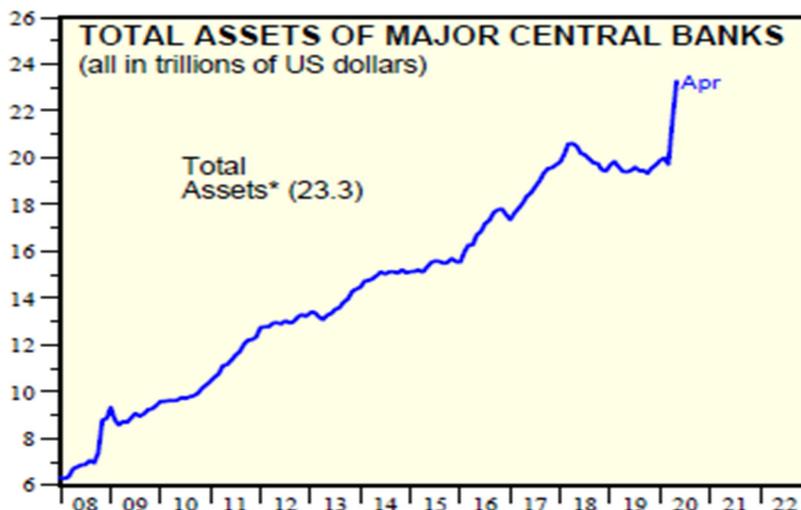


June 12, 2020

Dear Clients and Colleagues:

In mid-March, most people expected that the worst recession since the 1930s was on the horizon. The spread of COVID-19 resulted in the complete halt of the global economy and instantly put millions of people on unemployment or working reduced hours.

Central banks quickly lowered their interest rates to zero or near zero and pledged to do whatever was necessary to stabilize markets, including buying lower-quality corporate debt. In addition, their balance sheets are at an all-time high as depicted in the chart below.



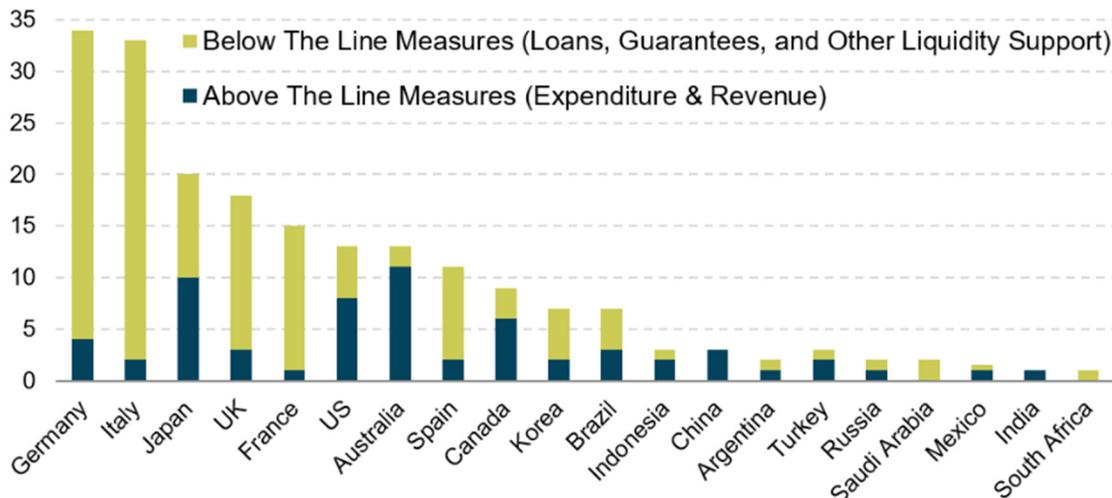
Source: Haver Analytics

Governments have announced several programs to support individuals, companies and local governments, thus pushing budget deficits to record highs. The total amount now exceeds \$20 trillion, which represents nearly 10% of global GDP.

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IMF Estimate of the Q220 Fiscal Response to the COVID-19 Pandemic, % of GDP. As of 4/2020



Source: IMF. Past performance is no guarantee of future results. This information is provided for illustrative purposes only and does not reflect the performance of an actual investment.

The stock market reacted favorably to this massive liquidity injection. After bottoming on March 23, markets are up over 40%. The Nasdaq 100 is at an all-time high and the S&P500 is positive for 2020.

What else has been driving this rally?

- Positive indications that a vaccine may be developed soon, therefore preventing a second wave.
- Economies are reopening gradually, thereby reducing the unemployment rate.
- Retail investor participation has increased and is at its highest point since 1999.
- Hedge fund net long position at 92% percentile.
- Investors experiencing FOMO (fear of missing out).

There hasn't been that much speculation and euphoria regarding the market since 1999 and early 2000. In the United States (US) alone, over 5 million new online trading accounts were opened between March and May. Volumes are 300% of what they were in June 2019. With sports betting and Las Vegas closed and people stuck at home, stock speculation is rampant. For example, since Hertz declared bankruptcy on May 22, prompting its top shareholder, famed investor Carl Icahn, to sell his

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entire stake at \$0.72, the stock has gained over 800%, even though it's completely worthless! Retail investors are driving this euphoria. One example of this is electric truck startup Nikola, which has yet to sell a single vehicle, but is now worth more than Ford Motor Company or Fiat Chrysler.

While we know all good things come to an end, we unfortunately don't know when. Looking at the next few months, what may happen?

At the end of Q2, some of pension funds that rebalanced portfolios by buying shares and selling bonds may do the reverse, as stocks have outperformed bonds. Governments will start to withdraw short-term emergency measures. An estimated 75% of US government aid recipients are getting more money than when they were working. We anticipate that Q2 earnings will be much worse than in Q1.

Inflation fears may resurface. Food inflation rose to 3.5% annually in April and is expected to increase even more in May. We are starting to witness increases in the prices of services. For example, consider the cost of getting a haircut in this new sanitary environment. Governments will be looking to reduce their deficits, either by raising taxes or cutting expenses. Further, some areas may look to increase minimum wage; Los Angeles recently increased its minimum wage to US\$19 per hour.

We could definitely envision an environment like the 1970s, a period of stagflation, characterized by low growth and high inflation. That period also coincided with the stock market crash of the Nifty Fifty, a small number of companies that were deemed secular, defensive growers, but reached untenable valuations. Also during this period, small-cap investing took the lead for almost two decades.

Our portfolio is well positioned for the next 18 to 24 months. We must remain disciplined and focus on companies with a solid balance sheet, a high proportion of recurring revenues and a large addressable market that may allow them to gain market share.

In wrapping up this week's commentary, we'd like to acknowledge the events that have taken place in recent weeks. Reflecting on the events that unfolded in the US and across the world since the death of George Floyd on May 25, 2020, we are both concerned and saddened.

At Global Alpha, we want to take the time to say "enough". We stand beside and support minorities in our communities and around the world. We are against any form of discrimination and believe racism of any kind should be condemned.

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According to multiple dictionaries, the definition of the word “global” includes:

1. Relating to the whole world; worldwide;
2. Relating to or embracing the whole of something, or of a group of things;
3. Comprehensive.

Global Alpha was built on the principle of diversity; we embrace our colleagues’ differences; that is the soul of our organization. We share our experiences with each other and keep an open mind that will foster thoughtful conversations. The “Alpha” in our name comes from being global and having an inclusive view of the world, where each of us is given an equal opportunity to succeed, and mostly to enjoy life without fear in our pursuit of happiness.

As an organization, we can make a difference. Rising inequalities is one of the many causes of systemic racism. Through good governance and social involvement, the companies we choose to invest in can make a difference in the communities where they operate.

We always shared Dr. Martin Luther King’s dream of freedom and justice for everyone, and like him, we say: “to you today my friends, even though we face the difficulties of today and tomorrow, [we] still have a dream.”

Today, and for as long as we have to, we will stand and listen, and continue to do our part to support all those suffering injustices across the world.

“I have a dream that one day this nation will rise up, live out the true meaning of its creed: ‘We hold this truth to be self-evident, that all men are created equal.’”

Dr. Martin Luther King, August 28, 1963

The Global Alpha Team

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