

2019 Awards of Excellence

Portfolio Management Excellence
Montreal

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Team of the Year
Montreal

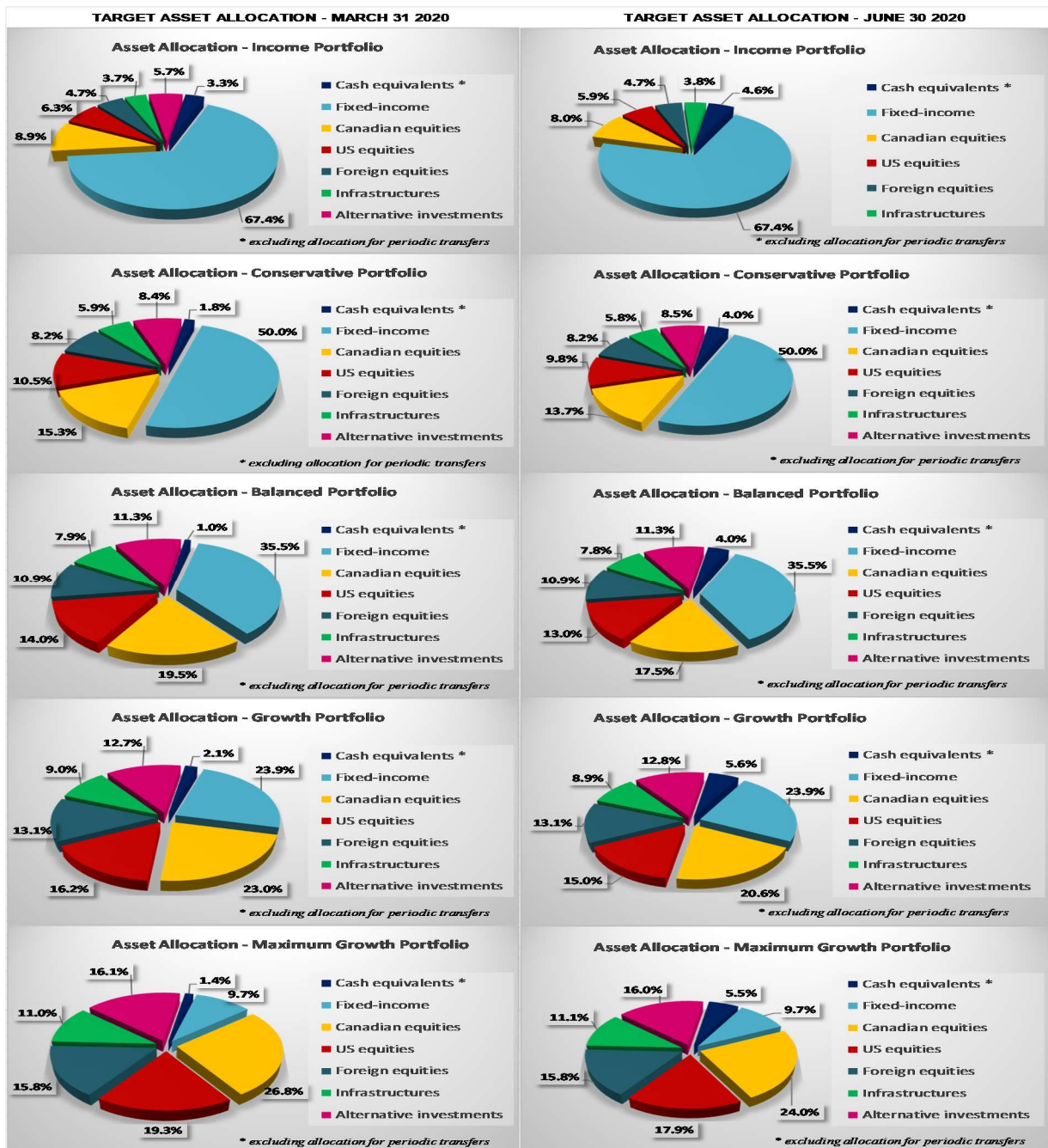


Our expertise, your success

2nd QUARTER 2020 SUMMARY

Asset Allocation Strategy:

During the quarter, we have slightly reduced our target for Canadian and U.S. equities to increase our cash weighting:



Portfolio Model Revisions:

We have increased our position in two Canadian stocks, *Canadian Tire Corporation* (CTC) and *Exchange Income Corporation* (EIF), to take advantage of their lowered price and potential for a quick recovery. We were confident that these companies had the strength survive this period of economic uncertainty. We were proven right as CTC and EIF respectively returned 38.5% and 50.7% over the quarter while maintaining the payment of dividends.

To make these purchases and increase our cash weighting, we reduced the position in Vanguard FTSE Canada All Cap Index ETF (VCN) and/or Ishares Canadian S&P/TSX 60 Index ETF (XIU), our broad Canadian Equity index holdings. These investments are exposed to the energy sector and had in our opinion a weaker recovery potential.

We have also decided to sell *Sunlife Financial* (SLF) shares to buy *National Bank of Canada* (NA). We believe insurance companies will be more negatively impacted by declining interest rates and will be less profitable on the short term than Canadian banks. The selection of National Bank was motivated by a very attractive valuation and a low exposure to credit card debts which comforts us with regards to the risk of defaults coming from the current economic context.

2nd Quarter Highlights:

Going down... going up!

The crisis in some sense has brought the future into the present, rapidly and sometimes harshly accelerating changes that were already in motion. There is no doubt that some sectors face long-term challenges as a result of the shutdowns and distancing measures, as well as some potentially fundamental changes in consumer behaviour and psychology. But at the same time, in classic creative destruction fashion, there will be some sectors that strengthen and step into the gap. The main message is that economies are resilient, and people and businesses can be incredibly resourceful in the face of challenges—let's not underestimate the ability to recover from this tough period.

Over the second quarter, we witnessed a broad recovery of the Canadian and U.S. stock markets which, at their lowest point on March 23rd had dropped by 34% and 31% respectively. Since this spectacular drop, they have experienced a sharp rebound to the point that as of June 30th, these markets were now down only 9% in Canada and 4% in the U.S. year-to-date. International stock markets followed a similar pattern although not having yet recouped as much of their decline.

This strong quarterly performance of stock markets could bode well for the future, as suggested by the following table from our CIO Office:

1 Best quarter since 1998 for the U.S. stock market...

S&P 500 Total Return Index (since 1973*)					
5 Best Quarters	Performance	Following Quarter	Following Year	Following 3 Years (Annualized)	Following 5 Years (Annualized)
Q1 1975	23.9%	14.4%	25.7%	5.4%	6.9%
Q4 1998	21.3%	5.0%	21.0%	-1.0%	-0.6%
Q1 1987	21.2%	4.8%	-9.5%	8.4%	10.1%
Q4 1982	19.9%	9.0%	20.9%	19.3%	15.9%
Q4 1985	18.4%	15.2%	18.2%	12.7%	12.8%
Q2 1997	17.5%	7.5%	30.2%	19.7%	3.7%
Q2 2009	15.9%	15.6%	14.4%	16.4%	18.8%
Q3 2009	15.6%	6.0%	10.2%	13.2%	15.7%
Q2 2003	15.4%	2.6%	19.1%	11.2%	7.6%
Q1 1986	15.2%	5.9%	24.4%	10.0%	12.7%
Q2 2020	20.5%	?	?	?	?
Average	18.4%	8.6%	17.5%	11.5%	10.4%
Positive / Total	-	10/10	9/10	9/10	9/10

CIO Office (data via Refinitiv). *Official S&P data since 1988. Datastream reconstructed total return index before.



It is also noteworthy to recall that uncertainty leads to high levels of volatility from a historical perspective, which brings occasional days with strong rises or strong declines. It is therefore not surprising to witness higher daily changes and it is likely to happen again in the weeks and months to come.

However, the risk of a second wave of the virus is real until the development of a treatment or a vaccine. To put it shortly, we believe that risks related to COVID-19 are a reason to invest with a prudent approach, but not overly defensive.

On a more “ESG” note, National Bank continued to pursue its durable development efforts and energetic transition by becoming on April 22 a partner of Équiterre. This initiative brings together various economic, political and societal stakeholders to support Équiterre in developing concrete solutions that promote the energy transition and help people make environmentally responsible choices every day.

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"A goal without a plan is just a wish." – Antoine de Saint-Exupéry