



JUNE

MARKET COMMENTARY & FORECAST

WHEN DOVES CRY

The global markets staged an incredible recovery in June after getting walloped in May. Escalating trade tensions between the US and both China and Mexico had threatened to put a damper on the year-to-date rally. The June rally was based on optimism for an accommodative Federal Reserve – now called the “Powell Pivot” – and other global central banks and the de-escalation of the trade tensions post the G20 meeting of world leaders in Osaka. The MSCI World index jumped 6.46% in June. The US markets had their best June on record since 1938 with the S&P500 up 6.89% for the month while the Dow Jones jumped 7.19%. The Nasdaq jumped 7.42% after dropping to correction territory in May. The TSX also participated in the bounce with a 2.15% gain for the month. The biggest move was from the gold sector up 15.8% as the gold price moved decisively over the \$1400 level, up 8% for the month. A lower interest rate environment was the catalyst for higher valuations for economically sensitive sectors. These include financials +2.48%, consumer discretionary +6.56%, and information technology +3.63%. The energy index continues to be a drag on the TSX dropping 2.17% even with the bounce back in crude oil prices, as the OPEC coalition agreed to curb oil production by 1.2M barrels/day for another nine months. Oil markets continue to be concerned about the surging domestic stockpiles, the fear of a slowdown in global economic growth and the lack of funds flow into the sector. This is why we’re still underweight energy in our portfolios. China’s Shanghai composite jumped 2.77% as a relief rally from the apparent truce in the Sino-American trade war.

The yield on the benchmark US 10-year Treasury dropped another 11bp to 2.09% and now down a remarkable 114bp from the high of 3.23% in the fall of 2018. The yield is down under

2.0% after month end to the lowest level since 2016. All the doves have come out on the global stage to foster inflation and GDP growth in their respective regions. Bonds have been feasting on the threatening slowdown in global economic activity and equity markets’ volatility.

The market is now pricing two Fed rate cuts by the end of this year, another 180-degree turn from the outlooks in both the fall of 2018 and a few months ago. Other global central banks are also shifting course and becoming more accommodative as witnessed by the European Central Bank comments on rates staying steady and the Bank of Australia move in lowering rates two consecutive occasions by 25bp each time. The race to lower yields has been vicious – the lower the German and other European bond yields go, the lower the US 10-year Treasury goes as global investors see relative value. This puts downward pressure on corporate borrowing costs and the interest rates cycle goes on and on.

MARKET PERFORMANCE

Market	Return (%)*
Canada (S&P/TSX)	2.5
US (S&P)	3.7
MSCI (World)	3.1
Best (Argentina)	25.8
Worst (Switzerland)	(1.8)

*In Canadian dollar terms as at June 30, 2019

Germany's 10-year government bond yield is deeply negative at approximately -0.35%, French yields at -0.1%, while Italian yields are competing with US Treasuries with yields at 1.86%. Other European countries are showing negative yields as well such as Slovenia, Slovakia and even Malta! Owning bonds has been a lucrative investment class with returns of 10% YTD for the US 10-year Treasuries. US-listed Bond ETF fund flows are at their highest levels with a record inflow in June of \$25.4 billion with AUM exceeding \$1 trillion (not a typo) for the first time ever. Bond ETFs were only launched 20 years ago. The only thing hotter than bonds right now is the stifling weather across Europe, where over a dozen cities in southern France hit temperatures exceeding 111 degrees Fahrenheit.

The great dove move appears to be accelerating with the Trump appointments of Judy Shelton and Christopher Waller to fill the board vacancies at the Federal Reserve. Shelton has been on record in favour of lower interest rates. She was quoted as saying that she would drop rates to 0% in one to two years, echoing Trump's call for lower rates. Waller has worked at the St. Louis Fed, whose president James Bullard is one of the most prominent doves right now. Even the IMF's Christine Lagarde, recently nominated to be the next European Central Bank leader, is known to be a dovish leader gaining much experience in fighting economic crisis. In addition, Bank of England governor Mark Carney has chimed in with dovish comments warning that trade wars could shipwreck the global economy.

The doves are crying, and the markets are listening with both bond prices rallying on lower yields and equities catching a bid, with the inverse relationship of bond yields and price/earnings multiples.

In a surprise twist, one major central bank not joining the more dovish camp is the Bank of Canada. Surprisingly positive economic data, on the reversal of mandated oil production cuts and a recovery in oil prices, has made Canada one of the sole holdouts in the move to aggressively lower interest rates. The country continues to report solid GDP prints with a 0.3% gain in April and on track for a solid Q2 GDP number after the weaker Q4/2018 and Q1/2019. Canada also reported a rare trade surplus of \$762 million in May from a deficit of \$1.1 billion previously. Exports have surged 15% in the past five months, the best performance in over a decade. The exceptional employment gains and a drop in the bond yields have provided additional signals to keep rates steady for now. The Bank of Canada can sit back and listen while other central banks sing their more dovish tunes. The Canadian dollar has responded with a 3.4% move higher for the month and a 4.3% move higher for the year closing at a five-month high of 76.49 to the US dollar. We hope the Bank of Canada's interest rate call is right.

Our Stone cash levels have stayed the same and our portfolios have been structured with a bias for preservation of capital.

We use our proprietary investment process daily and in volatile market conditions such as these, we seek to ensure that we can manage downside risk and adjust the portfolio accordingly while seeking to achieve our long-term investment goals.

We remain invested and are committed to companies that provide revenue growth, improving free cash flow and higher earnings per share. We are active portfolio managers with a disciplined investment process including the implementation of various risk management tools to benefit our investors.

Kindest Regards,



Richard Stone,
Chief Investment Officer
Stone Asset Management Limited

FUND PERFORMANCE - Series F/FF

	1 mo	3 mo	6 mo	YTD	1 yr	3 yr	5 yr	10 yr	Since Inception	Inception Date
Stone Dividend Growth Class, Series F	2.5	2.4	12.2	12.2	5.7	8.5	5.2	8.7	9.5	08/01/2003
<i>80% S&P/TSX Composite, 20% S&P 500 C\$</i>	<i>2.7</i>	<i>2.5</i>	<i>15.8</i>	<i>15.8</i>	<i>5.1</i>	<i>9.7</i>	<i>6.8</i>	<i>9.5</i>	<i>8.4</i>	
Stone EuroPlus Fund, Series F	0.8	(2.4)	6.4	6.4	(1.0)	3.5	3.5	6.7	3.6	05/02/2008
<i>Comparable European Equity Index \$C</i>	<i>3.3</i>	<i>2.3</i>	<i>11.3</i>	<i>11.3</i>	<i>1.5</i>	<i>9.4</i>	<i>5.5</i>	<i>8.3</i>	<i>3.9</i>	
Stone Global Balanced Fund, Series FF	1.0	0.9	9.5	9.5	3.5	6.1	5.7	8.2	8.3	01/05/2009
<i>15% S&P/TSX Composite, 15% S&P 500 C\$, 30% Comparable Global Equity Index C\$ and 40% FTSE TMX Canada Universe Bond</i>	<i>2.2</i>	<i>2.4</i>	<i>10.9</i>	<i>10.9</i>	<i>7.0</i>	<i>7.7</i>	<i>6.8</i>	<i>8.4</i>	<i>8.7</i>	
Stone Growth Fund, Series F	0.3	0.2	8.5	8.5	1.6	10.2	7.2	8.3	6.5	08/01/2003
<i>50% S&P/TSX Composite and 50% S&P 500 \$C</i>	<i>3.1</i>	<i>2.4</i>	<i>15.1</i>	<i>15.1</i>	<i>7.0</i>	<i>11.0</i>	<i>7.6</i>	<i>9.9</i>	<i>8.0</i>	
Stone Global Growth Fund, Series F	1.2	1.7	15.8	15.8	4.3	14.6	13.9	14.1	8.9	08/01/2003
<i>Comparable Global Equity Index \$C</i>	<i>3.2</i>	<i>1.9</i>	<i>12.4</i>	<i>12.4</i>	<i>5.9</i>	<i>12.1</i>	<i>11.1</i>	<i>12.1</i>	<i>7.4</i>	
Stone Select Growth Class, Series F	(1.5)	(6.8)	(1.8)	(1.8)	(18.8)	(8.5)	n/a	n/a	(14.9)	09/01/2014
<i>50% S&P/TSX Capped Energy, 50% S&P/TSX Capped Materials</i>	<i>5.8</i>	<i>(1.3)</i>	<i>9.0</i>	<i>9.0</i>	<i>(15.4)</i>	<i>1.7</i>	<i>(5.6)</i>	<i>(0.7)</i>	<i>(5.7)</i>	
Stone GaleForce Dividend Growth Pool	2.1	1.7	9.8	9.8	4.7	7.3	5.0	n/a	6.3	05/17/2012
Stone American Dividend Growth Fund Series F	5.0	0.1	4.8	4.8	(2.3)	2.9	n/a	n/a	6.1	07/17/2014
Stone Monthly Pay Fund	2.0	0.4	9.6	9.6	(5.1)	(1.7)	(3.7)	4.4	1.7	02/07/2006
Stone Global Strategy Fund Series F	1.1	1.4	6.5	6.5	0.0	4.4	4.6	9.2	4.2	09/22/2006
Stone Covered Call Canadian Banks Plus Fund Series F	2.7	2.7	12.2	12.2	0.2	7.4	n/a	n/a	4.6	07/17/2014
Stone Small Companies Fund Series F	(1.2)	(11.1)	(3.1)	(3.1)	(10.1)	(3.6)	(3.7)	(0.4)	(3.8)	02/07/2006

The returns set out above are historical annualized compounded returns net of all fund fees and expenses. The returns assume a re-investment of all distributions. Historic returns are provided for general information purposes only and may not be indicative of future returns or fund performance. Performance data of other Series of the Funds may differ from those shown above due to differences in fees. Please visit our website at www.stoneco.com for performance data of all Series.

As at June 30, 2019

CANADIAN FACTS – The power cooker.

Thomas Ahearn's dinner guests were a contented lot that Ottawa evening of 1882. They had just finished an elaborate meal prepared for them by their fellow electrical engineer. Their mood changed from satisfied to horrified when their host revealed he had cooked the feast using electricity. Developed in secret, Ahearn's electric range used resistance coils to convert electricity into heat. A full ten years after this inaugural, magical demonstration, the first commercial electric oven was installed in Ottawa's Windsor Hotel. It was slow to catch on elsewhere. Towns and cities had to be electrified before homes could be equipped with the new stoves, so it wasn't till the 1930s that electric ranges began to replace their gas cousins. After that, Ahearn's innovation quickly made the wood stove obsolete. And Canadians proudly recall that the age of electric cooking was born right in Ahearn's own Ottawa kitchen.

*Adapted from Ingenious - How Canadian Innovators Made the World Smarter, Smaller, Kinder, Safer, Healthier, Wealthier, and Happier, by David Johnston & Tom Jenkins

Sleep well

Knowing you'll have the financial resources to live well.



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All mutual funds carry the risk that the mutual fund may decrease in value. The degree of risk varies depending on the investment objective and strategies of the mutual fund. Before investing in any mutual fund discuss with your financial advisor how it works with your other investments and your tolerance for risk. Please refer to the simplified prospectus or offering memorandum for more information regarding the risks associated with these funds. The principal risks associated with the Stone Funds are as follows:

Stone Dividend Growth Class – market risk relating to fluctuations in the stock market and equity risk relating to fluctuations in individual securities.

Stone Select Growth Class – market risk relating to fluctuations in the stock market, equity risk relating to fluctuations in individual securities and sector risk associated with fluctuations in the resource sector.

Stone Global Balanced Fund – market risk relating to fluctuations in the stock market, equity risk relating to fluctuations in individual securities, credit risk associated with investments in bonds and interest rate risk associated with fluctuations in interest rates.

Stone Growth Fund – market risk relating to fluctuations in the stock market and equity risk relating to fluctuations in individual securities.

Stone Global Growth Fund – market risk relating to fluctuations in the stock market, equity risk relating to fluctuations in individual securities and foreign investment risk associated with investments in foreign companies.

Stone EuroPlus Fund – market risk relating to fluctuations in the stock market, equity risk relating to fluctuations in individual securities and foreign investment risk associated with investments in foreign companies.

Stone GaleForce Dividend Growth Pool – market risk relating to fluctuations in the stock market and equity risk relating to fluctuations in individual securities.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the simplified prospectus or offering memorandum before investing. Any indicated rates of return are the historical annual compounded total returns including changes in security value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. The payment of distributions is not guaranteed and may fluctuate. The payment of distributions should not be confused with a fund's performance, rate of return, or yield. If distributions paid by the fund are greater than the performance of the fund, then your original investment will shrink.

Distributions paid as a result of capital gains realized by a fund and income and dividends earned by a fund are taxable in your hands in the year they are paid. Your adjusted cost base will be reduced by the amount of any returns of capital. If your adjusted cost base goes below zero, then you will have to pay capital gains tax on the amount below zero. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

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