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Dear friends,

Following the 2018 correction, stock markets rode the momentum at the start of 2019 to close the year on a strong note. In the end, 2019 proved to be the best year of the decade for global equities. The S&P/TSX recorded a 19.1% increase, while the S&P 500 continued to show leadership with a return of almost 30%. The 5% rebound of the Canadian dollar, however, reduced the S&P 500's advance to 22.7% for investors north of the border (in C\$). If North American and European markets fared especially well, emerging markets came back in full force in 2019, thanks to a surge in December. Hopes of ratification of the "Phase one" trade agreement between the United States and China were a catalyst. Investors' appetite for these markets should continue we believe.

If a settlement of trade disputes is positive for emerging markets, so too are liquidity injections by central banks and the weakening of the US dollar. In this climate, we believe that cyclical investments will continue to perform well in 2020. Shares of natural resource companies were among the best fourth-quarter performers in Canada. As we wrote in our last newsletter, the resurgence of the crude oil price, coupled with a favourable economic environment, should enable oil companies to continue their comeback. Several of these stocks remain bargains, selling at depressed price-earnings ratios. The jump in mining and gold stocks could also continue in the face of a weak US dollar and the smooth resumption of activities in China and elsewhere in Asia.

After a year of almost zero-earnings growth for global equities, expected growth is nearing 10% for 2020. If the Chinese-American trade dispute contributed to the stagnation in 2019, a final trade treaty could hold surprises in the second half of the year. This optimism is reflected in the valuation of several indices. On this side of the world, the forward price-earnings of the S&P 500 is at 18.5, a level last reached between 1997 and 1999 in an environment that was highly favourable to equities. In Canada, the S&P/TSX remains more affordable and trades at 15 times the forward earnings, thanks to natural resource stocks and financials. This marks the greatest P/E spread compared with the US market since the 2001 recession.

	Closing 31-Dec-19	Change** Quarter	2019
Stock Indices (% in C\$)			
S&P/TSX	17,063	2.4%	19.1%
S&P 500	3,231	6.5%	22.7%
MSCI EAFE*	2,037	5.8%	12.8%
Currencies			
CAN\$ (US\$/C\$)	0.7699	1.9%	5.0%
Euro (US\$/EUR)	1.1212	2.9%	-2.3%
Commodities (US\$)			
Oil (WTI)	\$ 61.71	14.1%	36.5%
Gold	\$ 1,521	3.2%	18.7%
Volatility Index			
VIX	13.78	-2.46	-11.64

* MSCI Europe, Australasia and Far East (US\$)

** Changes are expressed in C\$ for Stock Indices.

Comeback of Canadian Equities

If the current valuation leads us to favour the Canadian stock market, earnings growth over the next two quarters also puts the S&P/TSX at an advantage. The start of

fourth-quarter results announcements revealed that expected earnings for this quarter have been revised sharply downwards since last summer for the S&P 500. As the table shows, the current consensus is -0.6% for Q4-2019 compared to Q4-2018. Forecasts have remained higher for the Canadian market, both for Q4 and Q1-2020. However, analysts are less optimistic about Q2 and the following quarters, due to the energy sector. Excluding oil companies, growth expectation for the S&P/TSX is 11.2% instead of 7.8% for 2020 as a whole. A gradual rebound of global trade this year could certainly lead to positive surprises for oil company profits and the entire Canadian market.

	Q4 2019	Year 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Year 2020	P/E 2020
Earnings Growth (Year over Year) and Forward Price-Earnings Ratio								
S&P/TSX	9.0%	4.0%	17.0%	1.5%	6.6%	9.3%	7.8%	15.0
S&P 500	-0.6%	1.0%	6.1%	7.2%	10.1%	14.4%	9.6%	18.5

* Source: I/B/E/S data from Refinitiv (Thomson)

Financial Planning and Review of Objectives

Despite encouraging data for stocks, interest rates on bonds will remain low for some time. Consequently, the expected return on fixed income will continue to have a negative impact on the performance of balanced portfolios. Your rate of return is a major factor in evaluating the success of your investment strategy, but it is not the only one. A strategy's success depends on the ability of your portfolio to provide the money you need in a timely fashion to meet your objectives. For this reason, a solid financial plan is essential. When we know exactly what we want to achieve, it is easier to stay on track and avoid pitfalls. By clearly defining the success parameters of your strategy and the risk factors, you will maximize your hard-earned money. The real risk for investors isn't losing money in a given year but rather not reaching their savings goals and failing to achieve what was initially planned. An occasional review of your objectives and investment strategy is vital.

Conclusions and Perspectives

In recent months, we have added non-traditional investments in real estate, private debt and private equity. These alternative funds have delivered good returns and are useful assets for diversifying your portfolio and improving performance in the face of current low rates. In this US election year, we believe that President Trump will want to resolve the Chinese file quickly. "Phase two" of the trade agreement could foster sustained improvement of the world economy and boost equities. This would favour foreign and Canadian equities, which are more affordable and tend to do well when the US economic expansion is mature. A recovery in plant activity, central banks cooperation and a weakening US dollar would assist our local stock market. Resource producers and banks may well rebound, unless there is an unexpected shock to the economy, to public debt management or a geopolitical incident, such as a festering conflict with Iran.