Desjardins
Wealth Management
SECURITIES

LAURENT WERMENLINGER PL.FIN., FCSI
VICE-PRESIDENT & PORTFOLIO MANAGER

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Most of the global economies are slowly improving. Six years have now passed since the beginning of the Great Recession. What more can be said about the huge social and economic impact of this dark period of our history. In my opinion, the consequences could have been even more serious if the Federal Reserve had not intervened by bringing all its weight to bear and by calling upon all its creativity. Since then, we live in an environment of bottom interest rates. Everything is being done to encourage corporations and individuals to spend on goods and services and to engage in capital expenditures in order to stimulate economic recovery. This drastic remedy seems to be working.

As a matter of fact, Europe, China and Japan, driven by a U.S. economy on the mend, are beginning to benefit from the positive effects of the recovery in the U.S. To varying degrees and in different ways, the major economies are showing somewhat more encouraging results. These results are sufficiently positive for us to believe that the most probable economic scenario over the coming years will be one of synchronized recovery on a global scale.

This scenario includes variables marked by a modest recovery coupled with slow to moderate growth for a relatively long period of time, limited inflation (although some unexpected upswings may occur) and a slight rise of the U.S. dollar versus most of the other major currencies, a world where cyclicality will be reduced. This outlook reinforces my belief that we must adopt a more selective approach with respect to asset classes, sectors, geo-economic zones and currencies.

We will see the word “normalization” more often in lieu of the term “quantitative easing”. In fact, we must anticipate that interest rates will progressively trend in a more normal fashion. Obviously, we cannot predict when key rates will begin to climb, but we must be prepared for this event.

Here is how: First, by reducing the fixed income portion, likely to be more seriously impacted by the rise of interest rates, even though it would mean favoring cash for a certain period of time; then, by adopting non-traditional and active techniques. As an example, a significant position in the Monthly Income Fund managed by Pacific Investment Management Company was added to the portfolio in January. The company’s objective is clear: Produce an annual income of 4%, period!

We believe that the stock markets have anticipated this moderate growth. In many instances, stock prices reflect normal to high valuations. The reduced volatility that we have seen lately cannot

always be sustained. We must therefore expect some increase in volatility, but this will provide good investment opportunities.

Consequently, although returns have been attractive in recent years, we believe that each investor should be aware that expected returns are likely to revert to more normal levels.

Following are our key strategic guidelines:

1- Reduce the average term of fixed-income securities, reduce credit risks, active and selective approach regarding issuers, internationalization of securities and issuers.
2- Use cash and/or other alternative strategies on a temporary basis in order to limit the volatility of securities making up the portfolios.
3- Maintain a selective approach with regard to sectors and countries included in the portfolios.
4- Europe and China are two major economic entities that we should favor over the coming years.
5- Technology, health sciences, renewable energy and financial services are sectors with good growth potential.
6- Maintain our « value » and « small cap » bias in stocks.

Once again, I thank you for the confidence you have placed in us. All the members of our team join me in wishing you a wonderful summer.

Laurent Wermenlinger, Pl. fin., FCSI
Vice-President and Portfolio Manager

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