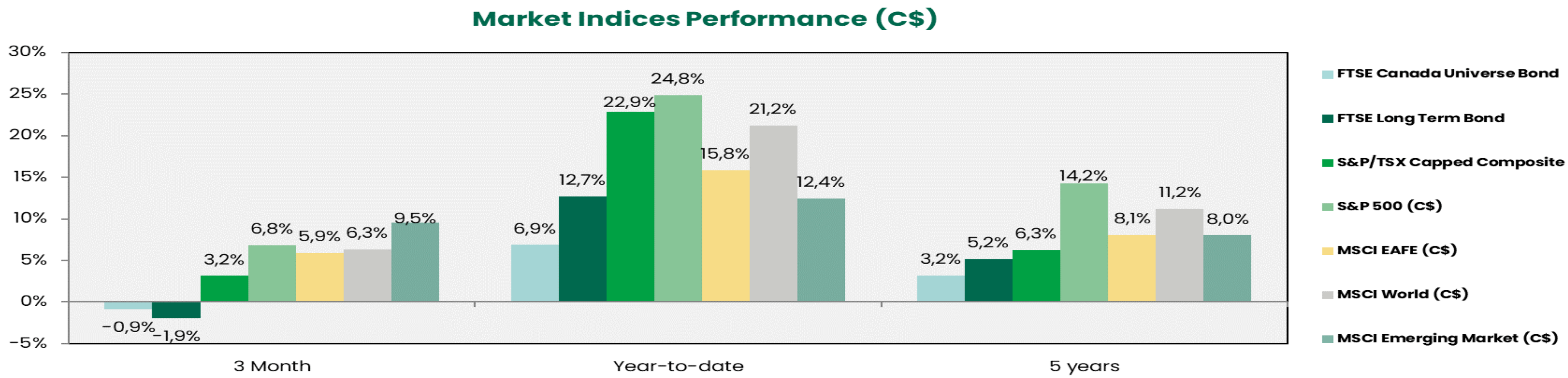
Commentary as at December 31, 2019



Outlook for a China/US trade agreement

Stock markets continued to perform well in the fourth quarter. The geopolitical risks that dominated the markets for much of 2019 faded as global stock markets posted very attractive gains. Growth held steady for the vast majority of the main global stock markets, including in Canada as the main index (S&P/TSX Capped Composite) closed up 3.2%. Bond markets were the only exception as yields actually rose in the fourth quarter: the FTSE Canada Universe index posted an annual return of -0.9%, while the FTSE Canada Long Term generated a return of -1.9%.

US stocks made impressive gains in the fourth quarter, posting a return of 6.8% in Canadian dollars. This was attributable to lower trade uncertainties following the announcement of phase 1 of the China/US trade deal. The Fed reduced its key rate once during the quarter. The tech sector was one of the main beneficiaries of the easing in trade tensions. Energy stocks, which had lagged significantly behind the S&P 500 in 2019, recovered as oil prices rose on lower-than-expected supply.

In Europe, euro zone stocks made major gains in the fourth quarter, supported by improved economic data in Germany, as well as by phase 1 of the China/US trade agreement. Gains were spurred by three sectors that typically do well when the economy is more robust, e.g. Information Technology, Consumer Discretionary and Materials. In the UK, domestic policy boosted asset prices following the Conservative party victory in the December general election. The new government is expected to use its large majority to complete Brexit.

In the Canadian bond market, yields were up along the curve, partly accounting for the FTSE Canada Universe index's negative quarterly return.

Gold closed the fourth quarter up 1.98% at US$1,515 an ounce. In the oil patch, a barrel of Brent crude was up 12.60% to finish the quarter at US$68.44. WTI (West Texas Intermediate) was up 14.07% to US$61.68 while WCS (Western Canada Select) was down -4.58% to US$39.55.

In employment news, the US economy created 564,000 jobs during the quarter, with nearly 2.13 million added in the past 12 months. In Canada, 37,800 jobs were lost during the quarter although nearly 320,300 were created in the past 12 months. Unemployment in Canada was up slightly to 5.6% while the US jobless rate held steady at 3.5%.

In the US residential real estate market, the most recent data for the S&P CoreLogic Case-Shiller index (October 2019) showed a 12-month variation of 2.23%. Meanwhile, the Teranet/National Bank House Price Index, which measures Canadian residential real estate, showed a variation of 1.95% for the same period.

	Canada	US
GDP growth (annual variation)	1.2%	2.1%
Inflation (annual variation)	2.2%	2.3%
Job creation (quarterly)	-37,800	564,000
Job creation (annual variation)	320,300	2,133,000
Unemployment	5.6%	3.5%

Most recent data (January 28, 2020)

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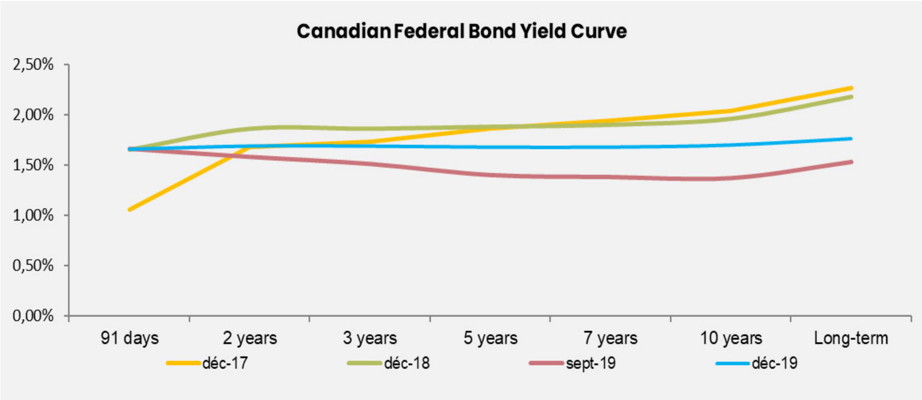
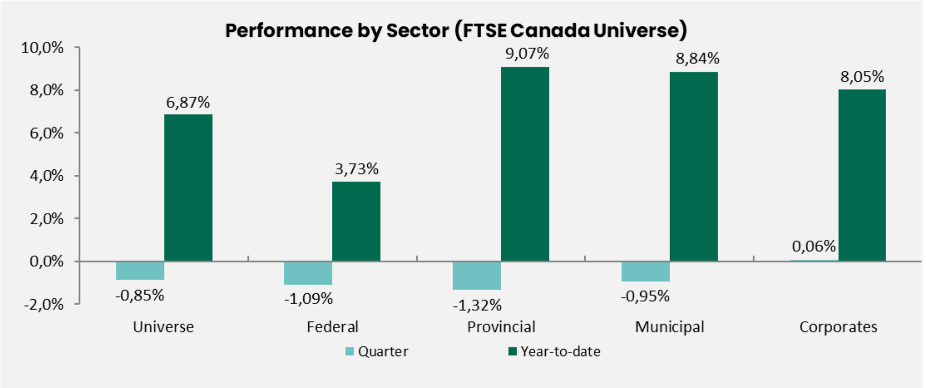
Canadian bond market

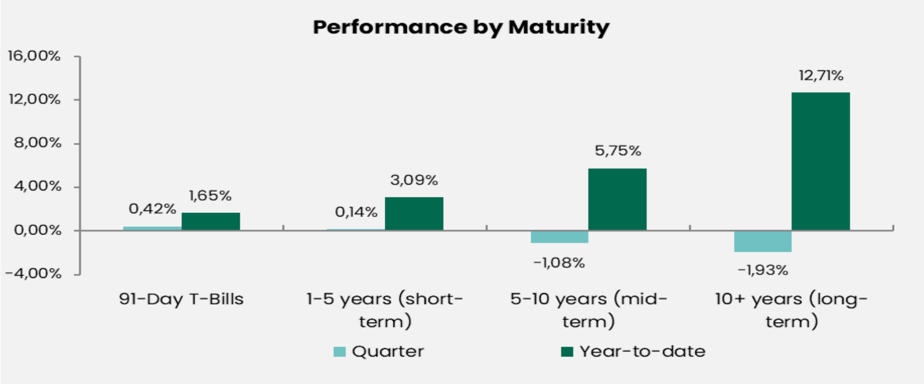
During the quarter, the yields to maturity of Canada bonds were up along the entire curve.



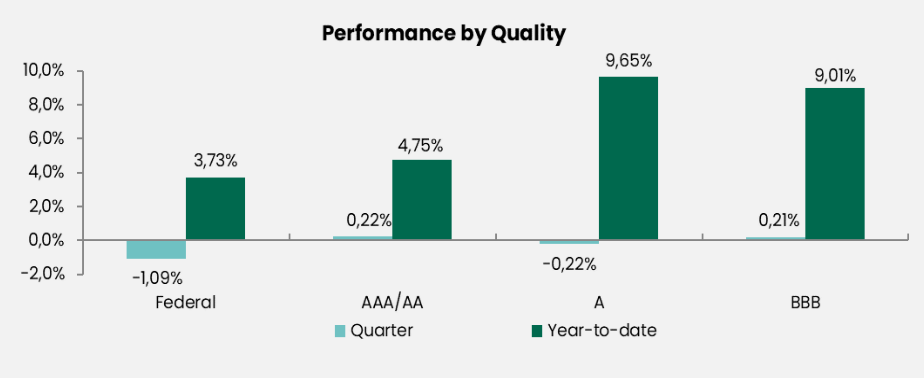
During the period, the FTSE Canada Universe index posted a return of -0.85%. All bond categories had negative quarterly showings besides corporates, mainly due to higher yields along the curve during the quarter. The weakest performers were provincial bonds with a return of - 1.32%.



Long-term bonds were the weakest quarterly performers (-1.93%), due to higher yields combined with these bonds' longer duration. Short-term bonds were up 0.14% while medium-term bonds were down -1.08%. In addition, 2-year, 20-year and 30-year federal bonds finished the quarter with yields to maturity of 1.69%, 1.70% and 1.76% respectively, while 91-day Treasury bills were up 1.66%.

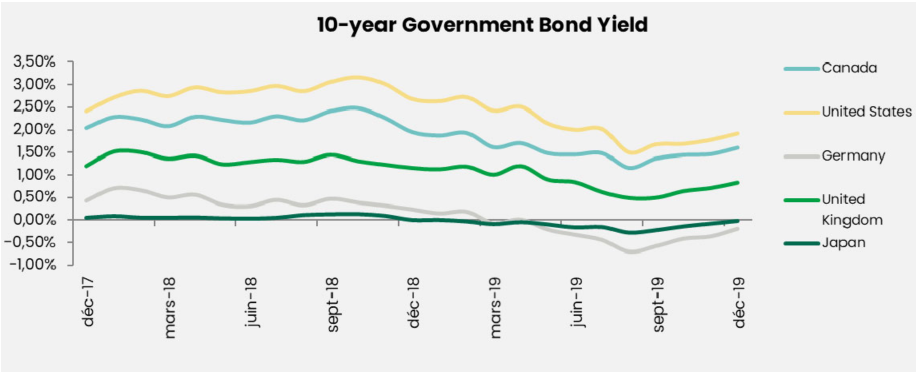


During the quarter, A-grade corporate bonds saw their credit spreads narrow in relation to federal bonds, which had a positive impact on performance. AAA/AA corporate bonds were the best quarterly performers.

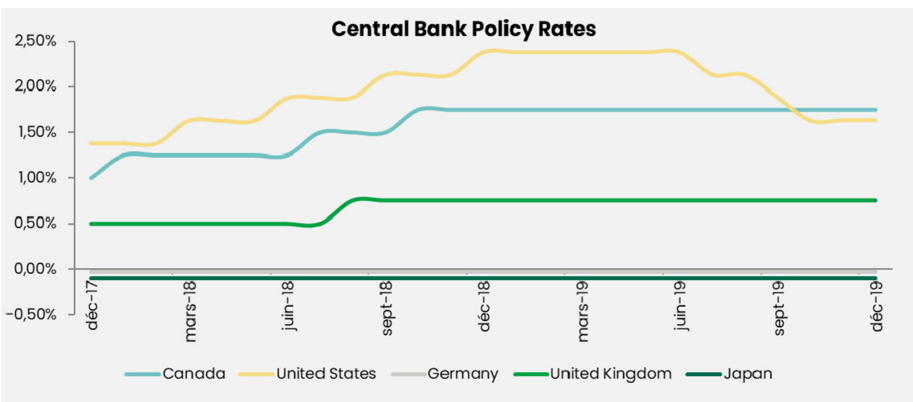


Global bond markets

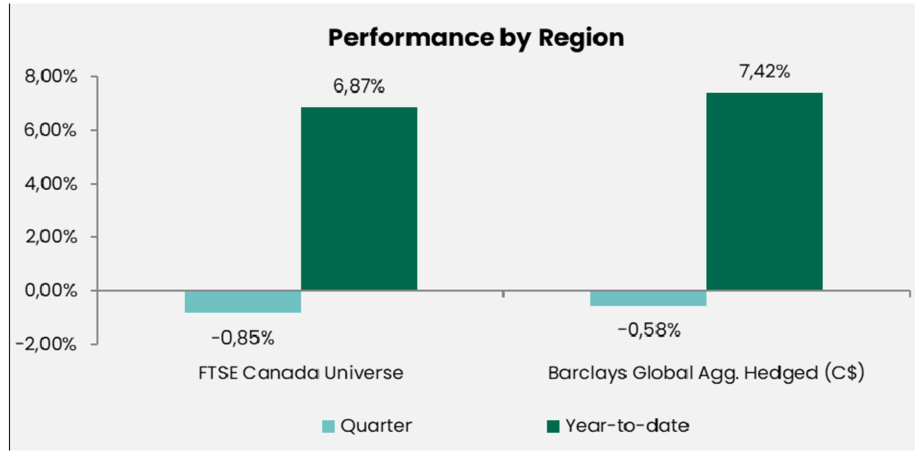
The yields to maturity of 10-year government bonds rose for all countries listed in the table below. Once again, Japan and Germany posted negative quarterly yields.



The Bank of Canada kept its key rate unchanged in the fourth quarter. Explaining his decision on the key rate, Stephen Poloz said the bank has weighed the risk that inflation is below target versus the risk that a fall in interest rates could lead to increased financial vulnerability. South of the border, the Fed decided to lower its key rate once during the quarter. The Bank of England opted to keep its rate at 0.75%.



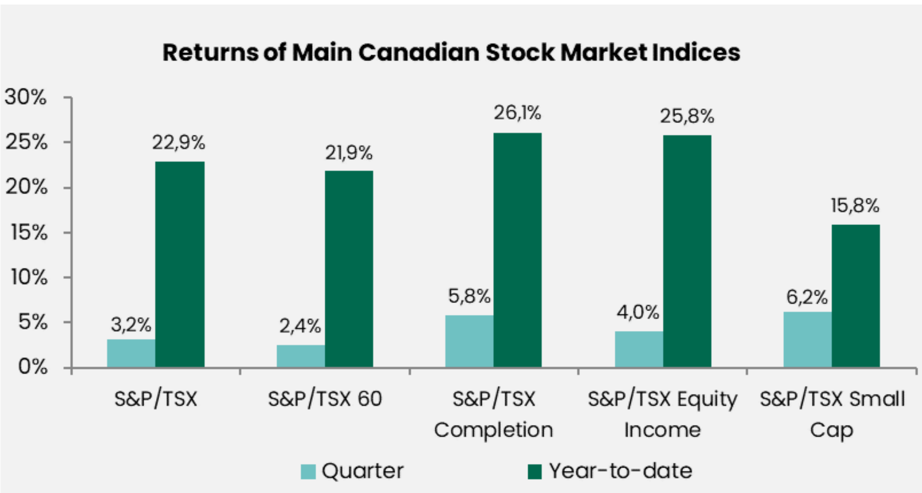
Canadian bonds, as measured by the FTSE Canada Universe index, posted a yield of -0.85% as opposed to -0.58% for global bonds (Barclays Global Aggregate index, currency-hedged (C$)). Foreign interest rates rose, in contrast to the situation in Canada, thus accounting for the underperformance of Canadian bonds in relation to their global counterparts.



Canadian stock market

The Canadian stock market, as measured by the S&P/TSX index, finished the quarter with a return of 3.2%. The fourth quarter began with fragile markets as disappointing economic data sparked fears of a global economic slowdown. This situation, however, proved only temporary. More recently, progress in the US-Mexico-Canada Agreement (USMCA) talks to replace NAFTA added to the sense of optimism. The new agreement is expected to be ratified by the US Senate in early 2020.

During the quarter, all the main Canadian indexes generated positive returns, ranging from 2.4% to 6.2%, as small and medium caps outperformed large caps. Meanwhile, the Canadian small cap index finished the quarter with a return of 6.2%, boosted by fine performances by the Materials and Industrials sectors.



S&P/TSX Sector	Weight (%)	Returns		
		Quarter	Year-to-date	3 years
Energy	17,0	7,08%	21,65%	-2,61%
Materials	11,4	7,80%	23,81%	6,53%
Industrials	11,0	5,16%	25,56%	13,60%
Consumer Discretionary	4,1	-2,35%	16,79%	6,37%
Consumer Staples	3,9	-3,91%	14,34%	7,96%
Health Care	1,3	-5,81%	-10,85%	0,34%
Financials	32,1	0,96%	21,62%	7,74%
Information Technology	5,7	10,81%	64,92%	29,59%
Communications Services	5,5	0,92%	13,46%	8,91%
Utilities	4,8	2,00%	37,50%	11,83%
Real Estate	3,5	-2,45%	21,29%	11,49%

In this quarter, seven of the eleven sectors posted positive returns. Information Technology came out on top with a return of 10.8%, helped mainly by Shopify, which has the strongest weighting in this sector and turned in an excellent performance (+25.2%). In second place was Materials (+7.8%), which benefited in particular from Franco-Nevada (+11.4%) and Barrick Gold (+5.6%), which account for two of the three stocks with the highest sector weightings.

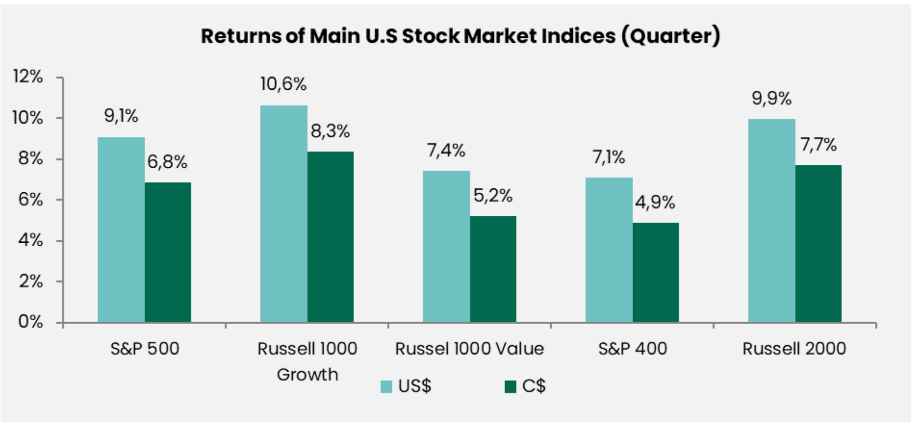
Bringing up the rear for the third consecutive quarter was Health Care with a return of -5.8%. Cannabis companies dragged the sector down as results indicated that sales, although up, were less than anticipated by investors. In addition, this new industry is having a hard time turning sales growth into profitability.

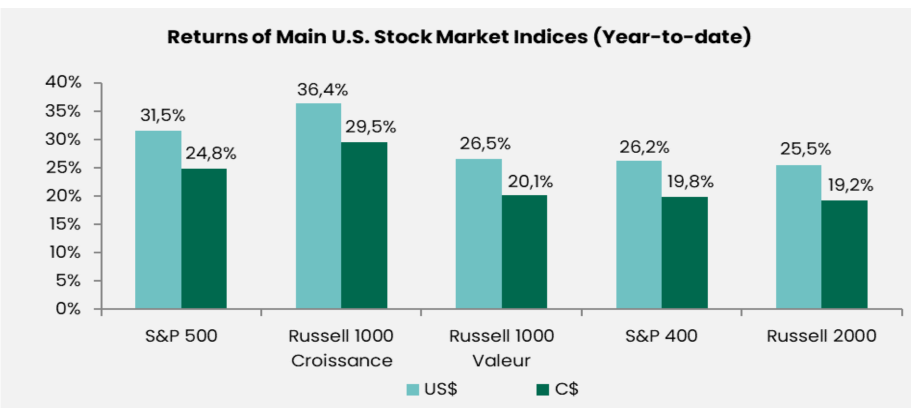
Despite a calmer quarter, the Financials sector had an excellent year overall with a gain of 21.6%. During the year, life insurance companies posted solid results, while all of the chartered banks, except for CIBC, posted higher earnings in 2019. Thanks to their strong weighting, life insurers were the major contributors in this sector.

US stock market

During the quarter, the S&P 500 posted a return of 9.1% in US dollars. The loonie's appreciation against the greenback had a negative impact on Canadian investors, thus accounting for the 6.8% return in Canadian dollars.

Growth-style stocks continued to outperform value-style in the fourth quarter. The Russell 1000 Growth index posted a return of 10.6%, outpacing the Russell 1000 Value index (+7.4% in US$). As regards market capitalization, small caps (Russell 2000) outperformed both large caps (S&P 500) and medium caps (S&P 400).





S&P 500 Sector	Weight (%)	Returns (in US$)		
		Quarter	Year-to-date	3 years
Energy	4,5	5,28%	11,57%	-3,22%
Materials	2,7	10,16%	29,07%	11,11%
Industrials	9,3	11,80%	37,03%	12,88%
Consumer Discretionary	10,1	6,51%	30,40%	17,37%
Consumer Staples	7,6	5,01%	29,43%	10,41%
Health Care	13,7	26,69%	33,81%	20,26%
Financials	12,9	19,22%	42,53%	14,84%
Information Technology	21,9	25,65%	65,07%	31,70%
Communications Services	10,4	16,87%	42,22%	7,10%
Utilities	3,6	-1,54%	23,32%	12,90%
Real Estate	3,2	-2,04%	26,94%	11,23%

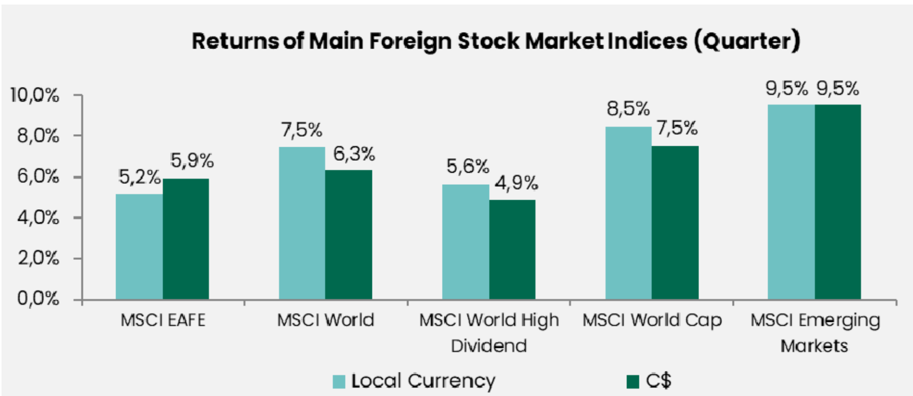
Nine of the eleven US index sectors generated positive returns in US dollars. Health Care was in first place with a return of 26.7%. The main contributor was UnitedHealth Group (35.8%), a Minnesota-based insurance and health care company, thanks to its weighting in the index and, in particular, its quarterly performance. The FAANG companies continued their fine performance, propelling the Information Technology sector into second place with a return of 25.7%. The biggest sector contributors were Apple (31.5%) and Microsoft (13.8%).

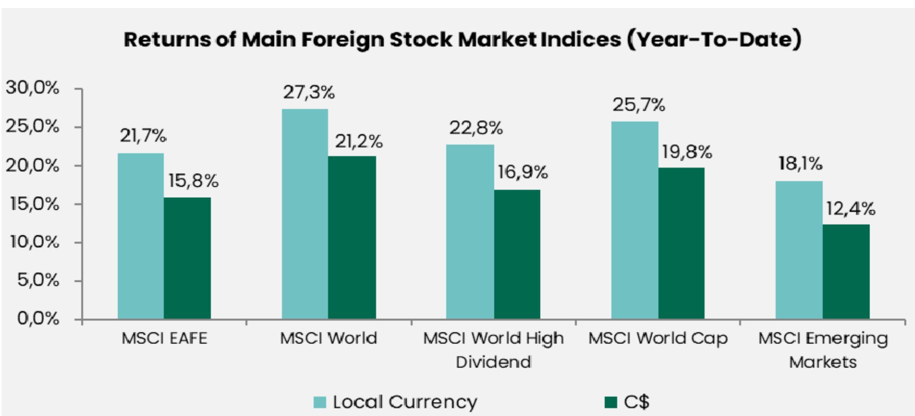
In contrast, the most lacklustre performer was Real Estate with a return of -2.0%. The biggest detractors in this sector were Ventas (-19.9%), a real estate investment trust, as well as Public Storage (-12.3%), an international self-storage company headquartered in Glendale, California.

Foreign stock markets

During the fourth quarter of 2019, the main foreign stock indexes posted positive returns in local currencies as well as in Canadian dollars. As in Canada and the US, these indexes reaped the benefits of lower geopolitical tensions.

Of the indexes listed below, MSCI Emerging Markets was the best quarterly performer with a return of 9.5% in local currencies, thanks to reduced geopolitical concerns. The other indexes also ended up in positive territory, with returns ranging from 5.2% to 8.5% in local currencies.





MSCI EAFE	Weight	Returns (in local currency)		
Region	(%)	Quarter	Quarter	3 years
United Kingdom	16,47%	2,28%	16,37%	5,83%
Europe ex-UK	47,15%	5,25%	26,43%	8,40%
Japan	24,53%	8,24%	18,48%	6,38%
Pacific ex-Japan	11,85%	2,63%	18,04%	10,43%

In local currencies, 20 of the 21 EAFE index countries generated positive returns during the quarter. The best performers were Ireland and Denmark, while Belgium and Australia came in last.

MSCI EAFE	Weight	Returns (in local currency)		
Sector	(%)	Quarter	Year-to-date	3 years
Energy	4,9	-1,37%	6,24%	4,74%
Materials	7,1	6,88%	14,10%	8,98%
Industrials	15,0	7,53%	26,28%	9,32%
Consumer Discretionary	11,6	7,22%	24,71%	7,06%
Consumer Staples	11,3	-1,47%	18,03%	7,53%
Health Care	12,2	9,18%	29,70%	11,47%
Financials	18,6	4,95%	17,48%	3,89%
Real Estate	3,5	2,43%	14,32%	6,68%
Information Technology	7,1	10,95%	38,32%	15,24%
Communications Services	5,2	2,35%	12,23%	1,72%
Utilities	3,7	2,16%	19,57%	11,07%

Nine of the eleven MSCI EAFE sectors recorded gains in local currencies. The best quarterly performer was Information Technology, boosted by Netherlands-based ASML Holding (17.5%), one of the global manufacturing leaders, specializing in machines for the semi-conductor industry. The company reported sharply higher net income and earnings per share. In second place was Health Care, helped by Germany's SAP, which posted a quarterly return of 12.4%.

The Consumer Staples sector was the worst quarterly performer. The biggest detractor was Anheuser-Busch (-15.2%) in the wake of disappointing results published in October 2019.

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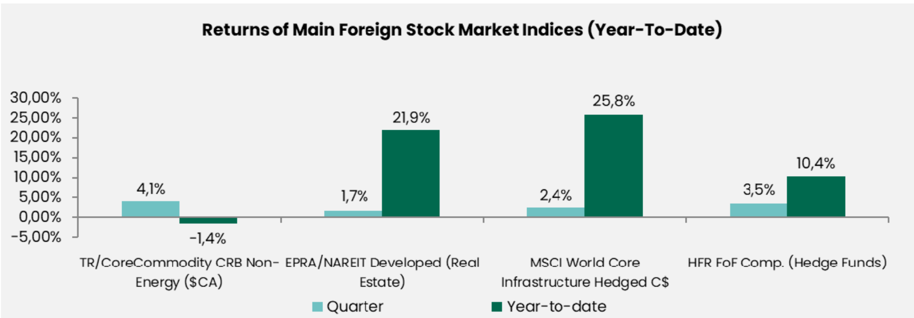
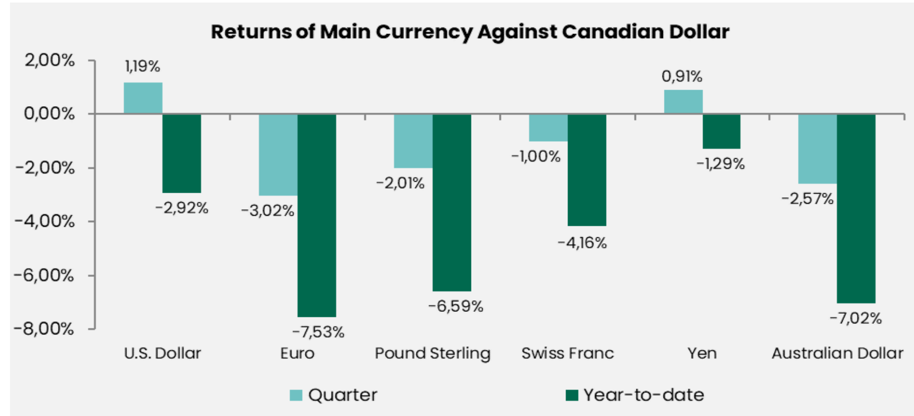
Alternative investments and currencies



Returns in C$				
Quarter	4,1%	-0,3%	2,4%	1,4%
YTD	-1,4%	15,7%	25,8%	4,8%

The Commodity index (excluding energy) a finished first among alternative investment indexes, with a return of 4.1% for the quarter. Despite a positive return, the Real Estate index turned in the worst quarterly performance with a return of 1.7% (-0.3% in C$). This asset class still recorded an excellent annual return, as did the infrastructure index, thanks to excellent first quarters. Meanwhile, the HFRI Fund of Funds Composite index turned in a quarterly performance of 3.5% (1.4% in C$).



During the quarter, the Canadian dollar benefited from the easing of China/US trade tensions and appreciated against most of the major currencies, except the US dollar and the Japanese yen.

Commodities TR/CoreCommodity CRB ex-Energy	Weighting (%)	Returns (in $US)	
		Quarter	Year to date
Agriculture	67.0%	7.6%	2.7%
Precious metals	11.7%	3.2%	15.3%
Base metals	21.3%	4.9%	3.8%

The TR/CoreCommodity CRB ex-Energy index recorded a positive quarterly performance (+1.6%), thanks mainly to the agriculture sector, with an impressive return (+7.6%) and a strong weighting (67%).