THE ABC PERSPECTIVE

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Fourth Quarter 2018 Market Weakness … Brings 2019 Opportunities

The 2018 investment year can best be described as bifurcated or divided into two very disparate financial parts. The January 1 to September 30, 2018 period for instance, exhibited surprisingly positive stock market performance given investor anxiety relating to U.S. economic and employment growth, corporate earnings, and global political and economic uncertainty. Consequently, a flattish S&P/TSX composite and +7.0% - +16.5% major American index returns during this period were considered an unanticipated market win.

The final three months of 2018 provided equally unexpected negative investment returns. The period was characterized by extreme share price volatility, excessive negative investor sentiment, fears of rising interest rates and an inverted yield curve, increasing concerns of a potential U.S. recession, and uncertain U.S. Federal Reserve intentions. Furthermore, a burgeoning U.S. - China trade war, the ongoing Brexit confusion, and the constant Washington political squabbling, only added to investor apprehension. As a result, the North American equity indices suffered the worst performance since the 2008 financial crisis.

Now that 2018 is over, we believe that the fourth quarter 2018 market weakness brings 2019 opportunities. For instance, looking ahead from the depths of the late December sell-off combined with the absolute investor despair, we have become more optimistic for 2019. Firstly, we do not anticipate a U.S. economic recession, but rather, slower positive economic growth of 2 - 2.5%. More importantly, we expect continued subdued inflation, record low unemployment, healthy consumer spending, and growing, albeit, decelerating corporate earnings. Secondly, with the extreme psychological negativity of the past three months, investor expectations are quite low. We believe that price earnings ratios and stock prices have been deeply penalized and now provide excellent comeback opportunities for 2019.

As we enter 2019, we expect a more dovish U.S. Federal Reserve policy compared to the late 2018 panic. Although the current U.S. government shutdown and the ongoing U.S. - China trade dispute are disconcerting to many investors, we believe that in the event of any resolution and/or greater clarity on Brexit, North Korea, and global economic growth, the North American equity markets could be significant beneficiaries.

With regard to our ABC Funds' portfolios, we believe that they are well set up for an improved 2019. We have focused on larger capitalization and dividend-paying equities, favouring country allocations of 2/3 U.S. and 1/3 Canada, primarily concentrating on health care, financial services, technology, and industrial sectors.

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Economic Perspectives

The U.S. Economy: Doing Fine

The major investment concern overhanging the securities markets over the past three months has been the prospect of an impending U.S. economic recession. This fear has been primarily due to rising interest rates and the likelihood of an inverted yield curve, however the U.S. economy is doing fine. Admittedly, U.S. economic activity is slowing from the extraordinarily strong Q2/2018 +4.2% rate toward an estimated 2 - 2.5% growth rate for 2019. It is our view that steady employment gains, continued consumer spending, and a more dovish 2019 U.S. Federal Reserve monetary stance should extend positive economic activity to at least the beginning of 2020.

Investment Perspectives

Consumer Spending: The Backbone of the American Economy

The big positive surprise during the present elongated economic cycle has been the steady growth of American employment and the resulting trend of healthy consumer spending. Consumer spending, which accounts for about 70% of U.S. economic activity is the backbone of the American economy. Despite the late 2018 financial and political anxiety, we believe that the solid expansion of American employment should fuel consumer spending, stabilize business activity, and help dissipate the present recession fears over the next 12 months.

Portfolio Perspectives

Sticking with our Portfolios

Despite the extreme market weakness and price volatility over the last three months of 2018, we have made very few changes to our investment holdings. We believe that our security positions are solid, diversified, composed of dividend-paying and larger capitalization U.S. and Canadian equities with visible earnings and growth opportunities. Although we anticipate continued market volatility until the major macro financial and political issues are either clarified or settled, we remain quite comfortable with our portfolio positioning.

Two Favoured ABC Common Stock Holdings

Boston Scientific Inc.: is a medical technology company that is a core position in the ABC Funds. Due to aging populations and growing healthcare spending, we believe the company is in a long term secular growth cycle and has a bright future. The company operates in multiple segments including treating cardiovascular disease, the most common cause of death worldwide, and other higher growth segments including endoscopy, urology, and pelvic health. In addition to the positive industry backdrop, the company plans to enhance its long term growth profile and to grow faster than the industry by diversifying into high-growth segments through internal portfolio innovation and select acquisitions. The company generates strong free cash flow which is being used to acquire complementary and high growth businesses. Boston Scientific also has large potential for international expansion, since the majority of revenue is earned domestically. There is notable opportunity for growth in emerging markets, where the company is building scale and new capabilities.

Netflix Inc.: is an entertainment subscription service for streaming movies and television shows. Over the past several years, Netflix has effectively disrupted the entertainment industry and the way people consume content. The company is benefiting from key secular trends, such as cord cutting, a shift to mobile platforms, and bundling of internet services. Netflix continues to spend billions producing original content and rapidly expanding their online library. The company's strategy appears to be paying off, as they now control 10% of all television time in the U.S., serving about 100 million hours of video per day. Netflix is also earning acclaim from critics, having won five 2019 Golden Globe awards - the most for any individual studio. In the company's most recent earnings report they topped expectations, adding 8.8 million subscribers globally and posting a 28% year over year revenue increase. Netflix is held in four of our five ABC Funds' portfolios.

Administrative Information

· All cheques are to be made payable to RBC Investor Services.

· All client requests are to be directed to ABC Funds.

· Only unitholders of the North American & Global Equity Funds within non-registered accounts will receive T3 tax slips by the end of March 2019 as there were distributions in 2018 for those funds. Unitholders of our other funds will not receive T3 tax slips for 2018.

· T4s will be mailed out mid-February 2019.

· The Capital Gains/Losses Report for redemptions made in 2018 is included with your December 31, 2018 statement.

· All directly-held accounts will receive their 2018 Annual Performance Report via mail in January 2019.

· Contribution slips for RRSP contributions made in 2018 will be mailed at the end of January 2019.

· Contribution slips for RRSP contributions made in the first 60 days of 2019 will be mailed by the end of March 2019.

· The RSP contribution deadline for 2018 contributions is February 28, 2019. All contributions must reach our office no later than this date.

· RBCITS is the custodian of the ABC Funds and is responsible for providing account statements to all our clients. We ask that you retain these statements for your records as there may be additional costs for retrieving historical data.

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