Spring Ushers in Market Advances

By Scott Guitard

During the second quarter, European equity prices surged, fuelled by the fastest Eurozone economic growth rate in years. US equity valuations also rose, led by the Information Technology sector. Canadian equities faced headwinds as Energy stocks declined significantly and the Financials sector delivered mixed results. These are some of the themes investors witnessed during the spring period. Looking ahead, we believe:

- Canadian bond yields will likely remain range-bound, given mixed economic signals on the one hand and pressure for further US interest rate hikes on the other.
- The US Federal Reserve, which raised their policy rate in Q2, will do so again in coming quarters, if wage growth follows better employment numbers.
- Despite OPEC output cuts, oil prices may trend lower as global supply moves higher on the back of US production.
- The European Central Bank will maintain its accommodative policy despite recent economic and financial market advances.
- Emerging markets, offering lower valuations and attractive yields relative to developed markets, will continue to attract investors.

INVESTMENT STRATEGY

Pushed to record highs by "the Trump rally," we believe US equity valuations have reached levels where it is prudent to harvest profits. During Q2, we reduced our position in US equities somewhat and used the proceeds to purchase short-term bonds.

KEY PERFORMANCE DRIVERS

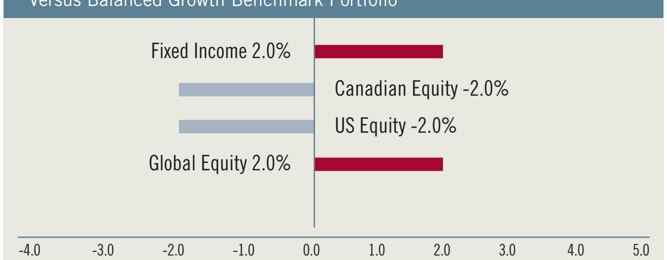
With the exception of Canadian equities, all asset classes produced positive absolute returns. As in Q1, International equities experienced the greatest growth, which benefited performance, as our tactical asset mix remained underweight Canadian equities and overweight International equities.

Despite strong tactical asset allocation, relative returns were generally flat. While equities kept step with their respective benchmarks, fixed income performance lagged. This was due to security selection by underlying managers and Canadian bond yields—particularly those with five- to 10-year terms—that rose late in Q2. Our overweight position in that area of the yield curve influenced relative returns.

ALLOCATION PROCESS

Our asset allocation decisions are the result of ongoing discussions within our Private Client Investment Strategy Committee. We begin this process by making strategic investment decisions against an internal benchmark—for example, the Balanced Growth Benchmark Portfolio—that is based on a neutral asset mix and stable market conditions.[1] The difference between our investment strategy and the benchmark portfolio reflects our active commitment to effectively managing risk and generating superior long-term returns. In updating our investment strategy, we review our investment portfolio and benchmark and complete any required trades.

Active Asset Mix Strategy (%)
Versus Balanced Growth Benchmark Portfolio



Market Performance (%)	Q2 2017	1-Year	5-Year
S&P/TSX Composite Index	-1.6%	11.0%	8.7%
S&P 500 Index (CDN$)	0.7%	18.0%	20.3%
MSCI EAFE Index (CDN$)	3.9%	20.9%	14.6%
FTSE TMX Canada Universe Bond Index	1.1%	0.0%	3.3%
CDN$ Versus USD	2.7%	-0.3%	-4.7%

The above Index reviews are calculated from external sources and, where applicable, reflect total returns. All figures are in Canadian dollars and are as of June 30, 2017.

1. The Balanced Growth Benchmark Portfolio is comprised of 40% fixed income assets and 60% equity assets.