BIAS

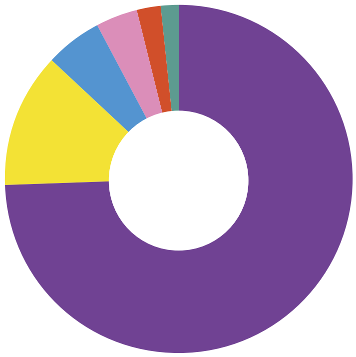
MARKETS FORWARD

SEPTEMBER 30, 2019

STRATEGY POINTS (ALLOCATION)

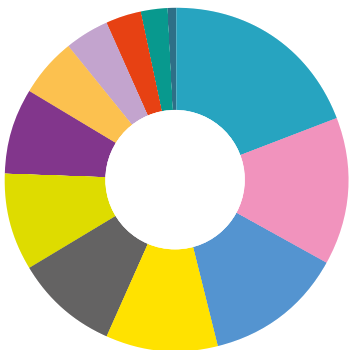
AS AT SEPTEMBER 30, 2019

GEOGRAPHIC



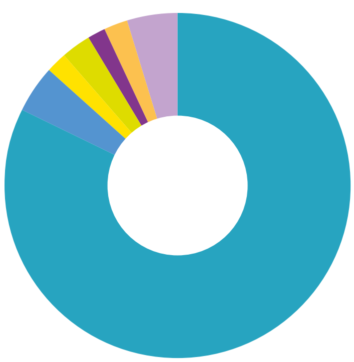
	Portfolio	Index*
North America	74.7%	79.8%
Europe	12.4%	12.4%
Emerging Asia	5.3%	2.3%
Japan	3.8%	3.7%
Cash	2.4%	0.0%
Latin America	1.4%	0.5%
Australia	0.0%	1.3%

SECTOR



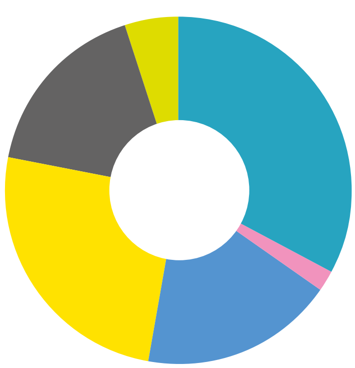
	Portfolio	Index*
Technology	19.4%	19.4%
Healthcare	13.8%	12.8%
Financials	13.0%	14.5%
Industrials	10.6%	10.1%
Consumer Disc.	9.6%	10.1%
Comm. Services	9.2%	9.7%
Consumer Staples	8.2%	8.2%
Energy	5.5%	5.0%
Materials	4.1%	3.6%
Utilities	3.5%	3.5%
Cash	2.4%	0.0%
Real Estate	0.7%	3.1%

CURRENCIES



	Portfolio	Index*
US dollar	82.4%	78.3%
Canadian dollar	0.0%	1.7%
Euro	4.3%	7.0%
Sterling	2.0%	3.2%
Australian dollar	0.0%	1.3%
Japanese yen	2.9%	3.7%
Swiss franc	1.6%	2.1%
Chinese yuan	2.3%	0.7%
Other	4.5%	2.0%

FIXED INCOME



	Portfolio	Index**
LIBOR FRN	33.0%	0.0%
CPI FRN	2.0%	0.0%
0-1 YR	18.0%	58.6%
1-3 YR	25.6%	41.4%
3-5 YR	16.8%	0.0%
Cash	5.0%	0.0%

* 50% S&P Global 1200 and 50% S&P 500 ** FTSE 1-3 year US Treasury

FORWARD OUTLOOK

Global economic growth is expected to slow from 3.2 percent in 2019 to 3.1 percent in 2020. However, in our opinion, equity markets will be supported by global central banks providing monetary stimulus and a possible resolution to trade-tensions.

We remain quality-focused in our stock selection and prefer companies with strong balance sheets and free cash flow. We have a positive bias for European equity markets amid the ECB's relaunch of Quantitative Easing. Further, upward earnings revisions should be strong drivers. The cheap valuations in Japan (Forward P/E of 13.2x vs ten-year average 15.4x), the central bank's stock buying program, and political stability make a case for being slightly overweight Japan. Our biggest overweight is in Emerging Asia as stimulus in China, improving liquidity, and increase in the weighting of China A-shares from 0.7 percent to 3.3 percent in the MSCI EM Index are positive catalysts. We are also upbeat on India as recent monetary easing and corporate tax cuts from 30 percent to 22 percent will lead to rebound in economic growth.

We are skewed defensively in our sector selection with an overweight to Healthcare where we prefer reasonably priced medical devices companies with technological competitive advantage. Meanwhile, we have limited exposure to Pharmaceuticals and Health Care Providers amid the opioid crisis and the 2020 US Presidential election. We also like Tech from a long-term perspective as the sector has strong earnings momentum and disruptive business models. On the other hand, we are underweight the Financials and Consumer Discretionary sectors.

Global central banks have shown willingness to support economic growth and we expect the Fed, the ECB, and the Bank of Japan to cut rates and/or provide other measures of stimulus. US Treasuries should trade in a range in Fourth Quarter – i.e., the ten-year yield in a range of 1.45-2.00 percent. Any softening of US economic data and more dovish Fed comments result in a test of the lower end of the range but this is likely short-lived as a strong labour market and robust wealth effect, thanks to the housing and equity markets, keep US consumers confident and willing to spend for now. We keep our duration short as the Fed seems reluctant to ease beyond what is already priced in the market and a trade deal with China could spike optimism and a rise in yields. The Bank of Canada does not seem inclined to reduce the policy interest rate and core inflation (ex food and energy) remains around the two percent target.

The US dollar is supported by relatively solid economic data and demand from the rest of the world for US Treasuries given much lower yields abroad and still reasonable yield levels in the US. Note that, as of this writing, the ten-year yield in Germany is negative 0.58 percent while the ten-year Treasury yield is 1.73 percent. Further, any risk-off impulses will firm the US dollar as well as the Swiss franc and Japanese yen. The euro is weighed down by slowing economic growth in the region, a central bank that is more dovish than the Fed, and Brexit uncertainty which keeps the Sterling volatile. Chinese fiscal and monetary stimulus may keep oil prices and the Canadian dollar supported in addition to boosting the currencies of countries heavily reliant on exports to China such as the Singapore dollar, Korean won, and the Taiwan dollar.

KEY ECONOMIC FACTORS

AS AT SEPTEMBER 30, 2019

Macro Economic

US	-	⊙	+
Canada	-	●	⊕
United Kingdom	-	⊙	+
European Union	-	⊙	+
Japan	-	⊙	+
China	⊖	●	+
India / South East Asia	-	⊙	+
Australia	-	⊙	+
Latin America	-	●	⊕

The macro economic outlook is highly dependent on the outcome of trade tensions. Assuming trade tensions don't escalate we agree with Bloomberg consensus estimates of 3.2 percent global growth in 2019 which moderates to 3.1 percent in 2020. The US added some fiscal stimulus with the tax cuts in 2018 but without further fiscal stimulus trade tensions weigh on growth in 2020 which is estimated at 1.7 percent. Still, we are not overly negative on the US as economic indicators have been surprising on the upside. The eurozone seems reluctant to add fiscal stimulus unless a further downside in economic growth materializes. China proactively started fiscal easing earlier in 2019 and India recently announced a package of corporate tax cuts.

Labour markets are strong in most Developed Markets. Consumer confidence has slipped from historic highs in the US on trade tensions, but the US consumer is in good shape amid a strong labour market, low mortgage rates, and wage growth outpacing inflation which could spur consumer spending.

Monetary Policy

US	-	●	⊕
Canada	-	⊙	+
United Kingdom	-	⊙	+
European Union	-	●	⊕
Japan	-	⊙	+
China	-	⊙	+
India / South East Asia	-	●	⊕
Australia	-	●	⊕
Latin America	-	●	⊕

Monetary easing is gaining momentum globally, but the effectiveness is countered by trade tensions and geopolitical uncertainty. We agree with Christine Lagarde, the former head of the IMF and the next President of the ECB, that fiscal easing is needed in addition to monetary stimulus.

We expect the Fed to cut the federal funds rate target range by 25 basis points in October. The ECB will also ease monetary policy in Fourth Quarter, and recent comments from Bank of England indicate readiness to cut rates regardless of the outcome of Brexit. Bank of Canada is reluctant to cut interest rates amid domestic economic improvements.

Global Trade

Global Trade	⊖	●	+

Trade talks are resuming between the US and China but challenges, such as the issues of intellectual property rights, the amount of purchases by China, and whether and when existing tariffs will be rolled back, remain.

Geopolitical

Geopolitical	⊖	●	+

Geopolitical risks are high amid global trade tensions, US-China rivalry on advanced technology, Gulf tensions, and Brexit.

MARKETS FORWARD - GEOGRAPHIC

AS AT SEPTEMBER 30, 2019

Valuations

US	-	⊙	+
Canada	-	⊙	+
United Kingdom	-	⊙	+
European Union	-	⊙	+
Japan	-	•	⊕
China	-	⊙	+
India / South East Asia	-	⊙	+
Australia	⊖	•	+
Latin America	-	⊙	+

Valuations are mostly reasonable in the backdrop of global monetary easing and a late cycle environment.
(Red means valuation is expensive.)

Earnings Growth

US	-	•	⊕
Canada	-	•	⊕
United Kingdom	-	•	⊕
European Union	-	•	⊕
Japan	-	•	⊕
China	-	•	⊕
India / South East Asia	-	•	⊕
Australia	-	•	⊕
Latin America	-	•	⊕

Earnings growth is broadly positive but has moderated around the globe due to trade tensions.

MARKETS FORWARD - SECTORS

Valuations

Technology	-	⊙	+
Healthcare	-	⊙	+
Financials	-	⊙	+
Industrials	-	⊙	+
Consumer Disc.	-	⊙	+
Comm. Services	-	⊙	+
Consumer Staples	⊖	•	+
Energy	-	⊙	+
Materials	-	⊙	+
Utilities	⊖	•	+
Real Estate	-	⊙	+

Defensive sectors, particularly Consumer Staples and Utilities, appear expensive after their outperformance in the first nine months of 2019.
(Red means valuation is expensive.)

Earnings Growth

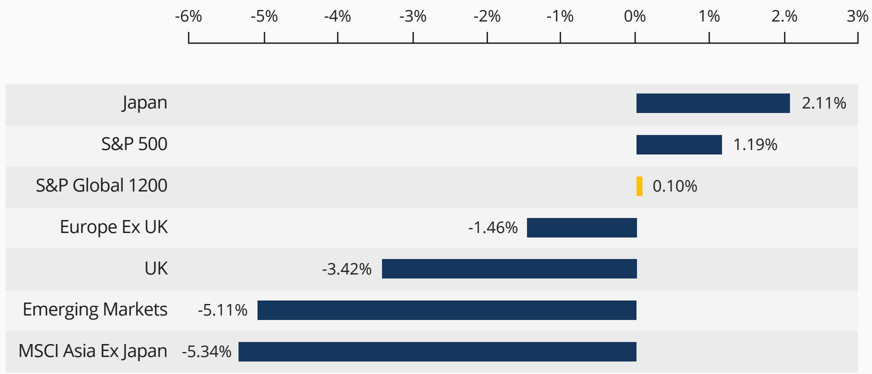
Technology	-	•	⊕
Healthcare	-	•	⊕
Financials	-	•	⊕
Industrials	-	⊙	+
Consumer Disc.	-	•	⊕
Comm. Services	-	•	⊕
Consumer Staples	-	•	⊕
Energy	⊖	•	+
Materials	⊖	•	+
Utilities	⊖	•	+
Real Estate	-	•	⊕

The drop in commodity prices this year has negatively impacted the earnings of Energy and Materials sectors.

MARKETS IN REVIEW - THIRD QUARTER 2019

AS AT SEPTEMBER 30, 2019

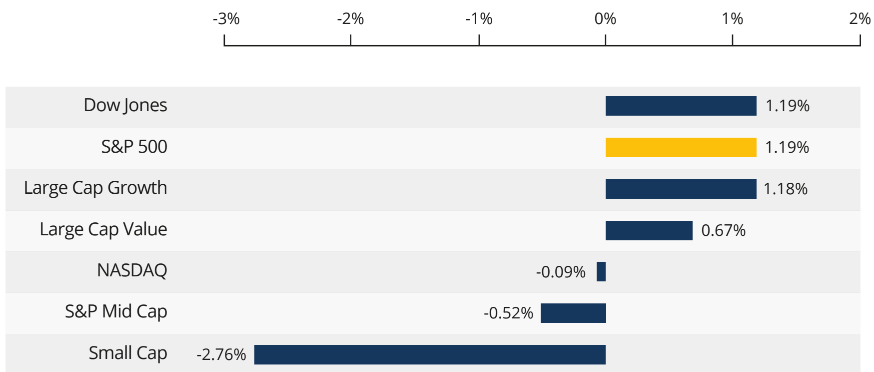
GLOBAL MARKET COMPARISON



All returns are expressed in US dollars. Source: Bloomberg.

Global equities registered mixed performance in the Third Quarter 2019. Japanese stocks performed the best while the rest of the Asian stocks underperformed due to a strengthening US dollar. UK stocks were volatile due to Brexit uncertainty while worsening German economic data put pressure on European equities.

US MARKET INDICES

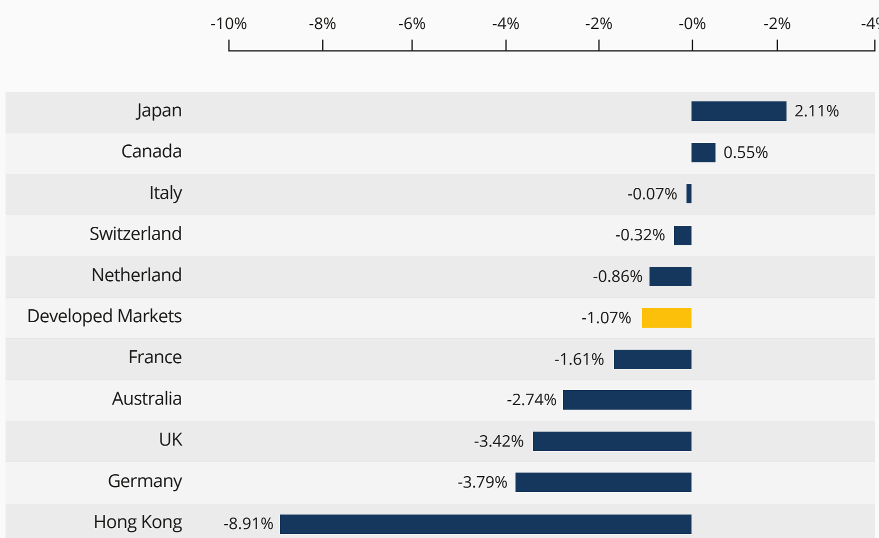


All returns are expressed in US dollars. Source: Bloomberg.

US economic data and earnings were resilient compared to rest of the world. Although the first yield curve inversion since 2007 increased recession concerns, the Fed rate cut and expectation of a US-China trade truce propelled markets higher.

The S&P 500 was up 1.19 percent for the quarter and growth stocks outperformed value stocks.

DEVELOPED MARKETS

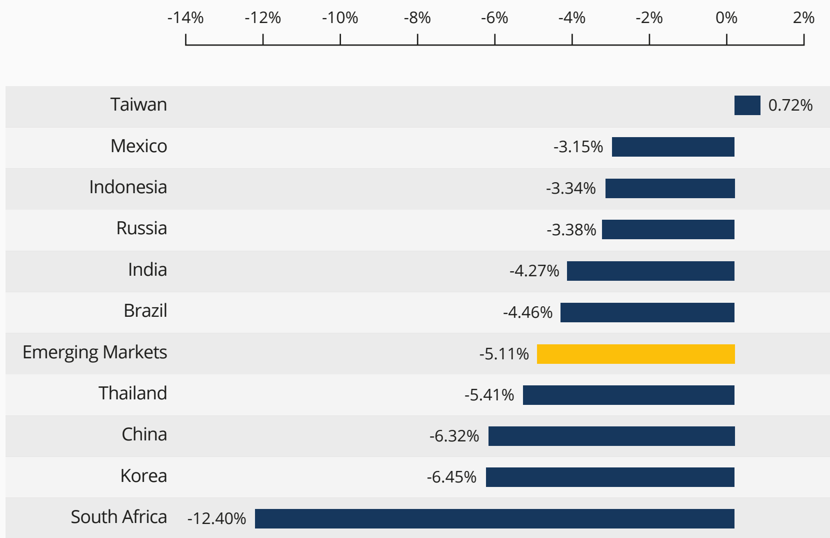


All returns are expressed in US dollars. Source: Bloomberg.

European markets declined as German economic data weakened and the European Central Bank (ECB) announced quantitative easing. UK equities dropped as the election of Boris Johnson raised fears of a no-deal Brexit. Japanese stocks jumped as an initial agreement was reached with the US on a trade deal while protests against an extradition bill weighed on Hong Kong equities.

Japan was the best performing developed economy for the quarter, up 2.11 percent, while Hong Kong equites fell 8.91 percent.

EMERGING MARKETS

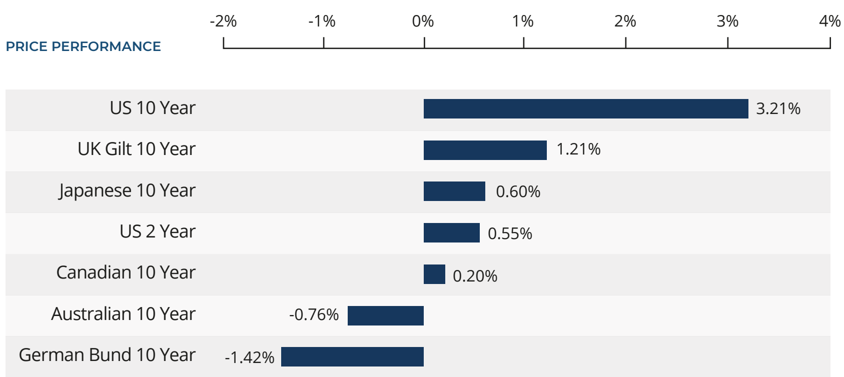


All returns are expressed in US dollars. Source: Bloomberg.

Emerging Market shares fell due to a stronger US dollar. Chinese stocks remained volatile as the US announced more tariffs; however, both parties adopted conciliatory tone in September. Indian stocks came under pressure on slowing economic growth but the country announced a reduction in corporate taxes which fueled a late quarter rally.

Overall, Emerging Markets declined by 5.11 percent.

FIXED INCOME OECD

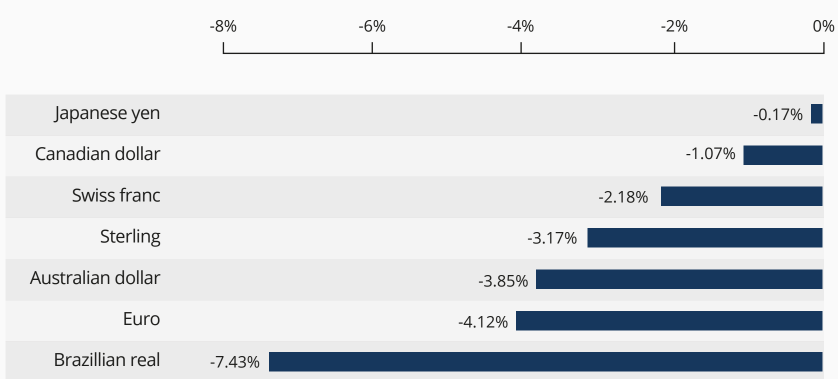


All returns are expressed in US dollars. Source: Bloomberg.

Global bond yields fell amid trade tensions, increased uncertainties around the economic outlook, and muted inflation pressures. Both the Fed and the ECB shifted their forward guidance to reflect that more monetary accommodation is needed to sustain economic growth.

The US Treasury yield curve flattened as yields fell more on longer-dated bonds than on shorter-dated ones.

MAJOR CURRENCIES



All returns are expressed in US dollars. Source: Bloomberg.

Safe haven demand supported the US dollar, the Japanese yen, and the Swiss franc. Sterling was volatile on Brexit uncertainty but outperformed the euro as economic data in the eurozone weakened. The Canadian dollar depreciated against the US dollar but was one of the stronger currencies in the quarter on a hawkish stance from the central bank. The Brazilian real weakened against all majors on lack of progress on political reforms.

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In a time when investors are overwhelmed by the vast amount of information available, we consider our responsibility at BIAS to bring clarity to our clients so that they can achieve their financial goals.

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