

Dear friends,

The strong rally that started at the onset of the year continued well into the second quarter. The pace of the advance slowed down, yet, the S&P/TSX still rose 1.7% and the S&P 500 increased 1.8% (in C\$) in Q2. We initiated this summer season at pretty much the same spot than last autumn when we were hit with a brutal correction. What is in store for investors in the second half of this year? We believe that the second quarter is a good indication of what to expect. With gains above 10% showing up year-to-date on this side of the globe, it would be surprising to see a repeat of the first quarter in the current economic and politic conditions. Overseas, the MSCI EAFE index pushed up timidly during the second quarter, for a 7.3% advance so far in 2019.

	Closing 30-Jun-19	Change** Quarter	2019
Stock Indices (% in C\$)			
S&P/TSX	16,382	1.7%	14.4%
S&P 500	2,942	1.8%	12.7%
MSCI EAFE*	1,922	0.5%	7.3%
Currencies			
CAN\$ (US\$/C\$)	0.7638	1.9%	4.2%
Euro (US\$/EUR)	1.1370	1.4%	-0.9%
Commodities (US\$)			
Oil (WTI)	\$ 58.20	-3.3%	28.9%
Gold	\$ 1,412	9.0%	10.2%
Volatility Index			
VIX	15.08	+1.37	-10.34

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

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

We can thank the resilience of our continent's economy for the good performance of North American markets. Even if the rate of world economic growth is decelerating, the economic engine is still humming along in our hemisphere. Let us be grateful that Uncle Sam's country maintains a solid growth in GDP. There are no forward inflation expectations to speak of and combined with current conditions, we do not exclude a rate cut after nine consecutive increases. Such a positive scenario for markets will very likely be confirmed by a Federal Reserve's move later this month, according to a consensus of economists. In Canada, after running on empty, the economy is picking up. We can show gratitude to a robust trade balance, to a stabilisation in residential real estate and to a very healthy rise in crude production. Contrary to the Fed, we anticipate that the Bank of Canada will opt to stand pat considering our actual debt levels and geopolitical tensions across the globe.

Now, should we still worry about the conflict between China and the USA? We believe that this uncertainty has been looming for far too long. Therefore, we welcome the truce that was announced at the recent G20 meeting. We have stressed several times the strategic importance of Trump's stance vs. China. Until we see a resolution, the risk of tariffs contagion can ripple through the world economy and bring nervousness in capital markets. In the short term, we focus our attention on earnings announcements for Q2. For the S&P 500, the consensus is for flat earnings growth vs. Q2-2018 following negative earnings revisions recently. We know already that earnings prospects for Q2 and Q3 are disappointing, but analysts anticipate robust growth for Q4 (7%) and for 2020 (10%), which is good news. For the S&P/TSX, the consensus stands at 5.7% for 2019 and for next year we are chugging along the US express at a 10% clip. In a changing and maturing economic cycle, we cautiously added high dividend equities to the portfolio. We believe that these stocks will be in demand in the coming months.