

Dear friends,

If the beginning of the year was exciting on Wall Street, what followed during the summer was rather dull. Even with a few mood swings by investors spooked by geopolitical news, the third quarter was sedate. While the hopes and fears of a prolonged trade war with China made the headlines, the S&P 500 advanced 2.3% (in C\$) and the S&P/TSX inched forward by 1.7%. Despite the pullback of the WTI in Q3, the oil patch did rather well in September benefiting from a bounce in the commodity that faded away since then. Yet, we still believe that the oil companies will come back with a fair number of them being bargains trading at very low price/earnings multiples. Amongst the best performers, the Golds and the yellow metal are up 30% and 15% respectively this year.

	Closing 30-Sep-19	Change** Quarter	2019
Stock Indices (% in C\$)			
S&P/TSX	16,659	1.7%	16.3%
S&P 500	2,977	2.3%	15.3%
MSCI EAFE*	1,889	-0.6%	6.7%
Currencies			
CAN\$ (US\$/C\$)	0.7552	-1.1%	3.0%
Euro (US\$/EUR)	1.0900	-4.1%	-5.0%
Commodities (US\$)			
Oil (WTI)	\$ 54.07	-7.2%	19.6%
Gold	\$ 1,474	4.4%	15.0%
Volatility Index			
VIX	16.24	+1.16	-9.18

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

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

Held back by trading tensions, the world economy is getting weaker. The world GDP is going through its worst performance in a decade and this slowdown will drag on for the rest of the year. In fact, the IMF just revised its global growth forecast down to 3.0% for 2019. That's the lowest mark since the 2008-2009 financial crisis. The IMF cited as a major culprit the trade tensions and the fact that they must cease in order to halt any further degradation. In the US, the ISM index pulled back quite significantly in September. Must we put all the blame on the trade tensions for the slowdown in manufacturing? It is quite possible. For sure, the consumers and the service sector will have to stay strong and pick up the slack to avoid a recession. The good news though is that the Federal Reserve is back to the rescue with rate decreases. With a more accommodative posture, the Fed – and the rest of the world's central banks – could actually pull off an unprecedented 3rd soft landing during this economic cycle.

The ongoing discussions between China and the US are of paramount importance for the economy in 2020. Even though no complete treaty was reached, the Chinese negotiators managed a compromise with their American counterparts and a partial accord was announced the 11th of October. This limited accord concerns the farming sector, but this “phase one” deal relieves tensions and gives hope to the delegations. For sure, a complete trade deal would greatly diminish recession risks and be very positive for the stock market. In our humble opinion, it is precisely this likelihood of seeing the stocks bouncing back that maintains the market afloat. On the other hand, if hostilities resume or earnings slowdown more, this could generate a worst scenario. We believe that the two parties will at least reach a prolonged truce by the end of the year. The stock market, the price of oil and the Canadian dollar would be reinvigorated by a similar positive outcome.