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Dear client

We are already in the middle of the year. After a still volatile second quarter on the stock markets, returns after 6 months are positive despite signs of economic slowdown that are growing against the backdrop of trade disputes between the United States and China.

Thus, stock markets (since the beginning of 2019) across the planet are rising sharply. In addition, the bond market performed well in view of the central banks' change of direction (the Fed, among others) in the direction of interest rates. For example, it was possible to have a 3.5% interest rate for a 5-year term for a guaranteed investment certificate (GIC) in Canada last October when the best interest rate for a guaranteed investment certificate in Canada 5-year deposit is currently 2.33%, which represents a decline of more than 1% since the last rise in interest rates of the Bank of Canada. Thus, when interest rates fall, bonds tend to increase in value.

The consensus of the financial strategists is that there will be no increase in interest rates in 2019 in the United States and Canada while the FED planned in 2018 raise interest rates again in 2019. We talk about a 180 degree turn.

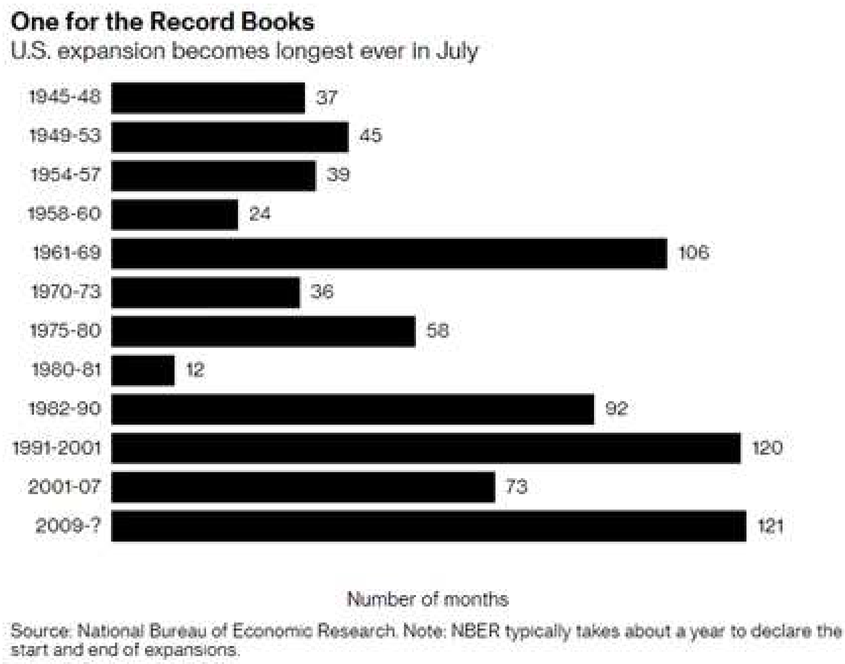
In terms of forecast, on the side of the FED (central bank in the United States), we anticipate the possibility of a single rate cut of 0.25% by the end of the year while the financial markets seem expect at least three declines that could total 0.75% within a year.

While we recognize that economic growth is slowing from last year's pace, we believe the upward trend in this bullish equity market over the last 10 years will continue as long as the next recession is over, not anticipated. We believe that economic uncertainty and debate around the end of the cycle and a slowdown in growth will continue for the foreseeable future. That said, we do not believe that the stock market is at excessive levels in terms of valuation and taking into account the returns of fixed income securities. In the United States, employment remains robust, and the relatively calm pace of the economic recovery since 2009 suggests that the current cycle could continue even longer. We would probably tend to temper our opinion if we observed more excessive risk-taking and irrational exuberance.

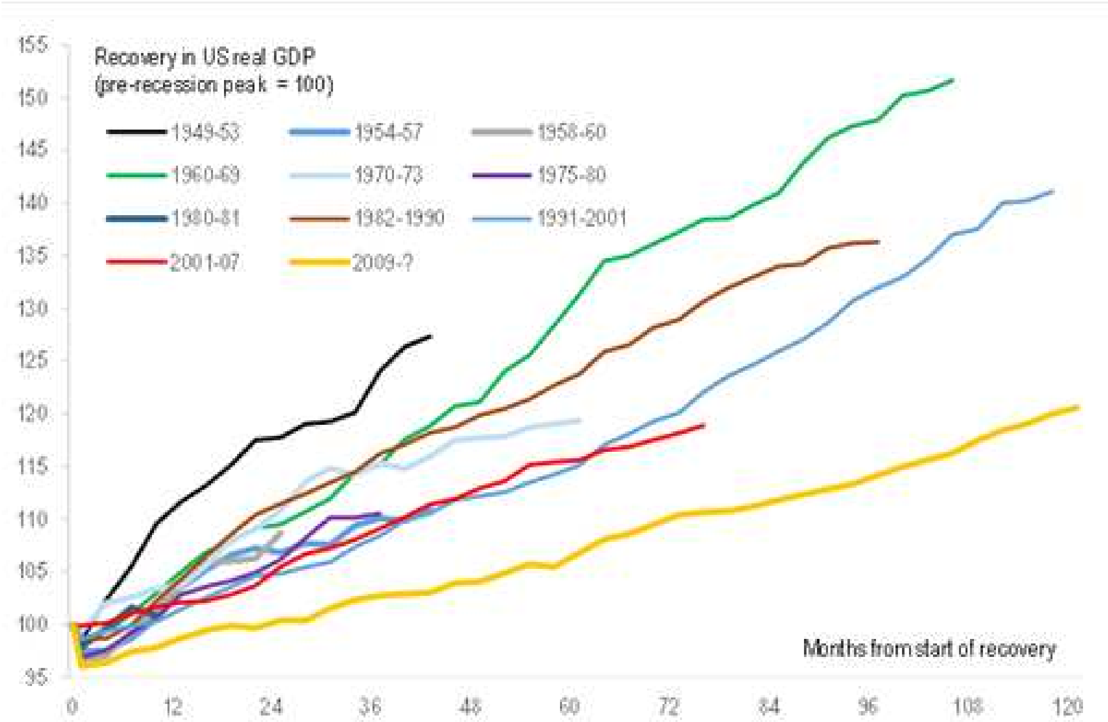
In conclusion, we remain cautiously optimistic about the market, but remain vigilant about protecting capital. In addition, we recommend that investors maintain their equity weighting at the same level as currently.

Thoughts concerning US economic growth

The sources of internal and external information are very abundant and are not lacking. The current expansion in the United States is the longest ever. As the chart below shows, the U.S. recovery just hit 121 months old in July, surpassing the remarkably elongated cycle of 1991-2001 and making it officially the longest expansion going back to 1854.



Nevertheless, the age of the cycle, in and of itself, may not really tell us much. Despite being the longest on record, the chart below from RBC CM illustrates the current U.S. business cycle has actually been the weakest cycle in the post-World War II period. “If one plots all post-WWII recoveries, rebased so that 100 is the pre-recession peak, the current expansion is about the same size as recoveries half its length, and up to half the size of recoveries with a similar length.”



For additional context, the cumulative growth in U.S. real GDP over the current cycle has been roughly 20%, or approximately 2% per annum. Each of the other cycles that had surpassed 20% cumulative growth in real GDP did so on average over 16 quarters – not over 10 years. In terms of size, RBC CM notes that the current expansion is a similar size to the 1970-73 and 2001-07 expansions, but notably smaller than 1991-2001 (blue line), 1982-90 (brown line), 1949-53 (black line), and the largest one so far, 1960-69 (green line above).

In conclusion, even though the current economic cycle has lasted for 10 years (121 months), given the weak annual growth of the US economy, it is foreseeable that the economy cycle will continue on its momentum for a long time.

Transactions done in portfolios since the beginning of 2019

Date	Position (CAD$)	Type	Price	Cost	Variation
25-Apr	First Capital Realty	Buy	21.25		
13-May	Onex	Buy	78.27		
13-May	Onex	Buy	78.27		
12-Jun	Bank of Montreal	Addition	99.17		
12-Jun	Brookfield Asset Management	Addition	62.95		
12-Jun	Intact Financial	Addition	118.05		
12-Jun	Canadian National Railway	Addition	121.64		
Date	**Position (US$)**	**Type**	**Price**	**Cost**	**Variation**
05-Mar	UnitedHealth	Buy	241.84		
03-Jun	AT&T	Buy	31.03		
03-Jun	Verizon	Buy	56.03		
03-Jun	Crown Castle Intl	Buy	131.24		
03-Jun	Facebook	Sell	164.62	134.11	23%
03-Jun	Google	Reduction	1030.43	837.93	23%

In the last quarter of 2018, we had slightly reduced the weighting in equities and conserved liquidity as a precautionary measure and in order to deploy this capital in good opportunities. As you can see from the list above, we have been active in your portfolios and made a number of purchases or additions.

We will not detail all transactions individually.

Among other purchases in the Canadian account, we took a position in First Capital Realty (symbol: FCR). First Capital Realty is a fully integrated Canadian real estate operating company focused on owning, managing, acquiring and developing neighborhood shopping centers. Its centers are usually anchored in grocery stores, department stores or pharmacies. The tenants of First Capital Realty provide consumers with goods and services essential to their daily lives, which is a source of stable rental income for First Capital Realty. The company currently has interests in more than 165 properties for 25 million square feet of leasable area. Positive factor in addition, this company pays a dividend of 3.9% currently, which is very interesting. Finally, to the extent that interest rates remain stable or fall, this real estate company should behave well.

In the account in US currency, we decided to make this portfolio more defensive. To do this, we have invested in three defensive and non-cyclical companies which, in addition, pay very good dividends. It is AT & T Inc. (symbol T), which pays a 6.1% dividend, Verizon Communications Inc. (symbol VZ) paying a dividend of 4.3%, while Crown Castle International Corp. (symbol CCI) pays a 3.3% dividend. AT & T and Verizon are telecommunications companies (television, internet, cellular, among others) while Crown Castle is a company that holds cellular towers which will, among other things, enable the arrival of the 5G network representing the new generation of mobile internet connectivity, offering faster speeds and more reliable connections on smartphones and will increase the connectivity of objects, which is a source of growing revenue. 80% or more of his income is recurring, which is another attraction of Crown Castle. The latter company is located in the United States and generated revenues of $5.4 billion in 2018 (last fiscal year).

In order to make room for the three purchases described above (AT & T, Verizon and Crown Castle), we sold with an average profit of 23% the position in Facebook and reduced the position in Google allowing to take a profit also 23%. The US Department of Justice is examining the market dominance of these two companies in their respective sectors, which could prevent these two companies from seeing their share price rise rapidly according to the firm.

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

Once more, do not hesitate to contact us if needed. We have at our disposal all the resources needed to help you with your financial planning.

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