April 1, 2020

Colleagues, clients, and friends,

In less than a month, COVID-19 has turned our world upside down – from record stock market performance and full employment in February to self-isolation orders and millions of lost jobs in March. Although these are unprecedented times, I'm confident that together we'll navigate these challenges. On behalf of CIBC Cleary Gull, we sincerely hope your family, your business, and you are doing well.

During this challenging time, CIBC Cleary Gull's guiding principles and priorities are:

1. **Protecting our employees.** The well being of our employees is important to us. We have had continuing discussions with health care professionals to understand how various companies are managing and have implemented recommended health and safety protocols for our CIBC Cleary Gull team.

   We are proud of how CIBC's leadership has supported our employees with the necessary tools to work from home, provided flexible work schedules, expanded employee assistance programs, and extended financial assistance to those in need

2. **Providing market knowledge and advice to our clients.** Now more than ever, our clients need informed and thoughtful advice based on current market realities. Every day, we engage in market and industry conversations with our clients as they make strategic decisions regarding the future of their business and employees.

3. **Position our business for the future.** CIBC is committed to continuing to grow its US investment banking business and supporting its clients, including entrepreneurs, private equity funds, and middle-market public companies. Our middle-market investment banking team has significant experience in Industrial, Consumer, Business & Industrial Services, Healthcare, and Software & Technology, including Special Situations / Restructuring in those sectors. We look forward to helping our clients navigate their capital market decisions.

Over the last several weeks, we have discussed several themes with our clients that are important to consider while navigating the current environment:

Liquidity is king. This pandemic will eventually end, and the world will return to a "new normal"– the big question is when and in what form. Given the timing uncertainty, companies are singularly focused on liquidity. Many have drawn down their credit lines and run multiple 13-week cash flows to manage weekly liquidity. Some are reducing costs, including laying off employees. Fortunately, bank balance sheets are strong. The Federal Reserve acted quickly to ensure liquidity, and currently there are no signs of a 2009-like banking crisis. We are impressed with how nimble our clients have been at navigating this crisis.

All assets revalued. The stock market and many other publicly traded asset classes have declined. Despite interest rate cuts and a massive Federal stimulus, credit spreads have widened and bonds, particularly non-investment grade debt, have suffered steep declines in value. This situation has been exacerbated by a significant decline in oil prices. In the absence of visibility on timing, form and magnitude of an economic recovery, many of these declines appear to be due to fundamental uncertainty exacerbated by indiscriminate selling to achieve liquidity. Where market values and oil prices eventually settle, as well as how the market revalues businesses and assets in different industries, will not be known for months.

Tighter credit. Banks and direct non-bank lenders are now managing relationships with some companies which have shut down and others which have significant credit needs. This is the first major crisis for many of the direct non-bank lenders who have taken a great deal of market share over the past few years – they will need liquidity to support their clients. Credit underwriting is likely to change after the crisis. Only time will tell how each type of lender responds to portfolio company credit needs.

The other side. Investors with strong market positions and enough liquidity will be well-positioned to weather the current market disruption. Private equity funds that have uninvested capital will be able to buy businesses with strong outlooks. Private equity investors have been waiting for an economic dislocation to reset valuations from their recent “frothy” levels, and we expect that transactions closed during the next 12 months will offer strong returns for intrepid investors.

Where do we go from here? Let’s remember that a health crisis precipitated this global economic crisis. Our ability to recover from this period depends on how our health care system can scale testing, develop and roll-out treatments, and ultimately develop a vaccine.

After the assets are revalued and the markets figure out a “new normal”, our economy will regain momentum. However, this crisis will likely reignite critical conversation that has been long overdue, including what happens to our budget deficit, national debt and social security promises.

These times are challenging for everyone. However, our economy has strong underlying metrics, and our country can recover from this health crisis and associated economic shock and capitalize on the opportunities that invariably lie ahead.

As Molière said, “The greater the obstacle, the more glory in overcoming it.”

We look forward to talking to you over the coming months and hope you stay safe and healthy.

All our best,

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