Commentary for the Second Quarter of 2019

Equity markets rally continues into Q2
While May offered a reminder to investors that markets won't be moving in a straight line upwards this year, broadly Q2 continued the positive trend that started in January.

Markets took a downward turn in May following a series of tweets by U.S. President Trump threatening to implement additional tariffs on Chinese goods as he felt enough progress wasn't being made in trade talks between the two largest global economies.

The impact on markets was felt the most in the U.S., although equities worldwide experienced negative returns for the month. June provided a welcome turnaround as reactions to headlines subsided, and supportive policy from central banks continued to buoy markets.

Central banks, most notably the U.S. Federal Reserve, re-affirmed that any further interest rate increases are on hold, and in fact offered a three-rate-cut outlook, which is what markets had been pricing in. While equities rallied on the news, there is growing concern about the amount of leverage in the financial system

Corporate profits, while slowing, continue to be positive, inflation measures coming in below expectations, and corporate stock buybacks running at a record annualized pace in the U.S., are all supportive for continued strength in equity markets this year.

Income Portfolios – Core Plus strategy
We continue to have a slight global overweight in the fixed-income portion of the Counsel Portfolios. Our shorter duration Emerging Market bond holdings are less sensitive to domestic rate increases and provide diversification and enhanced yield. The downside to our global bond exposures is that they are more sensitive to investor sentiment. In the core Canadian bond market, we favour higher yielding corporate bonds which have slightly less sensitivity to interest rate changes than government bonds. Broadly, our Core Plus fixed-income strategy provides income from varied sources, is geared to reduce interest rate risk in investors' portfolios related to a Fed rate increase and provides a sustainable income stream.

Balanced Portfolios – premium on downside protection
Our asset allocation reflects the belief that investors continue to benefit from globally-focused portfolios. We are slightly overweight equities and continue to favour international markets over North America as the former are undervalued and have more room to grow, while U.S. markets, in particular, are expensive. We are patiently waiting for this positioning to pay off as international markets have trailed year-to-date. Our fixed income component continues to dampen equity volatility, and our downside protection strategies moved assets into safe-haven U.S. bonds during May.

Growth Portfolios – equities buoyed by central banks
Equity markets recovered in June to finish the quarter in positive territory after trade tensions between the U.S. and China and concerns about potentially slowing global growth shook markets in May. Commodities and Energy stocks were harder hit on the economic news, driven by oil demand concerns. The June turnaround pushed U.S. markets to new highs, although another way to look at that is that markets are now more expensive than ever.

Outlook
The world economy remains vulnerable to potential ramifications stemming from geopolitical tensions, as seen with the U.S.-China tariff threats. Ideally, tariffs imposed already will prove to be mere negotiation tactics and lead to an eventual trade agreement. If no resolution can be reached between the two global superpowers, the increased tariff burdens on either side of the dispute may hinder overall output growth for the world economy, presently forecasted to increase by 3.3% in 2019 as measured by GDP.

The U.S. economy is moderating as expected after an outstanding first quarter. Strong corporate earnings and annual GDP growth of 3.2%, significantly above estimates, prove that the U.S. may still be in expansionary territory in this advanced economic cycle. We are approaching the longest running expansion ever for the U.S. economy. Inflation rates remain cool at around 2%.

In Canada, weaker than expected Q1 data has prompted analysts to lower annual GDP growth forecasts, now set at 1.4%. Since then, there has been a stronger than expected recovery suggesting this slowdown was temporary. Strong job gains and stabilization in the housing market are solid signs that Canada is poised for further expansion. Strong U.S. demand amid a weaker Canadian dollar and the cancellation of tariffs on aluminum and steel could add to Canadian growth prospects.

A balanced approach to portfolio management provides the opportunity to benefit from continued growth while providing downside protection should markets experience any turbulence. Our aim is not to chase exciting new trends nor take on any uncalculated risks, but to provide enhanced risk-adjusted returns over time and protect your wealth.

As we have seen over the past few months, markets can move dramatically in either direction over the short term. It is vital for investors to be taking a much longer view than a few short months. Over the past few years, volatility has become an accepted event and we construct our portfolios to look beyond these gyrations and to smooth out unsettling market movements.

As always, we encourage you to follow a sound financial plan, and to speak with your Advisor to ensure you are on track to meeting your investment objectives.

Sincerely,

Corrado Tiralongo,
Chief Investment Officer

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