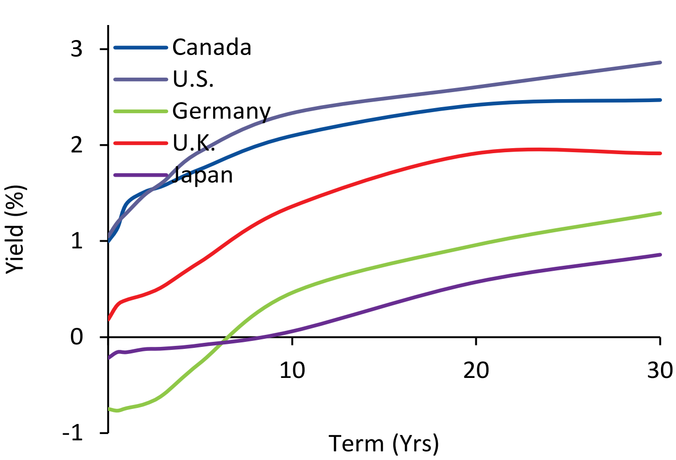
Market Statistics

	Sep/17	Jun/17	Mar/17	Sep/16
Yields (%)				
90 Day T-Bill	1.00	0.71	0.52	0.53
10 Yr. Canada Bond	2.10	1.77	1.62	1.00
30 Yr. Canada Bond	2.47	2.15	2.30	1.66
Rates (%)				
C.P.I. (annual)	1.40	1.32	1.56	1.34
US$/C$	0.80	0.77	0.75	0.76
Euro/C$	0.68	0.67	0.70	0.68
Prices (US$)				
Crude Oil (bbl.)	52	46	51	48
Natural Gas (mm)	3.01	3.04	3.19	2.91
Gold (oz.)	1,282	1,241	1,250	1,315

Market Returns

	Periods Ending Sep. 30/17			
			Annualized	
	3 Mo.	1 Yr.	5 Yrs.	10 Yrs.
S&P/TSX	3.7	9.2	8.1	4.1
S&P 500 (C$)	0.5	12.9	19.8	9.9
S&P 500 (US$)	4.5	18.6	14.2	7.4
MSCI EAFE Net (C$)	1.4	13.3	13.7	3.6
MSCI EAFE Net (US$)	5.4	19.1	8.4	1.3
MSCI World Net (C$)	0.8	12.4	16.4	6.6
MSCI World Net (US$)	4.8	18.2	11.0	4.2
FTSE Universe Bond	-1.8	-3.0		
FTSE 91 Day T-Bill	0.1	0.5		

Yield Curves



The Economy

Economic growth, interest rates and inflation remain at historically low levels in all of the G7 economies. This has been a constant since the great recession of 2007-08. Low short-term interest rates alone have not been able to spur growth and as a result, monetary authorities put into place policies which resulted in the buying of long-term bonds in order to also drive down long-term interest rates. Fears of deflation have ensured that central bankers in Europe and Japan would keep short-term interest rates at the zero if not a negative level. OECD (Organization for Economic Co-operation and Development) data summarizes where the G7 economies stand today along with next year's GDP forecast.

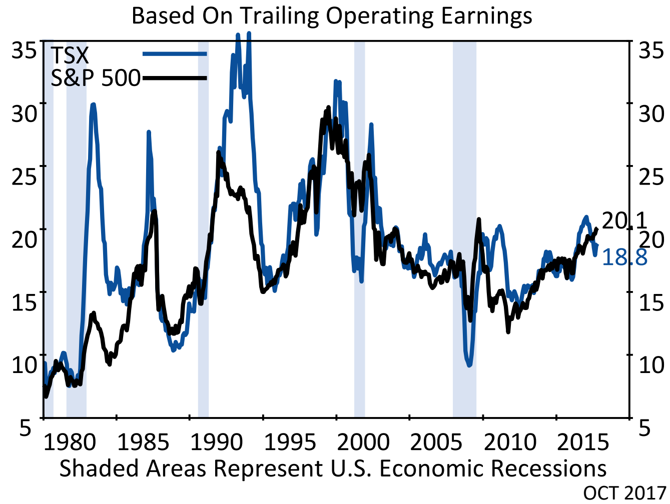
%	Short-Term Interest Rates	Long-Term Interest Rates	Current Inflation	2018 Real GDP Forecast
Canada	1.20	1.89	1.4	2.3
U.S.	1.25	2.21	1.9	2.4
France	-0.33	0.71	0.9	1.6
Germany	-0.33	0.35	1.8	2.1
Italy	-0.33	2.20	1.2	1.2
Japan	0.06	0.00	0.4	1.2
U.K.	0.31	1.12	2.9	1.0

More recent statistics suggest U.S. GDP growth has moved to the 3.0% annualized level but this is not expected to hold given the damage caused by recent hurricanes. In 2018, there will most likely be an acceleration as spending on rebuild begins to appear in the macro results. Canada's growth has also exceeded forecasts in the recent months as we are largely U.S. dependant. As a result, the North American central banks expect to continue their move toward higher interest rates having already raised interest rates twice in 2017. In addition, the U.S. Federal Reserve stated that they will immediately begin to unwind their bond buying program which should result in higher long-term interest rates.

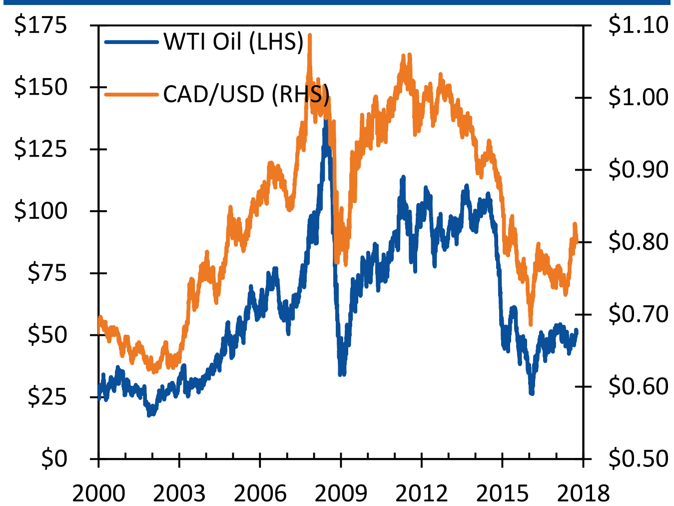
No change in monetary policy is expected in the other G7 countries as growth, while better, remains modest in Europe and Japan. The U.K. remains under the cloud of "Brexit" and the uncertainties that businesses face with the prospect of exiting from the European common market.

Unprecedented low interest rates over a multiyear period in the G7 have helped avoid recession and extend the current economic cycle. They have also significantly reduced borrowing costs for those economies that appeared on the edge of collapse due to high debt levels just a few years ago (such as Italy). They have not, however, been able to nudge inflation rates up to the preferred 2.0% level. In the U.K., the Brexit vote and subsequent decline in value of the pound brought forward a one-time burst in their inflation rate.

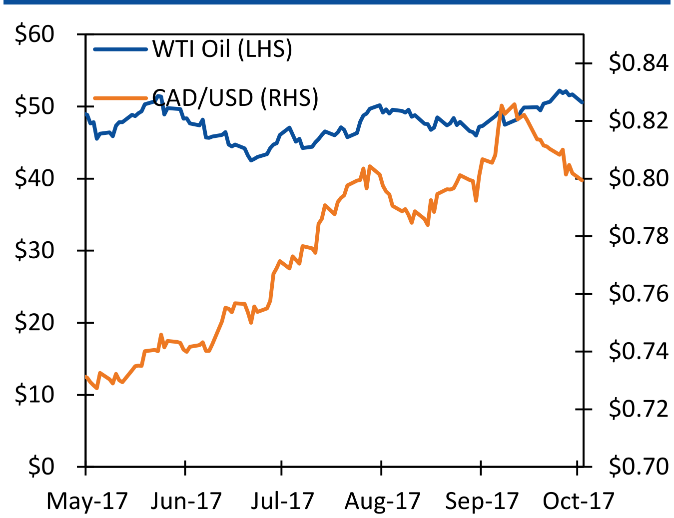
Price-Earnings Multiples



Long Term Oil Price vs. C$



Short-Term Oil Price vs. C$



The Markets

Modest economic growth coupled with low interest and inflation rates have largely fuelled profit growth and expanded price/earnings multiples, thereby providing for the significant appreciation of share prices over the last 8-9 years. Declining interest rates have also resulted in decent bond market returns. As we now enter a period of rising short-term interest rates we certainly need to be cautious with any fixed income investments. For example, the FTSE Bond Universe returns (see table on page 1) have recently turned negative. The announced end to quantitative easing will result in the U.S. central bank selling $4.5 trillion dollars of securities. Despite suggestions of a gradual process, the massive size of the program could increase long-term interest rates and further exacerbate bond returns.

We still prefer equities but share price appreciation will now have to come solely from earnings growth as any increase in price/earnings multiples will be capped by the rise in interest rates. The chart at the top of this page demonstrates the increase in share price multiples that has occurred in recent years while interest rates were falling. The reverse is now expected but any increase in interest rates should be limited as economic growth and inflation appear to be muted. As a result, share price multiples may not contract significantly. 2017 equity returns reflect this trend.

The appreciation of the Canadian dollar has impacted foreign equity returns in 2017 (-4% in Q3 and -6% YTD). There are many factors that affect the value of a currency including interest rates and trade flows. The middle chart on the left demonstrates that over the longer term the Canadian dollar has been correlated to the price of oil. Not surprising given oil and related energy are normally our largest export. As shown in the bottom chart, this relationship has not held true in recent months. Some explanations include the recent surprise increase in Canadian interest rates and the belief that we may in fact lead the U.S. with further increases. There is also some speculation that the recent NAFTA negotiations spurred our government to ensure that the value of our currency was firm. A weaker currency would place Canada in an advantageous trade position and draw the ire of our trading partners. It is our belief that the trade fundamentals will once again bring the Canadian dollar more in line with the price of oil. As highlighted in past "Views", the price of oil is expected to remain constrained ($40-$60 per barrel range) due to the proliferation of supply from shale based properties. The corollary is that our currency should also trade within a narrow band.

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