet Conservative Balanced Fund	<ul style="list-style-type: none"> Maintained 37% Equities and 63% Fixed Income Within Fixed Income: -3.5% Money Market, +3.5% Short-term Bonds to a total of 40%

Central banks responded to the economic slowdown following the coronavirus by cutting their key interest rate to essentially 0%. Central banks will not likely increase interest rates in the near-term and they will be looking for a sustained economic recovery before raising rates. Interest rates moved lower across all time horizons; the shorter the time horizon the lower the interest rate. As a result,

exposure to the Highstreet Short-term Bond Fund was increased at the expense of the Highstreet Money Market Fund. This provides the Funds higher interest income as the Highstreet Short-term Bond Fund has yield of 0.9%, while the Highstreet Money Market Fund has a yield of 0.2%.

With central banks in the U.S. and Canada signaling that interest rates are going to stay lower for longer, it was appropriate to shift funds from the Highstreet Money Market Fund into the Highstreet Short-term Bond Fund as short-term bonds have a higher interest rate than money market securities.

From all of us at Highstreet, we wish you an enjoyable COVID-free summer and look forward to the day when we can again meet with you in person.

Kind regards,
Michael Hodgson



CONGRATULATIONS!

Hang Gao, MQF, CFA

Congratulations to Hang Gao for becoming a CFA charterholder after successfully completing all requirements of the CFA® Program. Since joining the Highstreet Pooled Funds Investment Team in 2018, Hang contributes to the development of sector models as well as ad hoc projects for the pooled funds. He is a valuable member of the team and we are proud of all of his accomplishments.

¹ Cornerstone Macro, as of June 5th 2020.

² Bloomberg, as of July 7th 2020.

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The Highstreet pooled funds are prospectus-exempt products and are offered on a private placement basis. Units are offered on a continuous basis to investors who meet the definition of an 'accredited investor'. Units of the funds are offered to residents in provinces and territories of Canada pursuant to exemptions set forth under National Instrument 45-106 from the prospectus requirements.

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Published: July 2020.

As always, we would love to hear from you. If you have any questions, concerns or comments do not hesitate to reach out to your relationship manager.

Michael Hodgson HodgsonM@Highstreet.ca 1-877-850-9500 ext.8218
Bruce Sayers SayersB@Highstreet.ca 1-877-850-9500 ext.8237

Michael Hammond HammondM@Highstreet.ca 1-877-850-9500 ext.8219
Larry Hazel HazelL@Highstreet.ca 1-877-850-9500 ext.8253