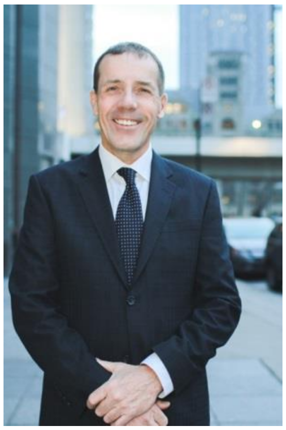
RBC Dominion Securities Inc.

Private Investment Management (Discretionary)

Volume 1, January 2020



Guy Tessier, **B.A., GPC**
Vice President and Portfolio Manager
guy.tessier@rbc.com
514-878-7023

Sophie Labonté
Associate Advisor
sophie.labonte@rbc.com

Dear client

First, we want to take advantage of this newsletter to wish you health and happiness in 2020.

2019 Financial Market Year in Review

As much as 2018 was a bad year for the equity and fixed income (bond) markets, 2019 turned out to be an extraordinary year for stocks and a good year for bonds (fixed income).

The following table illustrates the annualized returns of the main Indices in 2019, but also for 2 years, 5 years and for 19 years.

Table #1					
	Value	Return	Since	Since	12/31/1999
Return of different asset class (index)	**12/31/2019**	**2019 (2)**	**2 years**	**5 years**	**19 years**
All Bonds (Dex bond universe)	1123.68	**6.87%**	4.09%	3.18%	5.48%
S&P/TSX Composite Total Return index (2)	17063.43	**22.88%**	5.79%	6.27%	6.25%
S&P 500 Total Return index - US Dollar (2)	3230.78	31.49%	12.09%	11.69%	6.05%
S&P 500 Total Return index - CAD Dollar (1) et (2)		**25.25%**	13.98%	14.21%	5.54%
MSCI EAFE Index price return - US Dollar	2036.94	18.44%	-0.34%	2.79%	0.73%
MSCI EAFE Index price return - CAD Dollar (1)		**12.82%**	1.31%	5.11%	0.20%
MSCI Emerging Markets Price return- US Dollar	1114.66	15.42%	-1.90%	3.11%	4.20%
MSCI Emerging Markets Price return- CAD Dollar (1)		**9.94%**	-0.29%	5.43%	3.68%
Exchange Rate US$/C$ (change%) (3) annualized	$ 0.7698	**-4.98%**	1.62%	2.20%	-0.54%
(1) Return after conversion to CAD Dollar					
(2) Return including dividends					
(3) The exchange rate US$/CAD$ was 0.7333 on 12/31/2018 and went back to 0.7698 on 12/31/2019					

For example, the Canadian stock market increased by 22.88% (taking dividends into account) and the US market increased by 31.49%. As for the bond market, it appreciated by 6.87%. Conversely, investments in US dollar depreciated by almost 5% (4.98%), which explains why non-Canadian returns are lower in Canadian dollar.

The most important factor behind this increase in 2019 is, in our view, the decline in interest rates in several countries by central banks. For example, the Fed (in the US) lowered its interest rates three times in 2019 (combined decline of 0.75%) after raising them 7 times previously for a total of 1.75%.
Economic growth continued in 2019 and investors took advantage of the deals following the 2018 stock market downturn.

The second table illustrates the return an investor would have obtained if he had been able to invest directly in indices, for a profile of 60% in equities, 35% in fixed income and 5% in cash. The yield obtained with such a composition (60% in shares) would have been 14.53%. Note that any investor has a composition that differs a little or a lot from this composition, which affects the return obtained. Please also note that it is not possible to invest directly in the indices and that the rate of return below is before any management fees.

Table #2				
Comparison of returns based on different asset class on December 31 2019 in CAD$ (1)				
	Weighting	Value	**Return %**	Return %
Asset Class	(1)	12/31/2019	**converted in CAD$**	Monnaie locale
Cash (Dex 91 day T-Bill Return Canada)	5%	2,826.96	**1.59%**	1.59%
(Dex bond universe)	35%	1,123.68	**6.87%**	6.87%
Fixed Income	**40%**			
S&P/TSX Composite total return (Canada)	20%	17,063.43	**22.88%**	22.88%
S&P 500 Total Return (USA)	20%	3,230.78	**25.25%**	31.49%
MSCI EAFE Index	15%	2,036.94	**12.82%**	18.44%
MSCI Emerging Markets	5%	1,114.66	**9.94%**	15.42%
Equities	**60%**			
Total portfolio	100%		**14.53%**	
Source: RBC Dominion				
(1) Asset Allocation is based on an allocation of 60% in equity, 35% in fixed income				
and 5% in cash				

Forecast for the stock market in 2020

We sent you by email on December 2nd, the annual global outlook for 2020 as produced by RBC Wealth Management. Here is an excerpt from page 3 of this report which we recommend you to consult if you have not already done so:

"'Some economic protection measures are expected to allow expansion to continue without much disruption in 2020, thereby promoting moderate growth. We are optimistic about the actions, knowing that constant vigilance is required. Central banks will maintain an expansionary approach to growth, given the extremely low bond rates.

We also expect the trend in global corporate profits to turn positive again, particularly in the manufacturing sector, which should benefit equity returns.

That said, we are tempering yield expectations in 2020 given the already high valuation level of most investment assets.

The prevailing optimism in the markets calls for a certain prudence regarding the risk of a small correction in the short term, it could also prove to be an opportunity for additional investment at low prices.

Most Canadian economists do not expect a recession in 2020. By consulting an article by La Presse + (January 12, 2020), it appears that none of the 3 chief investment officers (Fiera Capital, Hexavest and National Bank), reduced the weighting in equities compared to the previous quarter (October 1, 2019) versus a balanced benchmark portfolio. This is another positive news for the equity market.

We found it interesting to share with you an article that appeared in Conseiller.ca on January 17th, 2020. This article lists 6 main challenges for the global economy.

As tensions dissipate somewhat between China and the United States, it is getting worse between the latter and Iran. International relations are not a quiet place and may affect many portfolios across the world. What will be the major threats for this beginning of the year?

Already, global growth has reached its lowest level since 2008 last year, at 2.9%. Thanks to the trade war between the American elephant and the Chinese dragon ... For 2020, the Organization for Economic Co-operation and Development (OECD) forecasts growth of 2.9% at most.

In the Belgian economic daily L'Echo, Wouter Vervenne presents six challenges that threaten the world economy, and which could even prevent it from reaching this modest growth threshold.

1. THE MIDDLE EAST AND THE OIL COURSE

The year began dramatically in the Middle East, with the assassination of Iranian General Qassem Soleimani in early January and the crash of flight PS752, which was shot down by an Iranian missile. The general's assassination quickly increased oil prices to over $ 70 a barrel. It had also crossed this threshold in September 2019, after a drone attack on Aramco's oil infrastructure in Saudi Arabia, which had halved its oil production.

Rising oil prices generally have a negative impact on global growth, says Wouter Vervenne. Purchasing power is declining in oil-importing countries, which then cut consumer spending and investment.

In principle, a rise in the price of oil no longer has much impact on the US economy. The United States is expected to become net oil exporters in 2020 for the first time in its history.

Europe has also reduced its dependence on oil since the 1970s. China and Japan remain important oil importers, however.

2. COMMERCIAL CONFLICTS

The agreement between China and the United States is only partial and does not imply that trade tensions will soon end. Washington is seeking further concessions from China, including cutting subsidies to Chinese public enterprises, cracking down on cyber attacks, and online commerce.

The United States will also turn its guns to Europe to close the trade deficit with the old continent. France's desire to tax internet companies (GAFA tax) remains in the throat of Donald Trump, who intends to target certain French products. He also threaten to impose tax on European cars.

3. THE AMERICAN PRESIDENTIAL ELECTIONS

This is a big factor of uncertainty that we will hear about all year. Donald Trump should once again be the Republican candidate, while Democrats are still looking for a champion. Leftist Democrat candidates Bernie Sanders and Elizabeth Warren are making the markets nervous, as the two hope to increase the tax burden on businesses.

4. THE BREXIT

The UK's departure from the European Union on January 31 will have little impact on the economy. We will indeed go into a transition period where there will be few changes. The United Kingdom and the European Union have less than a year to agree on a trade agreement. In the event of disagreement, the specter of a hard Brexit will return. The two partners would then impose taxes on their respective imports from the start of 2021. The United Kingdom would then risk a recession and the European Union could also suffer from it.

5. THE CENTRAL BANKS

The US Federal Reserve (Fed) and the European Central Bank (ECB) are expected to review their long-term strategy this year. The Fed will also review its arsenal of measures and its communication. Even the 2% inflation target could pass. The Fed could raise its inflation target after a period of very low inflation, reaching an average of 2% over the long term. This would require further economic stimulus.

The ECB is targeting inflation close to 2% without exceeding this threshold. It could also move away from oil stocks and buy more green bonds. ECB rates are expected to remain stable in 2020, as the forward rate market expects the Fed to decline in September or November. Otherwise, we can expect an increase in the long-term rate and the volatility in the equity markets.

6. CLIMATE CHANGE

The impact of climate change on the economy and on public policies is increasing. Investors cannot afford to ignore it. In 2020, the main countries of the world should adopt new, more ambitious climate targets. The new European Commission has already launched its Green Deal.

In conclusion with regard to the types of investment and their importance (weighting in %) in the portfolios, we must maintain a long-term approach, ensure that we are sufficiently diversified and hold companies of high quality in the portfolio. Furthermore, we remind you that staying true to your long-term plan is often better than trying to guess when to sell or buy. To reinforce this recommendation to stay invested, we invite you to consult the following link:

https://russellinvestments.com/Publications/US/Document/Russell_TheImpactofStayingInvested.pdf

Table #3					
Transactions since July 24 2019 in Discretionary accounts					
Date	**Position (CAD$)**	**Type**	**Price**	**Cost**	**Variation**
14-Aug	WSP Global	Buy	70.50		
22-Aug	Saputo	Buy	39.82		
03-Sep	HPR Horizon Active pfd ETF	Sell	7.52	9.10	-17%
03-Sep	BMO Long Federal Bond Index ETF	Buy	19.55		
04-Sep	Dollarama	Reduction	50.55	34.75	45%
04-Sep	Canadian Natural Resources	Reduction	31.46	41.30	-24%
05-Sep	Fortis	Buy	55.98		
30-Oct	iShares Europe	Sell	25.66	25.19	2%
31-Oct	RBC Lions Eurostoxx 50	Sell	110.20	100.00	10%
05-Nov	Fortis	Add	53.52		
Date	**Position (US$)**	**Type**	**Price**	**Cost**	**Variation**
24-Jul	Autonation	Sell	48.37	42.24	15%
15-Aug	JP Morgan	Addition	104.73		
15-Aug	Berkshire Hathaway	Addition	197.31		
05-Nov	McDonalds	Buy	191.66		
16-Dec	Vanguard Intl Equity Index Europe	Sell	58.64	60.09	-2%

As you can see, we have been active in your portfolios. We will not detail all transactions individually.

During the semester, we invested for you in WSP Global which is an engineering company with activities at a global scale (Canada, USA and Europe). It is headquartered in Quebec, has close to 50,000 employees and has no direct construction activity, which reduces financial risks unlike one of its competitors, SNC Lavalin. The latter (SNC Lavalin) suffered a lot on the stock market, among other things due to financial losses on construction contracts. WSP Global is also a growing company, has made several acquisitions over the years, is well managed and should continue to make other acquisitions given its size now.

In order to reduce the volatility of the equity portfolios, we have also invested in Fortis. Fortis Inc. is a Canadian-based electricity and gas utility holding company. The segments of the company include regulated utilities and unregulated utilities. The regulated utilities sector includes regulated electric and gas utilities in the United States (eg ITC Holdings, UNS Energy Corporation and Central Hudson Gas & Electric Corporation). Fortis also has operations in Canada (eg FortisAlberta Inc., FortisBC Energy Inc. and Newfoundland Power Inc.). The company also has interests in the Caribbean region. The transportation of electricity and gas is little affected by recessions so it is a relatively defensive society. Fortis's dividend is currently 3.43%, which makes it more attractive.

We recently added McDonalds to the portfolio due to the stock's weakness.

Although we have just listed a series of data on returns (among others), <u>these should be compared to your long-term financial plan</u>.

So, do you think that the evolution of your wealth (including your portfolios) behaves as desired on a medium to long term basis? If yes, well done.

What are your projects, objectives and / or questions that would require a discussion with us if necessary?

Again, do not hesitate to contact us if necessary. We have all the resources to help you with financial planning.

Wealth Management
Dominion Securities