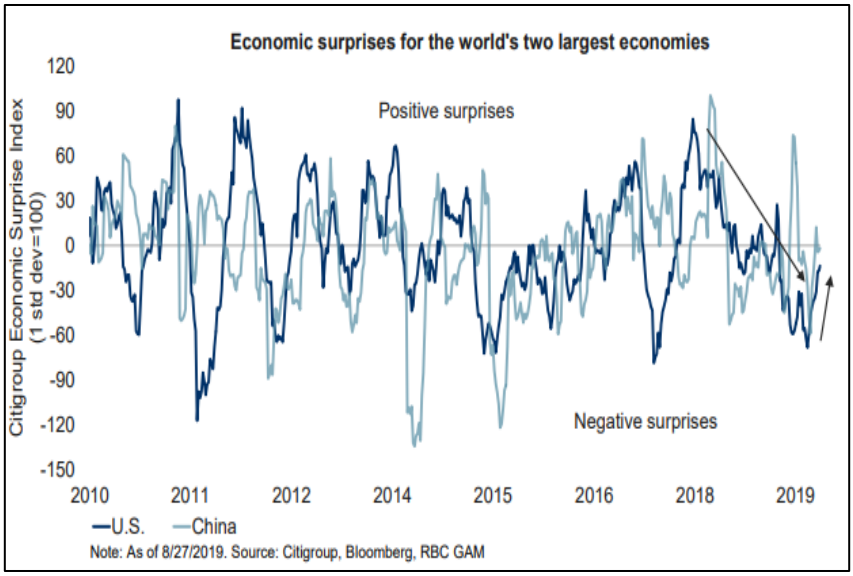
DIVIDEND VALUE PARTNERS | RAYMOND JAMES®

The Dividend Value Discipline™
3nd Quarter 2019 Review

Quarterly Commentary

Not as Bad as Feared

Economic and geopolitical data continue to send very mixed signals. On the one hand we have negative headlines with erratic trade talks, terrorist attacks on oil supplies, pro-democracy clashes, a formal US impeachment inquiry, Brexit, and ongoing recession fears. On the other hand we have strong consumer sentiment, very low unemployment, low inflation, healthy housing starts, and falling global interest rates which help support growth around the world.



The level of positive economic surprises for the US and China, the two world's largest economies, has fallen since early 2018. This coincides with the first set of US tariffs sanctioned on China on February 7th, 2018. This also coincides with the drop in manufacturing we have noted over the past 18 months.

The correlation among these suggests trade worries have induced an economic slow-down. The World Trade Organization tends to agree, reducing its global growth forecast for 2019 and 2020 for the fourth consecutive time.

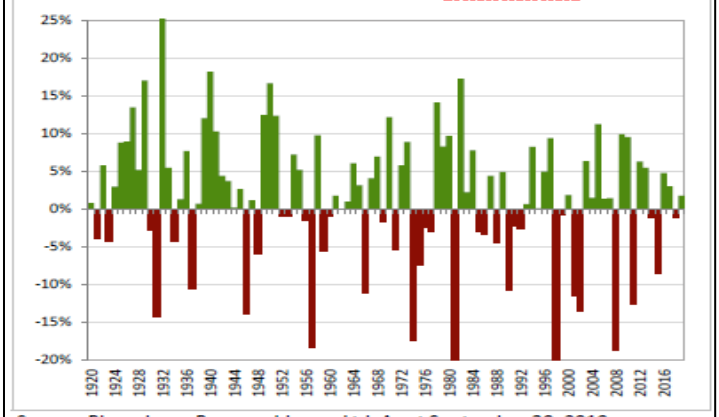
Historical Seasonal Performance

From a historical perspective the S&P/TSX was right in line with the long-term Q3 average of 1.7%. Looking forward, we now enter the strongest seasonal pattern for the markets. Q4 and Q1 have positive returns 70% of the time with an average gain exceeding 2.0%.

You may recall how bad Q4 2018 was when the S&P&TSX dropped 10.9%. This has many investors nervous about the quarter ahead. The probability of back-to-back negative Q4 returns is extremely rare. In fact, this has only happened once before in history (Q4 1929 and Q4 1930). Time will tell, but the probabilities suggest Q4 will have positive returns.

S&P/TSX Historical Quarterly Returns Since 1920

	Q1	Q2	Q3	Q4
# Positive	70	55	62	71
# Negative	30	45	38	28
% Positive	70.0%	55.0%	62.0%	71.4%
Average	2.3%	0.8%	1.7%	2.1%
Median	2.6%	1.0%	1.7%	3.0%



Source: Bloomberg, Raymond James Ltd. As at September 30, 2019.

US Recession Checklist

The US recession checklist displays the current economic slowdown, but not a recessionary backdrop quite yet. All previous recessions had at least five red arrow categories. While current conditions hold more than the usual number of yellow markers, the indicators show just two recessionary confirmed categories. The labour market remains positive, and inflation has flipped into a positive trend from neutral.

US Recession Checklist

Start of Recession	Yield Curve	Inflation Trend	Labour Market	Housing Market	Consumer Confidence	ISM Manufac.	Hi Yield Spread
Nov-73	▼	▼	▼	▼	▼	▼	▼
Jan-80	▼	▼	▼	▼	◆	▼	▼
Jul-81	▼	▲	▲	▼	▼	▼	▼
Jul-90	▼	▼	▼	▼	▼	▼	▼
Mar-01	▼	▼	▼	◆	▼	▼	▼
Dec-07	▼	▼	◆	▼	◆	▼	▼
Current	▼	◆	▲	◆	◆	▼	◆
Trend	Negative	Positive	Neutral	Neutral	Neutral	Negative	Negative

Key: ▼ Recessionary ▲ Expansionary ◆ Neutral

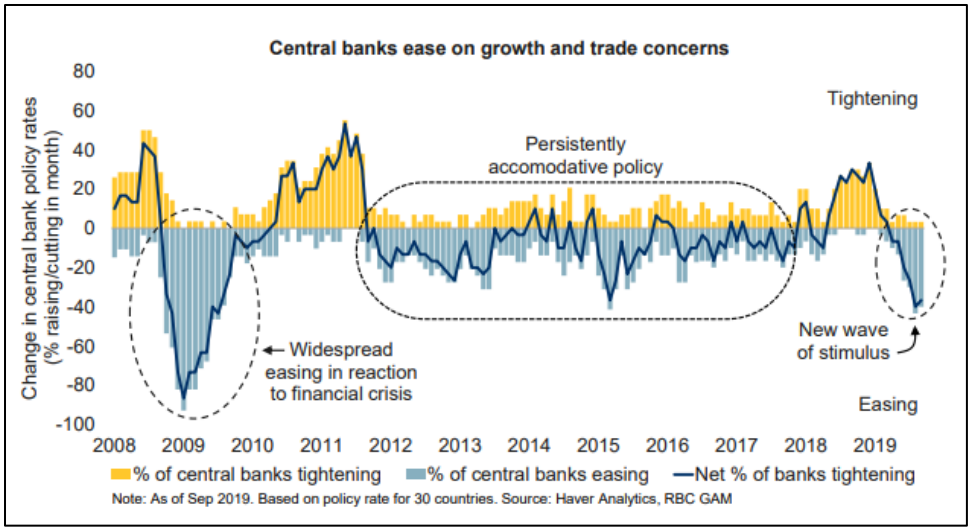
Source: Bloomberg, Raymond James Ltd.

This bipolar environment creates indecision where investors are not sure whether to be bullish or bearish. Investors have been shoveling money into cash funds, pushing cash levels to US $3.301 trillion in the week ended August 6th, the highest level since November 2009.

The flip side of this negativity is that there is a lot of fuel on the sidelines. Once investors feel more bullish, all this cash could send stocks and bonds higher as it gets reinvested.

To the Rescue

The biggest positive development in the past quarter has been the actions of central banks around the world. Most major central banks have enacted a new wave of economic stimulus. The US Federal Reserve reduced interest rates not just once, but twice through Q3. We also saw monetary help in Australia, Europe, China, and India.



As well, there is increased optimism for a modified US and China trade deal. Any improvement on trade will be a positive for the markets, but the longer trade worries continue the higher the risk of an oncoming recession.

The trend of moving into a monetary easing cycle is encouraging as it will help to battle the slowing growth now present. The hope is the stimulus will breathe new life into the economic cycle and avert a recession. So far markets have been resilient with Canada's S&P/TSX up 1.70% and the US S&P500 up 2.33% in Canadian dollars for the third quarter.

The Dividend Value Portfolio

The Dividend Value model portfolio returned +1.7% for the second quarter, and +11.0% for the year-to-date (net of all fees). This compares to our benchmark returns of +1.6% for the quarter, and +12.4% for the year-to-date.

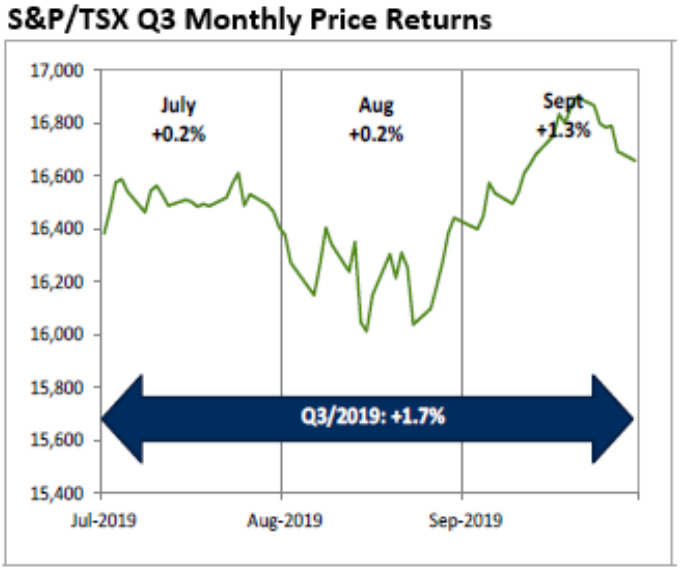
Long-term performance for the portfolio has been steady. The 3-year portfolio performance is +6.9% versus our benchmark of +4.9%, while the 5-year portfolio performance is +5.6% versus our benchmark of +4.5%.

The Canadian S&P/TSX market traded in a close range for most of the quarter, with a brief surge to new highs in September. Of the three pillars in the market (financials, energy, and materials) only the financial sector managed a positive return of 4.2% while the energy and material sectors were flat. We further reduced our exposure to materials by selling our position in Cameco. The best performing sectors were real estate and utilities. This was reflected in our holdings of Canadian Apartment REIT, Fortis, and TC Energy. Alimentation Couche-Tard also split on the final day of the quarter.

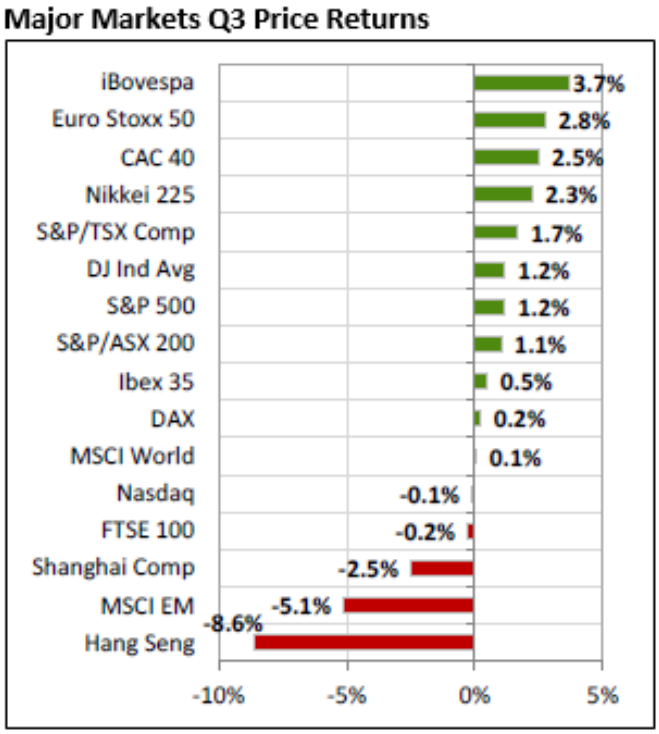
The US S&P 500 market was slightly better than Canada with a return of 2.3% in Canadian dollars. We initiated a new position in CVS Health Corp this quarter. CVS in a major healthcare provider and retail pharmacy operator in the US. We also added to our existing position of Expedia Group.

The bond portfolio continued to add value in Q3. Six of the seven bond managers had positive performance. With falling interest rates now prevalent in the US and further monetary easing likely, bonds should have a tailwind into year end.

The duration of the ongoing trade war has created greater uncertainty in the market outlook. CEO confidence is low which tends to slow capital spending and growth plans. The negative trends keep worries of a recession top of mind amongst financial strategists and the media.



Source: Bloomberg, Raymond James Ltd.



Source: Bloomberg, Raymond James Ltd. As of Sept 30th, 2019

Central bankers are clearly concerned as well and are now taking action. The move to stimulate economic growth proactively will help both bonds and stocks. We maintain the current slowdown will be modest and temporary. Recessionary pressures should subside when manufacturing begins to rebound.

By all measures, the year-to-date performance in the stock market and portfolio have been good and we hope Q4 will finish the year on a positive note.

The Dividend Tracker

Fundamentally, we believe that owning strong, stable companies with a track record of consistently growing their dividends is the best way to grow your money. For this reason, we track the number of dividend increases received in our portfolio every quarter and for the year-to-date. In the 3rd quarter, six of our Dividend Value stocks increased their dividends.

Q3 Dividend Changes (Quarterly)			
Citigroup Inc.	Increased to 0.51 from 0.44	**Fortis Inc.**	Increased to 0.48 from 0.45
Expedia Group Inc.	Increased to 0.34 from 0.32	**Nutrien Ltd.**	Increased to 0.45 from 0.43
JPMorgan Chase & Co.	Increased to 0.90 from 0.80	**U.S. Bancorp**	Increased to 0.42 from 0.37

Quarterly Performance

Mandate	3-mos	1-yr	3-yr	5-yr	10-yr
Dividend Value Portfolio	1.7%	3.3%	6.9%	5.6%	7.0%
Dividend Value Benchmark	1.6%	4.1%	4.9%	4.5%	6.0%
S&P/TSX Composite Total Return	2.5%	7.1%	7.4%	5.3%	7.0%
S&P/TSX Preferred Share Total Return	0.6%	-10.4%	3.1%	-0.9%	2.0%
MSCI EAFE (Cdn$) Total Return	0.1%	1.0%	6.7%	6.8%	7.1%
FTSE-TMX Universe Bond Total Return	1.2%	9.7%	2.7%	3.9%	4.4%

Performance data is current as of Sept 30, 2019. Not all portfolios will be alike, given different starting dates, slightly different securities owned, or the timing of funds added or removed. Please see the individual client statements that are being included separately for specific account performance. The Benchmark is the Morningstar "Canadian Equity Balanced" index, a composite of all funds that meet that criterion in Morningstar.

DVD Quarterly Transactions

The following securities were bought this quarter:
CVS Health Corp (CVS)

The following securities were topped-up this quarter:
Expedia Group (EXPE)

The following securities were sold this quarter:
Cameco (CCO)

The following securities were trimmed this quarter:
None this quarter

Sincerely,

Paul Siluch
Senior VP, Portfolio Manager
Raymond James Ltd.

Lisa Hill
Senior VP, Portfolio Manager
Raymond James Ltd.

Peter Mazzoni
Financial Advisor
Raymond James Ltd.

Company Name	**Disclosure**
Manulife Financial	Raymond James Ltd. has managed or co-managed a public offering of securities within the last 12 months with respect to the subject company. Raymond James Ltd. has provided investment banking services within the last 12 months with respect to the subject company.
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