

March 3, 2020

Sentry Product Update

Covid-19 Update

The novel coronavirus (Covid-19) that is spreading around the world is causing major market volatility, with the S&P500 down more than -10% from its recent peak. In the past, we have seen similar panics with other viral outbreaks such as SARS, MERS and Ebola.

Our current view is that Covid-19 has a good chance of becoming a pandemic (i.e. spread widely around the globe) but we are also seeing evidence that the virus is not as deadly as widely feared. Our best assessment is that the virus will ultimately be about as deadly as what is seen in a bad flu season.

Some data and context on Covid-19 mortality rates

Below are the mortality rates seen for other viral outbreaks (according to the US National Institute of Health and Centers for Disease Control):

Virus	Mortality
Ebola	40%
MERS	35%
SARS	9%
Typical Flu season in the US	0.1%

While there is a lot of uncertainty about the quality of the data from China on the current outbreak, below is data on mortality rates from a study published this week in the prestigious scientific journal, the Lancet¹

Location	Mortality
Wuhan	>3%
Hubei Province	2.9%
Other Chinese Provinces	0.7%
“developed southeastern coastal provinces” (Zhejiang and Guangdong; 2493 confirmed cases)	0.16%



Clearly there are big disparities in mortality rates between Wuhan and other provinces in China, presumably because patients in less overwhelmed areas can get better care. The mortality rate of 0.16% seen in “developed southeastern coastal provinces” such as Zhejiang and Guangdong, can be a reasonable proxy for what minor outbreaks in rich counties might look like in terms of death rates and are much less alarming in the context of the 0.1% mortality in a typical flu year in the U.S. Nevertheless, we are monitoring the situation quite closely and will adapt our views as the facts change.

From an economic perspective, the hope of a quick snap back in economic activity in China seems unlikely. Companies’ earnings will be down substantially in the 1st half of 2020. However, the risks of a prolonged slowdown both in China and in other major economies is counterbalanced by the reasonable expectation that the Federal Reserve will act quickly and proactively to cut rates, and that the mortality rate is only 2-3x higher than the common flu. If these views turn out to be correct, we think that the current panic in the markets will be relatively a short-term event, as was the case with the previous SARS, MERS and Ebola outbreaks.

Within our U.S. equities portfolios, we’ve taken a balanced approach to allocating capital as high-quality companies have been disproportionately hit in the recent sell off: we’ve increased exposure to Microsoft, Visa, Mastercard, Fiserv (e-commerce systems, transaction processing, electronic bill payments), and Live Nation (dominant position in the concert promotion and ticketing industry). From a fixed income perspective, for Sentry U.S. Monthly Income Fund, the fact that we’ve high graded the fixed income component to A credit rating, and with over a 20% of the portfolio allocated to government bonds and cash, the Fund has preserved capital. Over a 1-week period (ending Friday, February 28, 2020), the Fund (Series F) was down -6.1% vs. -10.1% for S&P 500 (TR CAD). We are comfortable with our current asset mix of 40% exposure to fixed income / cash and 60% exposure to equities. We anticipate more volatility over the next few months, however, as with previous outbreaks, we believe the current outbreak will fade into the background.

	YTD	1 Year	3 Year	5 Year	Since Inception*
Sentry U.S. Monthly Income Fund Series F	2.7%	17.5%	10.7%	9.5%	12.7%
Quartile rank	1 st				
Global Equity Balanced category	0.9%	11.6%	6.4%	5.2%	7.5%
# Funds in Category	1,279	1,240	999	666	453

Sources: Sentry Investment Management, Morningstar Direct, Bloomberg Finance L.P. Data as at January 31, 2020

*Inception date of Sentry U.S. Monthly Income Fund Series F, March 4, 2013

¹[https://www.thelancet.com/journals/langlo/article/PIIS2214-109X\(20\)30068-1/fulltext](https://www.thelancet.com/journals/langlo/article/PIIS2214-109X(20)30068-1/fulltext)



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