PROFESSIONALS FINANCIAL
PRIVATE MANAGEMENT

FINANCIAL LETTER

SUMMER 2017

The Professionals' Financial — Private Management team

RISK OF RECESSION IN THE NEXT TWELVE MONTHS

LOW

MAIN RISK FACTORS

- Increasingly persistent doubts about the implementation of Donald Trump's **economic promises**.
- The possibility that **economic growth** will disappoint investors, a factor not yet priced into the markets.
- The fact that the **bond market** does not expect very big interest rate hikes over the next two years.
- A more pronounced than expected tightening of the Fed's **monetary policy**.
- The upcoming **elections** in Germany (September 2017) and in Italy (May 2018).
- The **Brexit** negotiations and their effects on the U.K. and the euro zone.
- Decelerating growth in **China** and its impact on the global economy.
- The economy's incapacity to withstand very high **borrowing rates**.

QUICK LOOK AT THE GLOBAL ECONOMY

The synchronization of the various economies around the world is noteworthy at the end of the first half of 2017. In this environment, global GDP growth forecasts are encouraging and the risk of recession remains low for the next 12 months.

SHARP DECLINE IN UNEMPLOYMENT

The jobless rate dropped considerably in most industrialized countries. For example, in the U.S., this key indicator fell to its lowest level in 16 years. However, there was no concomitant increase in wages, due among other things to the decline in the labour force participation rate and to technological innovation.

CONTINUED NORMALIZATION OF U.S. MONETARY POLICY

The U.S. Federal Reserve (Fed) continued to normalize its monetary policy by gradually withdrawing the stimulus put in place over the years, although many investors believe that the modest inflation outlook does not justify such a strategy. The yield curve for 10-year Treasuries and their current level indicate that the U.S. economy is having difficulty regaining momentum, at the very time when doubts are growing about the implementation of the Trump administration's tax reforms. The resulting uncertainty is paralyzing business investment and limiting the growth potential of the U.S. economy.

SURPRISING ECONOMIC GROWTH IN CANADA

Canadian economic data surprised in the first half, with a GDP growth rate among the best of the G7 countries. Consequently, the Bank of Canada recently announced that the 2015 rate cut seemed to have done its job. That was all it took for analysts to expect the BoC to start tightening its monetary policy, the first 25 base point increase being announced on July 12. The readjustment of the benchmark rate will be done gradually, however, and it will take into account the real estate market, the renegotiation of the North American Free Trade Agreement (NAFTA) and the price of oil.

FIVE OTHER NOTEWORTHY DEVELOPMENTS IN THE FIRST HALF OF 2017

- The **inflation rate** remained below expectations and inflation forecasts were revised downwards, which had an impact on the yield curve and interest rate levels.
- In **France**, the unequivocal election of centrist Emmanuel Macron reassured the markets and reduced the risks associated with the rise of the populist and eurosceptic movements.
- The **U.K.** officially began the process of exiting the European Union and the government will be faced with difficult negotiations, as its position was weakened following the general elections in which it lost its majority in the British parliament.
- In the **U.S.**, the Fed is preparing to begin a gradual reduction of its balance sheet, which could, among other things, lead to a rise in interest rates and an increase in credit spreads and volatility.
- In May, for the first time in 30 years, the Moody's rating agency lowered **China**'s credit rating, which investors could view as an additional opportunity for future growth.

SEMI-ANNUAL FOCUS

MIXED RECORD FOR THE FIRST 161 DAYS OF THE TRUMP PRESIDENCY

The Trump effect continued to impact the economy and the financial markets in the first quarter, but then dissipated somewhat. The U.S. stock market did not perform as well in June, and some recent indicators came in below expectations, suggesting that U.S. gross domestic product (GDP) could be slowing again, as was the case in the first three months of 2017.

Most analysts blame the new U.S. president for this situation, specifically the fact that he has not met the market's expectations. To date, after 161 days in office, the Trump administration has a rather mixed record, and the lack of cabinet consensus, as well as the controversial decisions being made, is generating confusion, uncertainty and volatility.

Here are some of the **stumbling blocks** faced by Donald Trump in the first half that are weakening his position, while raising doubts about his ability to implement his economic program.

- Inability to put in place the **pro-growth measures** that helped get him elected and that sparked business and investor optimism (tax cuts, massive infrastructure spending and other).
- Difficulties getting **healthcare** reforms passed.
- Suspension of two versions of the **immigration order** barring entry into the country of nationals from six Muslim countries, and acceptance of a partial version.
- Accusations of **attempts to obstruct justice** in the investigation of his former National Security Advisor and confusion about the events that led to the firing of the FBI Director.
- Approval of various controversial **pipeline projects**.
- Increase in **defence spending** and cuts to spending on medical research and the environment.

IS THE UNITED STATES HEADED TOWARDS ISOLATIONISM?

While the United States has always been known as a global leader that many countries could rely on, both politically and in terms of trade, it seems clear that President Trump wants to call into question America's role on the world stage. Using slogans like "Make America Great Again!" and "America First!" he has taken numerous actions:

- decisions based first and foremost on the **well-being of American workers** and their families
- withdrawal from the **Trans-Pacific Partnership** and the Paris Accord on climate change
- renegotiation of **NAFTA**
- eventual introduction of a **border tax** to encourage businesses to move their manufacturing activities back to the United States
- imposition of **countervailing duties** as high as 30% on Canadian softwood lumber
- eventual construction of a **wall between the United States and Mexico**

The next decisions of the U.S. leader bear close watching to see if his intention to put the interests of the American people first will harm the relations that the U.S. has established with countries which, over the years, have become key partners.

MARKET PERFORMANCE OVERVIEW

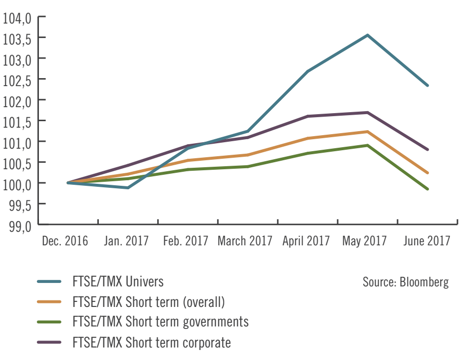
Despite the climate of uncertainty, stocks and bonds once again showed great resiliency in the first half of the year.

/ Fixed-income securities

Benefiting from an unanticipated decline in yields, **bonds generally performed well**, with the S&P FTSE TMX Universe Index advancing more than expected. Corporate bonds contributed the most to the return of this asset class.

Factors behind the surprising decrease in bond yields include lower inflation expectations due among other things to the Trump administration's difficulties in implementing its pro-growth measures, and the publication of disappointing U.S. economic data. The yield curve flattened during the first six months of the year and long-term yields are not pricing in a pickup in economic growth.

BOND MARKET PERFORMANCE
from December 31, 2016 to June 30, 2017



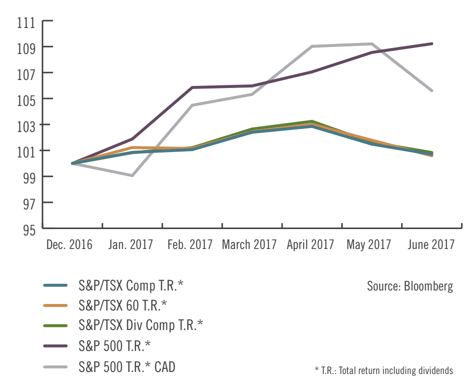
Current conditions prompt us to take a cautious approach to bonds held in our portfolios. We also intend to mitigate the very low nominal yields in industrialized countries through sound geographic diversification. Interest rates changed direction late in the first half in line with central bank guidance. It is increasingly clear that the emergency measures put in place since 2008 will be gradually withdrawn.

/ Canadian Equities

The Canadian stock market **performed weakly in the first half**, despite substantial economic growth and the fact that Canadian companies reported an increase in earnings per share of more than 30% in the first quarter. With the decline in the price of oil, the overvaluation of the real estate sector and the renegotiation of NAFTA, investors seemed to show little interest in Canadian equities.

We believe the Canadian market could rebound by year end, but the longer term outlook is more uncertain, because of its high concentration in the oil and bank sectors, whose growth will be more constrained. In light of these observations, we plan to continue our rather defensive strategy for **Canadian equities** by focusing on more liquid stocks and on large caps with sustained growth and solid balance sheets.

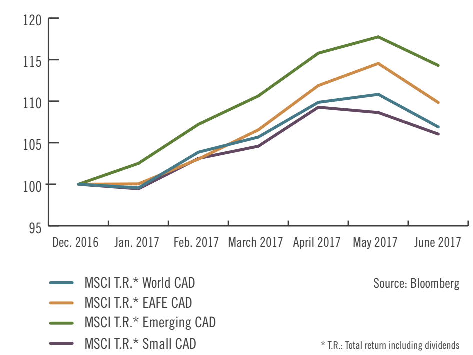
CANADIAN AND U.S. EQUITY PERFORMANCE
from December 31, 2016 to June 30, 2017



/ Global equities (including U.S. equities)

Global equities performed better in the first half, particularly European and emerging market stocks. Led by the technology sector, the U.S. stock market delivered a high return, despite investors' belief that U.S. stocks are expensive.

GLOBAL EQUITY PERFORMANCE
from December 31, 2016 to June 30, 2017

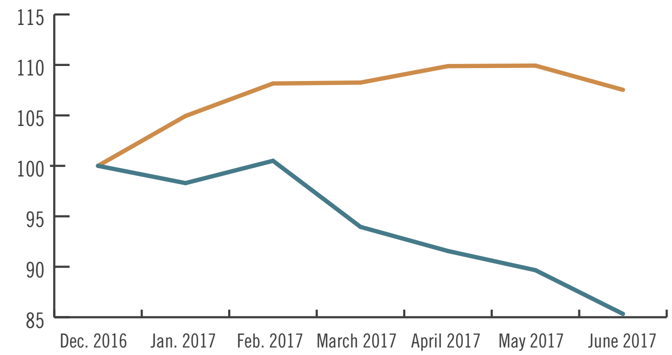


In our view, American equities should nevertheless not be neglected because of eventual tax cuts which should stimulate U.S. economic growth. We also believe that European stocks offer some good opportunities, considering the earnings being reported and the political environment in the euro zone, which is becoming less risky.

Our portfolios currently hold stocks from different regions of the world, providing us with **excellent diversification**. We plan to continue to take advantage of the appetite for foreign equities as long as opportunities present themselves.

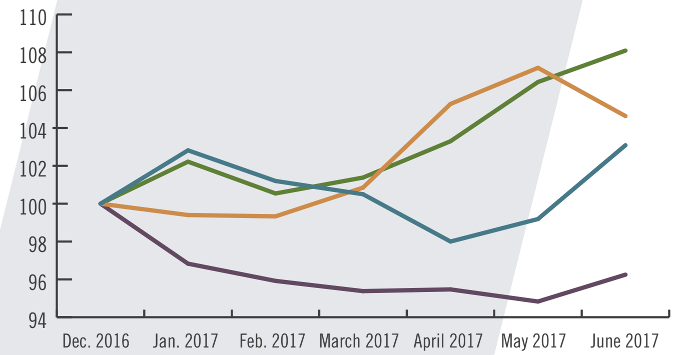
MORE MARKET DATA

PERFORMANCE OF OIL AND GOLD
from December 31, 2016 to June 30, 2017



Source: Bloomberg

PERFORMANCE OF THE MAJOR CURRENCIES
from December 31, 2016 to June 30, 2017



Source: Bloomberg

THE FIRST HALF OF 2017 BY THE NUMBERS

	ACTUAL LEVEL	VARIATION		
	June 30, 2017	1st quarter	2nd quarter	Year to date
Interest Rates				
CAD 10 years	1.76	-0.10	0.14	0.04
USD 10 years	2.31	-0.06	-0.08	-0.14
Currency				
CAD -> USD	0.77	-0.02%	2.69%	2.67%
EUR -> USD	1.14	1.90%	6.54%	8.57%
Commodities				
WTI Oil	46.04	-5.81%	-9.01%	-14.30%
GOLD	1,241.55	8.43%	-0.62%	7.75%

MARKET INDICES

North America (CAD)				
S&P/TSX (T.R.*)	15,182	1.70%	-2.35%	-0.69%
S&P 500 (T.R.*)	2,423	5.53%	2.57%	8.24%
International (CAD)				
MSCI World (T.R.*)	5,360	6.37%	4.03%	10.65%
MSCI Europe (T.R.*)	6,260	7.44%	7.36%	15.35%
MSCI AC Asia Pacific (T.R.*)	316	8.87%	2.93%	12.06%
NIKKEI Japan	20,033	-1.07%	5.94%	4.81%
MSCI Emerging Markets (T.R.*)	450	11.40%	6.27%	18.38%
Bond				
FTSE/TMX Universe	1,035	1.28%	1.11%	2.40%

Source: Bloomberg
* T.R.: Total return including dividends

PORTFOLIO NEWS!

FDP CANADIAN DIVIDEND EQUITY PORTFOLIO

Two new external managers are now participating in the management of this portfolio:

Lincluden
value driven, client focused

Lincluden Investment Management Ltd.
25% of the portfolio

Manulife Asset Management

Manulife Asset Management Ltd.
25% of the portfolio

Since June 26, 2017, these managers have been helping the Financial's in-house team to structure a portfolio that can perform well in difficult environments.