THE ECONOMY AND CAPITAL MARKETS

June 30, 2019

As at June 30, 2019

Will common sense prevail?

By Sébastien Mc Mahon, M.E.Sc., PRM, CFA
Economist
Industrial Alliance Insurance and Financial Services Inc.

The hot topic in the last quarter was, of course, the trade tensions between China and the United States. No need to repeat the sequence of events here, but the abrupt end of the negotiations and the (once again) bellicose tone of the American President have created a shock wave throughout the financial markets.

At the time of writing , the focus is on Presidents Trump and Xi, who plan to meet on the sidelines of the G-20 summit at the end of June. The pressure is high as Mr. Trump still threatens to impose tariffs of 25% on all imports from China, a measure that, if countered by similar countermeasures, would have the potential to plunge the global economy into a recession.

It is probably unrealistic to believe that such a complex and important trade relationship can be significantly and sustainably changed in a treaty negotiated in only a few months. The stakes are far too high and complex, and several forces are intertwined in these negotiations.

World: Spotlight on Donald Trump and Xi Jinping

China, with its growth of more than 6% per year, is poised to become the world's leading economic power (a position it is expected to officially assume by 2030) and the implications for the American influencing role are far-reaching.

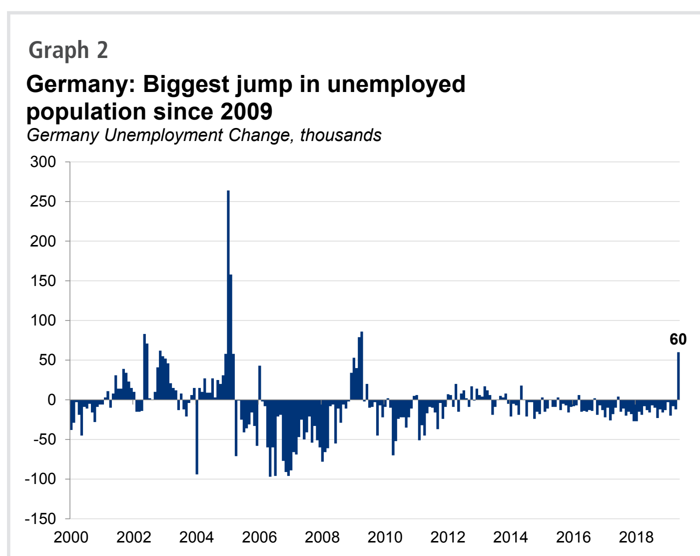
At the heart of the tensions is the critical role played by telecommunications technologies, for which the Chinese firm Huawei is currently paying the price by being banned from investments in the American telecommunications network, as part of an emergency measure for national security.

China thus withdrew from the negotiating table and warned the United States that it was prepared to escalate the conflict by also preparing a list of companies and individuals deemed undesirable or harmful to Chinese interests. The entire world therefore hopes that a healthy dialogue can be resumed and that protectionism does not replace the established world trade order.

Graph 2

Germany: Biggest jump in unemployed population since 2009

Germany Unemployment Change, thousands



Graph 1

Yuan: Depreciation in line with imposed tariffs

Value of Yuan vs USD

Through this uncertainty, however, we know that China has a strong sense of pragmatism and will support its economy with all the tools at its disposal.

First, the Yuan currency, controlled by the People's Bank of China, has depreciated in recent quarters in such a way as to offset most of the negative impact of the tariffs imposed by the United States (see Graph 1).

Second, dozens of tax measures have been announced over the past year to support the Chinese economy through this period of uncertainty. The scale of the measures announced represents more than 5.5% of China's GDP and is higher than the measures that were implemented in 2015 and 2016, when the global economy was facing a synchronized slowdown.

Consequently, there is a positive outlook for this trade dispute. If tensions are partially resolved, the magnitude of China's stimulus could be sufficient to restore momentum to the global economy and extend the economic cycle.

Europe: More than just Brexit!

Over the past few quarters, the soap opera called Brexit has recently been put on hold, while the deadline for an exit has finally been extended to the fall through an agreement in principle between the United Kingdom and the European Union.

Prime Minister Theresa May has since announced her resignation, and we are now in the middle of a leadership race to determine who will take over and lead the European Union exit project.

Now that politics has moved to the sidelines, eyes are turning to European economic data. The findings: Europe faces major challenges!

Germany, the economic driver of Europe, finds itself in a particularly difficult situation. Its manufacturing sector, based largely on the export of automobiles, is going through a period of dramatic decline. Since mid-2018, the synchronized slowdown in the global economy and the impacts of trade tensions have hit German exporters hard, with new orders and, incidentally, their production levels slowing and declining.

[1] The writing of this document was completed on June 28, 2019, a few hours before the expected meeting between Donald Trump and Xi Jinping at the G20 summit in Japan.

Much of this slowdown was a consequence of the vehicle emissions scandal involving producers like Volkswagen, who had to comply with new regulations and temporarily close some plants. But the duration of the slowdown, which is still evident in mid-2019, is cause for concern.

Two important findings highlight the weakness of the German and, similarly, European economies.

First, the unemployment rate increased in Germany in May (Graph 2), a first since 2017 and the most important increase since 2009. While it is always important not to overreact to a single monthly statistic, history shows that an increase in the unemployment rate is the best leading indicator of a recession. It will therefore be necessary to keep a close eye on data from the German labour market and elsewhere in Europe.

Second, inflation is declining again in the old continent, despite the Herculean efforts of the European Central Bank (ECB) over the past decade. ECB President Mario Draghi surprised the markets in June by saying that the Bank was ready to implement new monetary stimulus measures if inflation continues to slow. Draghi did not offer any further details, but the bond market quickly incorporated the possibility of a cut in the leading rate as early as July.

The ECB already has one of the most accommodative monetary policies in the world, with a leading rate of -0.40% and a program of targeted loans to European banks, with negative interest (thus remunerating banks for borrowing from the ECB) as long as they can then prove that they, in turn, have lent the money received to European households and companies.

We continue to believe that Europe faces important growth challenges that monetary policy alone cannot solve. Indeed, the ECB insisted in June that governments will have to do their part and use their fiscal policies to stimulate the European economy.

The coming months will thus probably be crucial for the European economy.

Graph 3

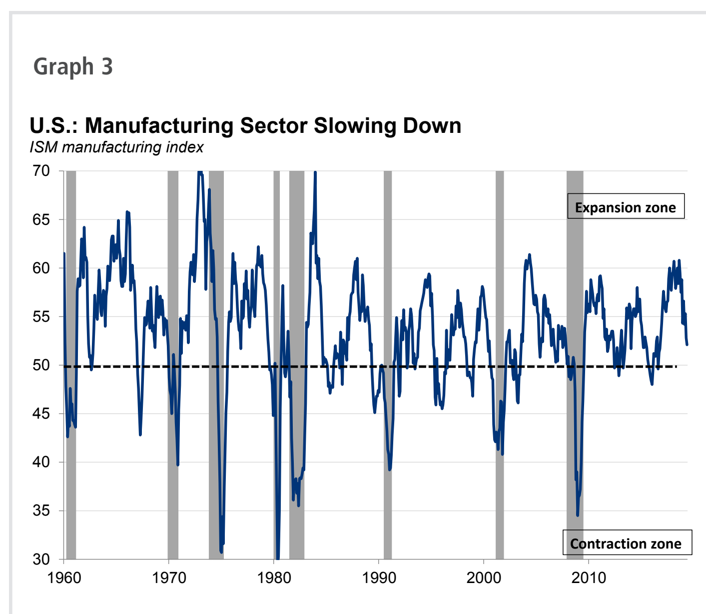


Chart 1
Returns of the Canadian Bond Market as at June 30, 2019

Index	Returns (%) 3 months	YTD
FTSE Canada Universe Bond Index	2.5	6.5
FTSE Canada Short Term Bond Index	0.9	2.7
FTSE Canada Mid Term Bond Index	2.1	5.9
FTSE Canada Long Term Bond Index	4.8	12.1
FTSE Canada Federal	1.5	4.0
FTSE Canada Provincial	3.3	8.8
FTSE Canada Municipal	3.1	8.1
FTSE Canada Corporate	2.7	6.8

The United States: Will common sense prevail?

U.S. economic data continues to compare favourably at the international level. GDP growth in the first quarter of the year exceeded 3.0% on an annualized basis, and the second quarter is expected to be positive, although with growth slightly lower, at 2.0%.

The American consumer remains the global economic driving force, and impressive gains have been made in the labour market in recent years.

However, there is a sense that the U.S. labour market is beginning to tighten.

The gap between the number of available jobs and the number of unemployed workers has been positive for some years now, but the gap is now at historical levels. The number of jobs created monthly, which recently averaged about 200,000 per month, has fallen in recent months to 75,000 in May. The unemployment rate is also close to historical lows.

The slowdown in job creation may be the result of a decline in business leaders' confidence in this climate of trade tensions. But if it is rather the result of a labour shortage constraint, we can expect wage pressures to intensify in the coming quarters. In such a scenario, the Federal Reserve (the Fed) would have to make further increases in its leading rate.

However, for the moment, the markets are expecting the opposite. The synchronized slowdown in the global economy and the consequences of the tariffs imposed to date are being felt in several sectors of the U.S. economy, including manufacturing, which has been experiencing a steady slowdown for several months (Graph 3). Business confidence indices have also been downgraded, and a cut in the Fed funds rate is recommended by Fed analysts as an insurance policy.

It is worth noting that there are precedents for such an insurance policy. In 1995, when the global economy exhibited signs of fragility only a few years after the end of a recession, the Fed cut its leading rate in order to support economic growth and stabilize the financial markets. It then went with two further cuts to its leading rate at the turn of the year. In 1998, in a context of a slowdown in the Asian economy and a liquidity crisis created by the bankruptcy of Long-Term

As at June 30, 2019

Chart 2
Market Returns as at June 30, 2019

Index	Returns (%)	
	3 months	YTD
FTSE Canada 91 Day T-Bill Index	0.4	0.8
FTSE Canada Universe Bond Index	2.5	6.5
S&P/TSX Composite Index	2.6	16.2
S&P 500 (Can. $)	2.0	13.4
MSCI - EAFE (Can. $)	1.4	9.1
MSCI - World (Can. $)	1.7	11.9
Exchange Rate (Can. $ / US $)	(2.2)	(4.3)

Chart 3
Market Returns as at June 30, 2019

Index	Returns (%)	
	3 months	YTD
S&P/TSX Sector returns		
Energy	(2.8)	12.3
Materials	5.4	14.4
Industrials	5.1	21.1
Consumer Discretionary	4.6	14.9
Consumer Staples	1.7	12.5
Health Care	(9.3)	35.2
Financials	3.5	14.3
Information Technology	14.3	44.0
Communication Services	(0.2)	9.7
Utilities	5.4	22.4
Real Estate	(1.4)	15.8
S&P/TSX Composite Index	2.6	16.2

Capital Management, the Fed also made three cuts to its leading rate as an insurance measure.

In both cases, these measures had helped to stabilize the global economy, and then the Fed resumed its hiking cycle.

In both of these historical examples, the risks of a global recession were on the rise, even though U.S. economic data was doing rather well. Thus, there is a parallel to be drawn with the current situation. China and Europe are showing signs of slowdown, and threats from the Trump administration could potentially push the world into recession.

Everyone is voicing the following question: Will Mr. Trump really follow through with his threats to his trading partners? Or will common sense prevail? We are still leaning more towards the second option and believe that President Trump's bellicose tone is more a result of his negotiation strategy.

An important fact to note is that no American president, with the exception of Calvin Coolidge in 1924, was re-elected during a recession. If Mr. Trump and his advisors are looking to return for a second term in 2020, history suggests that they should be working to avoid a recession rather than causing one.

Canada: In the line of fire?

The Canadian economy had an excellent second quarter in 2019, building upon positive economic surprises. The Economic Surprise Index published by Citigroup has been one of the most positive in the world in recent months (Graph 4).

A close review of Canadian labour market data once again illustrates the power of the beneficial effects of our demographics.

Over the past 12 months (June 2018 to May 2019), nearly 425,000 jobs were created across the country, an average of more than 35,000 per month. By comparison, the U.S. economy added about 50% fewer jobs per capita over the same period, all things considered. April was a particularly significant month, with more than 100,000 jobs created in just one month! (Graph 5) The majority of jobs created are full-time and in the private sector, pushing the unemployment rate to a historical record of 5.4%.

Canada's strong population growth, fuelled largely by immigration, adds significant resilience to our economy in this period of heightened geopolitical risks, and also fuels the supply and demand for Canadian products and services. Given the success of new Canadians in integrating into the labour market, starting families and owning homes, the virtuous cycle of rising demand is being filled by an increase in labour supply, creating a healthy labour market.

Bank of Canada Governor Stephen Poloz said during the quarter that the best indicator of the state of the Canadian economy is the labour market. If this is indeed the case, the domestic economy is doing very well!

That being said, given the major trade tensions threatening the global economy, what about external risks? Canada, as we often point out, is after all a small open economy, accounting for just under 1.5% of the world's GDP. A titanic battle between the world's major economic powers, which are also our main trading partners, could, of course, have important implications for our economy.

To successfully complete an analysis of the potential impacts of the outbreak of a trade war between the United States and China, it is first necessary to separate the positive impacts from the negative ones.

Let's start with the positive impacts first, since the list is rather short.

An escalation of protectionist measures between the world's two leading economies would likely create new opportunities for some Canadian exporters, mainly in the non-energy sectors, as products typically imported from both sides would become more expensive, and thus less competitive.

And that wraps up the list of positive effects!

On the other hand, the list of negative effects is much longer and more disturbing.

First, although new markets would likely open up to some Canadian exporters, it is realistic to assume that Canada produces very few substitutes for the many objects produced and exported by China. Recent decades have been marked by the globalization of the world's supply chain and trade specialization, which means that some specific products would be difficult to replace quickly.

As at June 30, 2019

Chart 4

	Tactical Allocation (0-6 Month Horizon)					Strategic Allocation (6-18 Month Horizon)				
	--	-	N	+	++	--	-	N	+	++
Money Market			■					■		
Bonds		■					■			
Duration		■						■		
Equities			■						■	
Canadian Equities				■					■	
Foreign Equities				■					■	
U.S. Equities		■						■		
International Equities				■					■	
Emerging markets				■					■	
Gold					■				■	
Foreign Currencies										
USD vs CAD					■				■	
Euro vs CAD					■				■	

Second, in a similar vein, the production capacities of Canadian companies are currently heavily exploited, and it would therefore be difficult for Canadian manufacturing companies to suddenly increase their production of goods to meet the demand of many new customers.

Third, such a drastic change in international trade rules would be highly detrimental to the purchasing power of American households and companies, through both a slowdown in global economic activity and an artificial price hike.

According to several analyses published over the past year, in the event of a trade war scenario (imposition by the United States of tariffs of 25% on all imports from China and retaliation by China of an equivalent magnitude), the impact on the American economy could amount to -0.5% to -0.7% of its GDP, a very significant impact and approximately double that already felt by the tariff measures imposed since 2018. The impact on the Chinese economy would be even greater, at approximately -1.0% of its GDP. Given the size of these two global economies, this would have an impact of about -0.5% on the global economy and could change global economic growth from 3.6% to 3.1% in 2020, with a staggering impact.

The Canadian economy, for its part, would obviously suffer the repercussions. Many estimates that the impact on Canadian growth would be in the range of -0.25% to -0.5%. And remember that the growth of the Canadian economy from March 2018 to March 2019 was 1.4%, which implies that the impact would be significant.

Fourth, since the Canadian economy is still largely based on the exploitation and export of natural resources, the negative impact of a global economic downturn on the price of natural resources, including oil, must be taken into account. Here again, a slowdown in demand for resources would weigh heavily on the Canadian business model, creating an environment of weak demand and depreciated prices.

The impact via resource markets would also have a regional component. Alberta, Saskatchewan, Newfoundland and Labrador would suffer from a decline in oil prices, while a province like British Columbia, which exports to both the United States and China, would be affected by a decline in softwood lumber prices.

In short, Canadians should all pray that some common ground will be found between China and the United States!

While this is a small consolation, Canadians still have an ace up their sleeve: Canada has a lot of latitude in monetary and fiscal policy to limit, in part, the damage.

The federal government's enviable fiscal position allows it to intervene through targeted spending programs on infrastructure, or even through direct assistance to the sectors of activity most affected by the global economic downturn.

On the monetary policy side, the Bank of Canada could also intervene by cutting its leading rate. We believe that in a trade war scenario, the Federal Reserve would likely have to make at least 2 cuts in its prime rate (for a total of 50 bps), and that the Bank of Canada could limit itself to a single 25 bps cut. We also noted that the speech delivered by Bank of Canada Governor Poloz during the quarter referred both to arguments for the easing of monetary policy (slowdown in global activity) and to arguments against it (inflationary pressures from tariffs).

What about the trajectory of the Canadian dollar under the present circumstances?

We believe the loonie is currently undervalued. Our financial models based on variables such as oil prices and interest rate spreads between Canada and the United States even suggest that the Canadian dollar should trade more than 2% higher than its current rate.

It should always be remembered that the loonie is a highly cyclical currency and has rarely experienced an international crisis it has not sought to rally to! Simply put, the current climate of high uncertainty is exerting downward pressure on the Canadian dollar, diverging it from its fundamental value, and a resolution of this uncertainty would be advantageous.

Over the medium term, as the Bank of Canada continues to normalize its monetary policy, credit spreads with the United States are expected to continue to narrow and act as a tailwind to the loonie. We are therefore maintaining a price target of 78 to 80 cents for the Canadian dollar over the next 12 months.

Markets: Divergent signals

After a strong rebound in equity markets in the first quarter of the year, the second quarter offered more modest returns, with a return to volatility. The drastic shift in tone between China and the United States, as well as the accumulation of negative economic surprises, overshadowed the momentum that had lasted since the holiday season.

Our biggest surprise after 6 months in 2019? To see the almost uninterrupted downward trajectory of interest rates, of course! Several factors are behind this massive decline in interest rates, which at the end of the quarter were at their lowest levels since President Trump had been elected in 2016.

Much of the bond market's growth is due to its safe-haven status, reflecting the nervous tone of investors. According to an analysis by JP Morgan Bank, U.S. bond market participants assign an implicit probability of more than 60% at the quarter end to a recession over the next 12 months in the United States (Graph 6). The inferred probabilities in other asset classes are relatively lower, and dip as low as 0% in the U.S. equity market.

This sharp decline in interest rates, even pushing 10-year rates below the level of the overnight rate, means that investors now expect the Fed to cut its leading rate several times over the coming quarters.

As at June 30, 2019

Chart 5
Estimated Gross Returns for the Next 12 Months Starting on June 30, 2019

Market indicators	Interest or dividend	+	Capital gains	=	Total estimated gross return
FTSE Canada 91 Day T-Bill Index	1.65%	+	0.00%	=	1.65%
FTSE Canada Universe Bond Index	3.30%	+	(4.20)%	=	(0.90)%
Canadian stocks (S&P/TSX Composite Index) including dividends					7.2%

In its decision of June 19, the Fed opened the door wide to a forthcoming cut in its leading rate, probably even as early as its next update on July 31 of this year. Of the 17 members of the interest rate committee, 7 members expect two rate cuts by the end of the year and 1 member expects only one cut. Of the remaining 9 members, only 1 expects a further rate increase in 2019. This is therefore a major shift in the Fed's tone, which at the end of 2018 spoke of a process of normalizing its monetary policy that would continue for a few more years.

Two other findings attracted our attention in the forecast documents that accompanied the Fed's decision.

First, the members of its steering committee now see the leading rate as neutral, that is, the rate considered consistent with inflation remaining at the 2.0% target, to 2.5% compared to 2.8% only three months ago. Put simply, the Fed now sees less room for further tightening of its monetary policy and, with a leading rate currently in the 2.25% to 2.50% range, believes it is already on the verge of entering restrictive territory by raising it further.

Second, even with a forecast that now includes the possibility of cutting its leading rate twice over the coming year, the Fed expects core inflation to remain below its 2.0% target by 2021. A forthcoming easing of its monetary policy may therefore not be temporary in nature!

In a context of a more accommodating tone on the part of the Fed and, should trade relations between the United States and China improve, the prospects for a good stock market return in the second half of the year would improve significantly. History has shown that when the main risks perceived by the market disappear (in this case, a Fed that is sensitive to market concerns and the two major global powers working together), an overweight position in equities is generally a winning strategy.

In the second quarter, the Canadian bond market, as measured by the FTSE Canada Universe Bond Index, posted a 2.5% gain (6.5% in 2019). The FTSE Canada Short Term Bond Index returned 0.9% (2.7% in 2019). And the FTSE Canada Long Term Bond Index rose 4.8% (12.1% in 2019).

The U.S. equity market, as measured by the S&P 500 Index, generated a total return of +4.3% in the second quarter (+2.0% in Canadian dollars). The Canadian stock market, measured by the S&P/TSX Index, rose 2.6%. For 2019, the respective returns for North American equity markets were +18.5% for the S&P 500 (+13.4% in Canadian dollars) and +16.2% for the S&P/TSX Index.

The European market, represented by the MSCI—Europe Index, posted a gain of 4.0% in the second quarter and 16.1% in 2019 (+2.6% and +11.4% respectively in Canadian dollars). The MSCI—EAFE Index rose 2.8% during the quarter and 13.7% in 2019 (+1.4% and +9.1% respectively in Canadian dollars). The MSCI World Index gained 3.6% during the quarter and 16.7% in 2019 (+1.7% and +11.9% in Canadian dollars respectively). Emerging markets, as measured by the MSCI Emerging Markets Index, returned +0.3% for the quarter and gained 10.2% in 2019 (-1.5% and +6.0% respectively in Canadian dollars).

Strategy: The extreme positioning of investors militates for an overweighting of stocks

As mentioned in the previous section, bond market investors are currently displaying a high level of pessimism about the economic outlook.

The implicit probabilities of recession in the current level of interest rates exceed 60%, while our understanding of the global economy suggests that the probabilities of recession are probably more likely to be 25–30%.

Faced with such a wide range of perspectives, and taking into account that recent surveys of major investors indicate that the most overbought market is the U.S. government bond market, we clearly favour equities over bonds in our managed funds.

These same surveys offer several interesting findings on the position of investors, and confirm our preference for equities in medium term.

First, in June, global investors displayed the weakest optimism about the market outlook since 2009. Cash holdings jumped to 5.6%, an increase of 1.0% and the strongest increase since 2011.

Second, the relative holding of shares versus bonds in June was the lowest since May 2009. In other words, the stock market is clearly being ignored at the moment, which suggests that downside risks are limited and that a positive resolution of the main risk factors could lead to a massive return of investors to the global stock markets.

Given this context, after a healthy profit taking on equities at the end of the first quarter, the return of volatility gave us the opportunity to gradually go back into the stock market over the past month and increase exposure to equities, favouring Canadian and international equities that offer more attractive valuation.

Since the job of a portfolio manager is always to ensure sound risk management, we have also limited the underweighting of bonds, in order to avoid exposing portfolios to excessive risks in the event that the bond market proves right and a recession materializes.

To further manage risk, gold was also assigned the weighting of more than 5% for part of the quarter. The reasons behind this decision were that gold prices usually outperform when the U.S. dollar weakens, interest rates fall and geopolitical risks increase. This melting pot of factors contributed to the strong surge in the price of gold in June, which gained nearly $100 during the month and reached a new high for the first time since 2013 (Graph 7).

As at June 30, 2019

Chart 6
Economic and financial scenarios

Economic scenario

		2018	2019	2020	2021	2022	Change since March 31, 2019: 2019	Change since March 31, 2019: 2020
United States	Real GDP	2.9%	2.4%	1.9%	1.8%	1.7%	--	--
	Inflation rate	2.5%	1.9%	2.2%	2.1%	2.0%	--	--
	Unemployment rate	3.9%	3.7%	3.6%	3.8%	3.9%	--	--
Canada	Real GDP	1.8%	1.5%	1.8%	1.7%	1.7%	--	--
	Inflation rate	2.3%	1.7%	2.0%	2.0%	2.0%	--	--
	Unemployment rate	5.8%	5.7%	5.3%	5.3%	5.2%	--	-0.4%

Financial scenario*

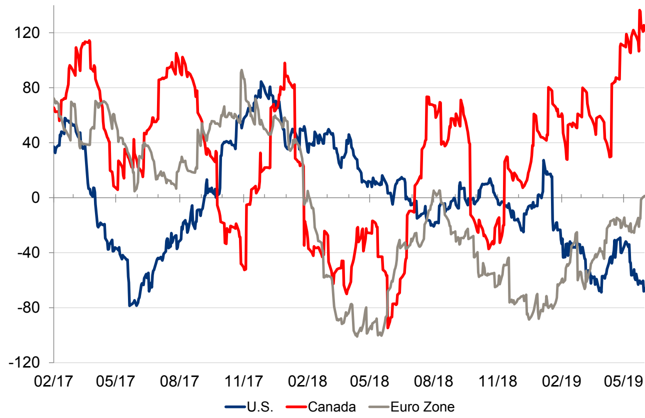
			Targets		Change since March 31, 2019	
	Actual	June 2019	Dec. 2019	June 20	June 2019	Dec. 2019
Interest rate						
U.S. 10-year rates	2.01%	2.35%	2.45%	2.50%	-0.65	-0.65
Canada 10-year rates	1.47%	1.85%	2.00%	2.10%	-0.15	-0.25
Exchange rates						
US $/Can. $	0.76	0.78	0.80	0.81	-0.02	-0.02
US $/Euro	1.14	1.20	1.22	1.25	--	--
Oil price (WTI). US $	59	65	67	67	--	--
S&P 500	2,942	3,050	3,150	3,250	+50	+100
S&P/TSX	16,382	17,500	18,500	19,700	--	--

* end of period

As at June 30, 2019

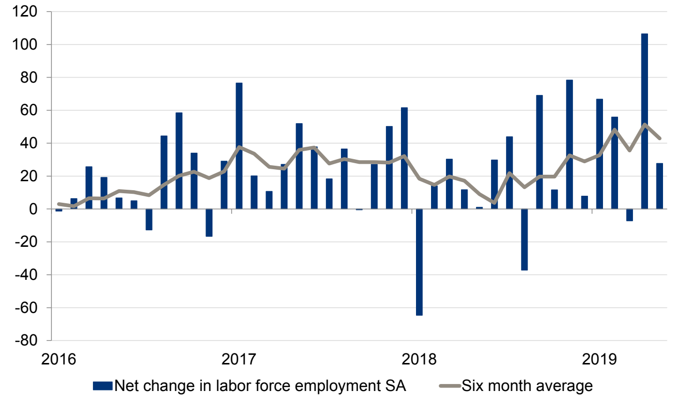
Graph 4

Economic Surprise Indices
Citigroup Indices

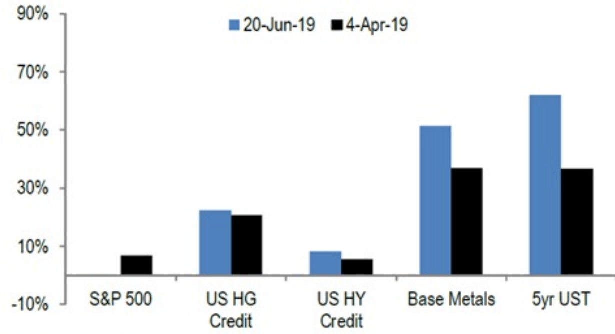


Graph 5

Canada: Monthly Change in Labor Force Employment
000s



Graph 6



Graph 7

Market indicators

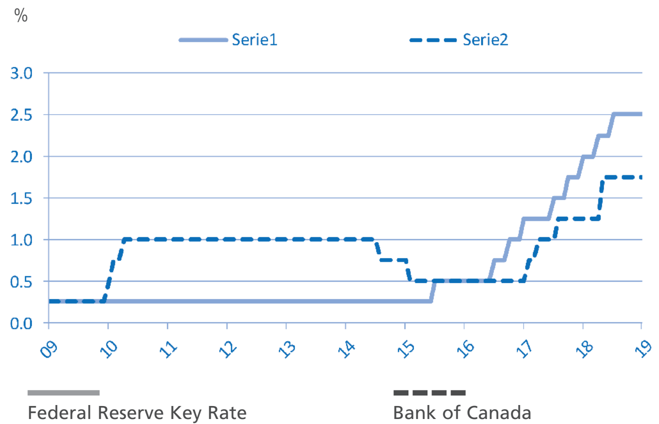
FTSE Canada Universe Bond Index

10 Year Period ending June 30, 2019

Return %	1 month	YTD	1 year	3 years	5 years	10 years
	0.9	6.5	7.4	2.7	3.9	4.5

Canadian and US Interest Rates

10 Year Period ending June 30, 2019



S&P/TSX Composite Total Return Index

10 Year Period ending June 30, 2019

Return %	1 month	YTD	1 year	3 years	5 years	10 years
	2.5	16.2	3.9	8.4	4.7	7.8

S&P/TSX Sector Performance

Year to Date to June 30, 2019

Information Technology	43.98%
Health Care	35.24%
Utilities	22.42%
Industrials	21.14%
Real Estate	15.85%
Consumer Discretionary	14.91%
Materials	14.39%
Financials	14.28%
Consumer Staples	12.45%
Energy	12.34%
Communication Services	9.73%

BMO Nesbitt Burns Small Cap Index

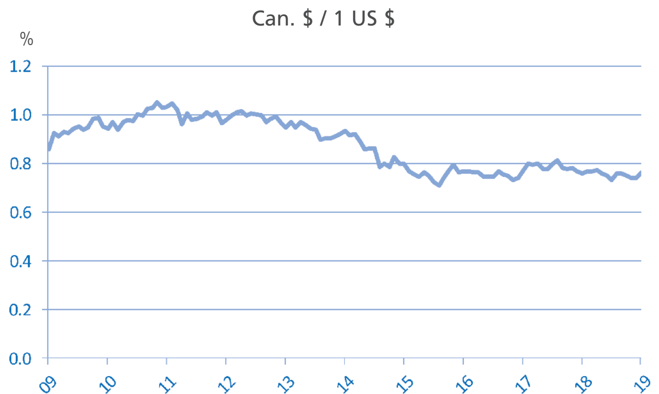
10 Year Period ending June 30, 2019

Return %	1 month	YTD	1 year	3 years	5 years	10 years
	4.6	12.9	(5.4)	2.5	(0.6)	7.5

Evolution of the Canadian dollar vs US dollar

10 Year Period ending June 30, 2019

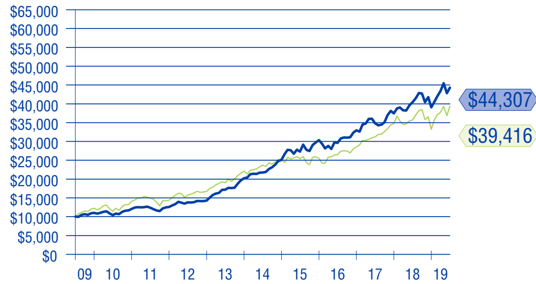
Can. $ / 1 US $



Total Return Index

- S&P 500 (Can. $)
- S&P 500 (US $)

10 Year Period ending June 30, 2019



Return %	1 month	YTD	1 year	3 years	5 years	10 years
(Can. $)	3.5	13.4	9.7	14.4	15.3	16.1
(US $)	7.0	18.5	10.4	14.2	10.7	14.7

S&P 500 (Can. $) Sector Performance

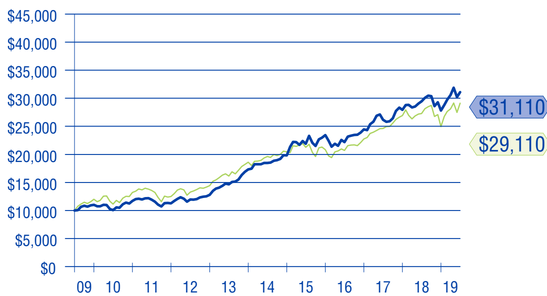
Year to Date to June 30, 2019

Information Technology	21.63%
Consumer Discretionary	16.32%
Industrials	16.13%
Real Estate	15.22%
Communication Services	14.17%
Materials	13.14%
Financials	12.18%
Consumer Staples	11.15%
Utilities	9.74%
Energy	8.24%
Health Care	3.40%

Total Return Index

- MSCI - World Index (Can. $)
- MSCI - World (Local $)

10 Year Period ending June 30, 2019



Return %	1 month	YTD	1 year	3 years	5 years	10 years
(Can. $)	3.0	11.9	5.6	11.9	11.0	12.0
(Local $)	5.9	16.7	6.7	12.0	8.2	11.3

MSCI - World (Can. $) Sector Performance

Year to Date to June 30, 2019

Information Technology	21.13%
Industrials	14.64%
Consumer Discretionary	12.93%
Materials	12.28%
Communication Services	11.59%
Real Estate	11.58%
Consumer Staples	10.11%
Financials	10.11%
Utilities	7.92%
Energy	7.79%
Health Care	5.02%

Total Return Index

- MSCI - EAFE (Can. $)
- MSCI - EAFE (Local $)

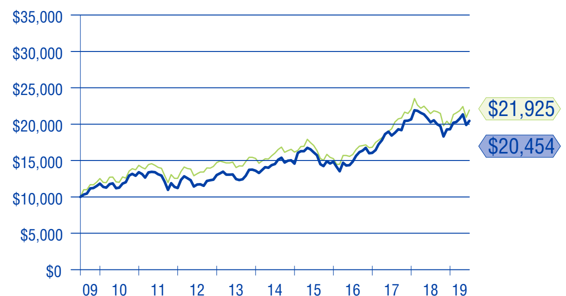
10 Year Period ending June 30, 2019

Return %	1 month	YTD	1 year	3 years	5 years	10 years
(Can. $)	2.4	9.1	0.4	9.3	6.5	8.2
(Local $)	4.3	13.7	2.2	9.8	5.9	8.3

Total Return Index

- MSCI - Emerging Markets (Can. $)
- MSCI - Emerging Markets (Local $)

10 Year Period ending June 30, 2019



Return %	1 month	YTD	1 year	3 years	5 years	10 years
(Can. $)	2.8	6.0	0.9	11.2	7.1	7.4
(Local $)	4.7	10.2	2.2	11.5	6.5	8.2

Legal Notices

This publication contains information provided by companies not affiliated with iA Financial Group ("Third Party Content Providers"), including, but not limited to, ratings, stock indexes and company-classification systems ("Third Party Content"). Third Party Content is the property of and trademarked by the relevant Third Party Content Provider and has been licensed for use by iA Financial Group.

The information presented in this publication is provided for informational purposes only. iA Financial Group and Third Party Content Providers make no representations or warranties as to the information contained herein and do not guarantee its accuracy, timeliness, completeness or usefulness. iA Financial Group and Third Party Content Providers shall have no liability related to the use or misuse of the information provided herein.

The investment funds offered by iA Financial Group ("Funds") are not sponsored, endorsed, issued, sold or promoted by Third Party Content Providers. The latter shall bear no liability whatsoever with respect to any such Funds. Third Party Content Providers make no express or implied warranties with respect to the Funds, nor do they make any representation regarding the advisability of investing in the Funds.

Financial and economic publications of iA Financial Group are not written, reviewed or approved by Third Party Content Providers.

Any information contained herein may not be copied, used, or distributed without the express consent in writing of iA Financial Group and/or the relevant Third Party Content Provider.

FTSE

Where FTSE indexes are used, or referenced: FTSE International Limited ("FTSE") © FTSE [2019]. FTSE® is a trademark of the London Stock Exchange Group companies and is used by FTSE under licence. "NAREIT®" is a trade mark of the National Association of Real Estate Investments Trusts and "EPRA®" is a trademark of the European Public Real Estate Association and all are used by FTSE under licence.

NASDAQ

Nasdaq®, OMX™, NASDAQ-100®, and NASDAQ-100 Index®, are registered trademarks of NASDAQ, Inc. and are licensed for use by iA Financial Group.

GICS Classification

Where the Global Industry Classification Standard ("GICS") is used, or referenced: the GICS was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by iA Financial Group.

MSCI

The International Equity Index Fund, the Global Equity Index ACWI Fund, the Global Stock Account, the European Stock Account and the International Stock Account are each indexed to an MSCI index. MSCI indexes are licenced for use by iA Financial Group.

For more information about the MSCI indexes, visit https://www.msci.com/indexes.

iA Wealth is a division of Industrial Alliance Insurance and Financial Services Inc., one of the largest insurance and wealth management companies in Canada. iA Wealth provides a full range of financial advisory and wealth management services to Canadian investors though iA Securities, Investia Financial Services and FundEX Investments. iA Wealth's investment management arm, iA Clarington Investments, offers a wide range of high-conviction, actively managed mutual funds and portfolios, including a full suite of responsible investment solutions. iA Wealth strives to be the leader in creating and preserving wealth for individual Canadians working with independent advisors.

INVESTED IN YOU.