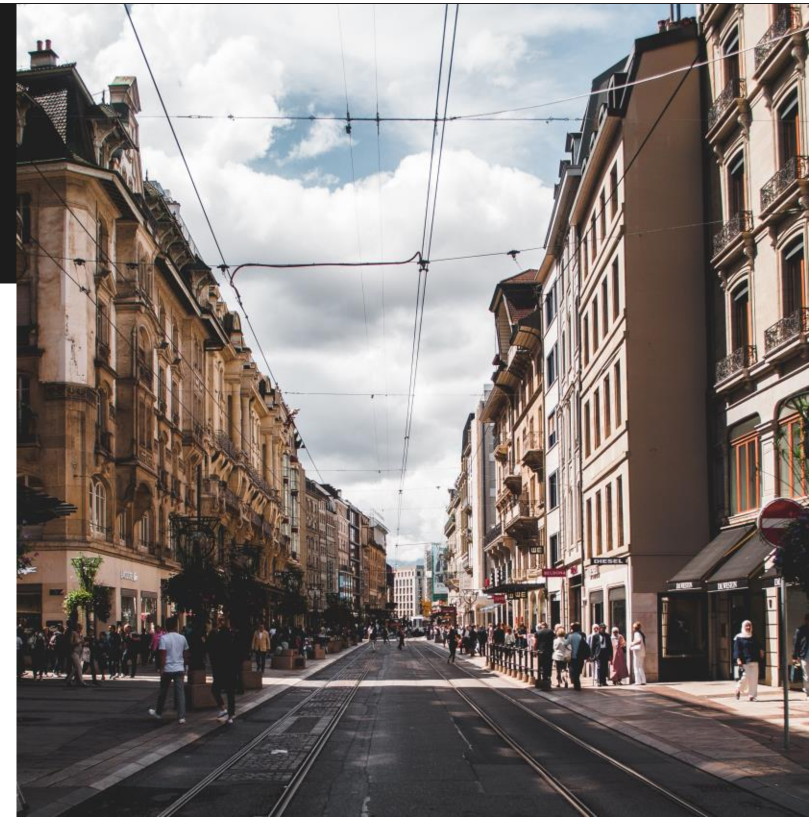

Investment Review

January 2019

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Environment: 2018 in a few words

2018 was probably one of the worst year in our memory of investment manager. Indeed, except for cash or T-bills, all asset classes were negative including commodities, where we saw oil prices declining close to 30% in December. It was the return of volatility in the markets, volatility we had almost forgotten. What really happened?

Throughout 2018, a healthy economy and strong corporate profits were sufficient to absorb a series of interest rate hikes by the Federal Reserve and the uncertainty associated with the renegotiation of our international trading relationships.

This back and forth tension between good profits (S&P 500 profits grew an estimated 20% in 2018) and higher interest rates broke to the downside on October 3rd when Fed Chairman Powell said " we are a long way from neutral rates" in response to a question at a conference. Higher interest rates slow down the economy and improve the relative attractiveness of fixed income securities. Both are negative for equities.

Environment: 2018 in a few words

The prospect of higher interest rates and continued uncertainty on trade began to create a negative feedback loop in which economic outlook gets lowered. While Fed officials had opportunities to clarify and soften Fed Chairman Powell's commentary, instead they spoke of the strong economy, a tight labor market and their responsibility to thwart inflation. This culminated in December when the Fed raised rates an additional 0.25% and provided an outlook for further hikes in 2019. As a result, the market dropped precipitously and yielded one of the worst December on record.

Outlook 2019

2019 started on the right track. Fed Chairman Powell changed course and informed us that the Fed would be flexible and patient, clearly implying that future interest rate hikes are on hold. Also, discussion on trade issues with China are currently moving in the right direction although no agreement has yet been reached. In addition, Oil and commodity prices have declined substantially implying a lower outcome for inflation in the near future. The era of complacency featuring near-free interest rates and robust profit growth with few disappointments is over. Despite this constructive outlook for equities, the fixed income sector remains very challenging as interest rates remain close to historic lows in Europe and in the United Kingdom. As a result, it is extremely difficult to find good opportunities in this area.

We remain positive on the United States despite a clear slowdown in the economy. We are underweighted Europe, although recent signals of a still very accommodative Central Bank, could benefit stock markets. We have an exposure in the emerging markets through bonds and equities. Finally, on the currencies, we are quite neutral and expect a year with a narrow trading range among major currencies.

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