# Insights & Strategies

PRIVATE CLIENT SOLUTIONS

January 12, 2018 | Quarterly Edition

## Inside this Issue

Summary ........................................... 1
2017 Key Calls ................................... 2
Global Outlook ................................... 3
Canadian Outlook ............................... 3
S&P/TSX Forecast & Sector Calls ...... 6
Equities .............................................. 7
Fixed Income .................................... 10
Active versus Passive Outlook .......... 12
Foreign Exchange ............................. 13
Quarterly Chart Package ................... 14
Charts of Interest .............................. 17
Investor Profiles and Asset Class Weightings ........................................ 18
Important Investor Disclosures .......... 19

# 2018 Outlook

## Summary

- According to the IMF, the **global economy expanded 3.6% in 2017 and is forecast to grow 3.7% in 2018**. The robust economic growth has been supportive of corporate earnings, as global corporate earnings expectations were revised higher over the last 3 months.
- As for the outlook for US equity markets, we believe they are setting up for another strong year. Industrial production data points to another 6-12 months of robust growth and fiscal measures further support this by encouraging capital expenditures. Beside the lift to economic growth, fiscal measures are supportive of corporate earnings through lower corporate taxes, repatriated overseas cash that will be used to buy back shares, pay special dividends and increase M&A. **Our US team forecasts the S&P 500 to achieve 2,878, or 7.6% upside from the index's year-end closing value.**
- **Our S&P/TSX Composite Index 2018 price target is 17,650** – the average across the bullish, base and bearish case scenarios we present later in this report. If realized, this would equate to an 8.9% price return and including a dividend of 2.8%, would equal a total return of 11.7%.
- **The biggest risks to our economy domestically are the Canadian housing market and the impact of higher interest rates** on domestic consumption growth, while we view NAFTA as the single largest external risk. Amid the positive outlook for the global economy, we remain bullish on Canadian equities and we see many of the themes in 2017 carrying forward into 2018.
- We anticipate the US will grow at a healthy clip in 2018 and we see the Canadian dollar largely range bound (with risks to the downside). As such, we believe investors should **focus on Canadian companies that generate significant revenues from the US**.
- Over the long term, we believe investors should focus on secular growth stories and we acknowledge that growth tends to outperform in the late-stage of a bull market; however, **we believe value investing will come back into favour in 2018**.

**Please read domestic and foreign disclosure/risk information beginning on page 19.**

**Raymond James Ltd.** 5300-40 King St W. | Toronto ON Canada M5H 3Y2.
2200-925 West Georgia Street | Vancouver BC Canada V6C 3L2.

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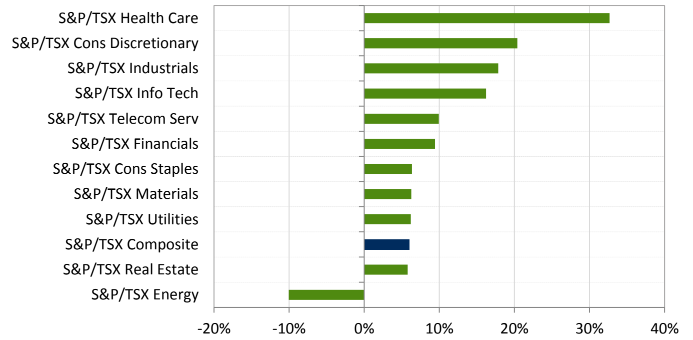
## 2017 Key Calls

Before we look forward to the year ahead, we will first look back at some of our key calls in 2017. At the beginning of 2017, we set our year-end S&P/TSX target at 15,975 and later revised it to 16,500, anticipating that the commodity and financial sectors were due for a bounce heading into year end. The S&P/TSX closed just shy of our target at 16,209 on December 29th. We also identified several themes for the year; below is an overview of how those played out over the past 12 months.

***Canadian Sectors***

This recommendation largely played out as we expected: health care, consumer discretionary, and industrials were the top 3 best performing sectors. We were surprised to see strength in defensive telecom, staples and utilities sectors, while cyclical energy and materials were the worst performing sectors. We also recommended shifting from growth and momentum toward value as a style, which worked in our favour when value made a late year charge.

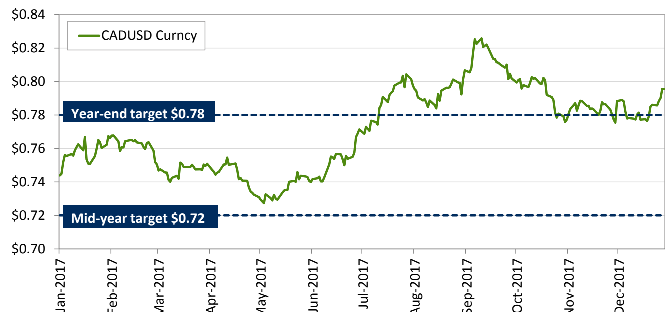



***Bank of Canada Rate Hikes***

We did not expect the Bank of Canada to raise rates in 2017. Clearly, that was incorrect; however, we did correctly call a rise in long-term yields as we anticipated Canadian long-term rates to move in tandem with those in the US.

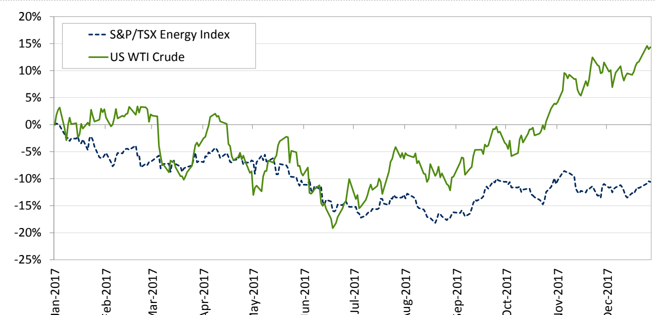
***Canadian Dollar***

We forecast the Canadian dollar would trade to $0.72 ($1.39) in H1/2017; H2/17 back to $0.74 ($1.36). We revised our year-end target to $0.80-$0.78 ($1.26-$1.28) mid-year to incorporate the change in the Bank of Canada (BoC) monetary policy.




***Commodities***

We anticipated commodities would have a good year in 2017, which was correct. However, equities failed to keep pace with the advance. WTI crude price rose 15.5% in 2017, while the S&P/TSX energy sector slipped 10.6%.



## Global Outlook

The breadth and strength of the global expansion has been nothing short of impressive. Globally, purchasing manager indices (PMIs) remained securely above their long-term averages indicating that manufacturing growth is firmly above trend. Additionally, the breadth of the expansion has been encouraging as the percentage of countries with PMIs in expansionary territory rose to 97% in Q4/17, its highest level since June 2007. According to the IMF, the global economy will have expanded 3.6% in 2017 and is forecast to grow 3.7% in 2018. The robust economic growth has been supportive of corporate earnings, which can be seen in global corporate earnings expectations being revised higher over the last 3 months.

In the US, the economic cycle remains intact and in fact was given a helping hand with the passage of fiscal stimulus via accommodative tax policies. We see the growth outlook supported in 2018 by this stimulus and potentially by infrastructure spending. However, these measures come at a time when the US economy is running at or near full capacity, which suggests inflationary pressures should become more apparent over the next 6-12 months. At the end of last year, the economic cycle expansion marked a milestone as the third longest in the postwar era. The S&P 500 has also enjoyed an extended period of uninterrupted expansion and if it can continue until late summer (August 22, 2018), the bull market will become the longest ever. The improved growth outlook allowed the US Federal Reserve to begin tightening monetary policy and to shrink its balance sheet starting in October 2017. Other major central banks have also taken their first steps in exiting the extraordinary monetary stimulus created over the past decade – the ECB and BoJ will slow asset purchases through 2018. However, broadly speaking monetary policy remains accommodative through most of 2018. As we approach the back half of the year, aggregate central bank balance sheets are anticipated to contract. We do not expect this to present a problem for asset prices, as long as the global economy remains on firm footing.

As for the outlook for US equity markets, we believe they are setting up for another strong year. Industrial production data points to another 6-12 months of robust growth and fiscal measures further support this by encouraging capital expenditures. Beside the lift to economic growth, fiscal measures are supportive of corporate earnings through lower corporate taxes. The repatriation of overseas cash will be used to buy back shares, pay special dividends and increase M&A. Our US team forecasts the S&P 500 to achieve 2,878, or 7.6% upside from the index's year-end closing value.

## Canadian Outlook

Before the end of Q1/18, Statistics Canada will report that the Canadian economy grew by ~3.0% in 2017. While an impressive number, economic growth has been somewhat one-sided with housing and heavily indebted household segments the primary contributors. As borrowing costs rise and housing slows, we anticipate more modest growth in 2018. Offsetting these headwinds will be the supportive outlook for commodity prices, which will benefit the energy and mining sectors. Global economic activity should support stronger growth in exports and business investment; however, the outcome of the NAFTA negotiations may counter this positive dynamic as a drop in business confidence would negatively impact sentiment and hinder job creation. Canadian core inflation will remain well contained and likely below the Bank of Canada's 2% target, which will keep the Bank of Canada more cautious than its counterpart south of the border. We anticipate the BoC will raise rates one or two times this year, while we anticipate the US Federal Reserve will raise rates at least 3 times amid stronger growth and increased inflationary pressures. The divergence in central bank overnight lending rates will see a widening in the interest rate differential putting downward pressure on the Canadian dollar. We anticipate these two opposing forces – higher commodity prices and the widening in the interest rate differentials – to keep the Loonie relatively range bound in 2018. We forecast the currency to trade in a range of US$0.78-$0.82 ($1.21-$1.28). This forecast assumes a new NAFTA deal is reached; however, if NAFTA is terminated, it is reasonable to assume the Canadian dollar may drop to around US$0.65-$0.70 ($1.42-$1.53).

The biggest risks to our domestic economy are the Canadian housing market and the impact of higher interest rates on domestic consumption growth, while we view NAFTA as the single largest external risk. Amid the positive outlook for the global economy, we remain bullish on Canadian equities and we see many of the themes in 2017 carrying forward into 2018.

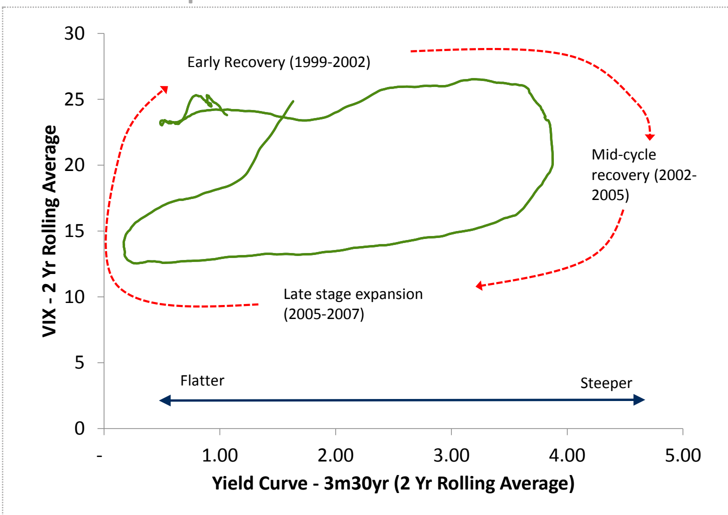
### Late Cycle & Inflation

Where are we in terms of the economic and equity market cycle? It's a question we continually address as it can have important implications for investment positioning. The Canadian business cycle is closely tied to the US and as US expansion approaches one of

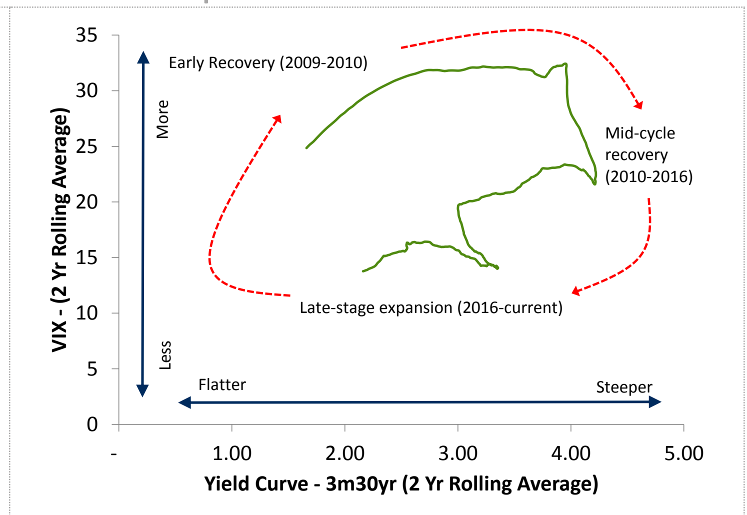
the longest in history, instinctively we can say we're in the later innings of the game. Intuition is one thing, but is there a way to quantify this view?

We know economic cycles come in four broad phases – recession, early recovery, mid-cycle and late-stage expansion. Each phase has defining characteristics with the yield curve being one of the more important indicators. The yield curve tells us what the bond market thinks about the economy, but we need another variable to help us understand the implications for equities. We incorporate equity market volatility and plot their relationship in the charts below. In the first chart, we consider the last economic expansion from 1999 to 2007. We can see a clear cycle emerge, as the economy moves from recession to expansion and then back into recession. As the economy climbs out of recession into early expansion, the yield curve steepens and volatility begins to fall. As the expansion matures, the yield curve flattens (further to the left) and equity market volatility starts to rise. This pattern is consistent across previous economic cycles. In the second chart, we illustrate the current cycle, which reveals that we are in a period of a flattening yield curve and low volatility. This suggests we are in the late-stage expansion period which is typically associated with rising inflation (as demand for goods puts upward pressure on raw materials at a point where there is very little spare capacity in the economy) and historically has favoured energy, materials and industrials sectors.

**Previous US expansion...**




**...Current US expansion**



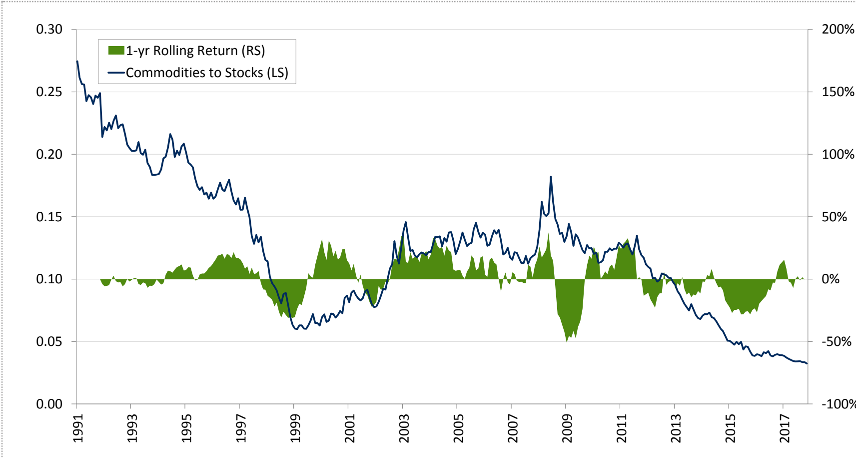

Source: Bloomberg, Raymond James Ltd.

As we believe we are in the late-stage of the economic cycle, equity markets have further room to run. In fact, some of the best returns come toward the end of a bull market cycle as a significant amount of the total return can be attributed to the final 24 months. Over the last 80 years, the S&P 500 has produced a minimum return of 30% in the final two years ahead of the peak in the market and an average of 58%. The lowest return achieved in the final 12 months has been 11%, while the average is 25%.

If we are correct in assuming further upside for US equities, we believe Canadian equities will also participate. We find commodities and commodity-related equities particularly attractive at these levels. This is further emphasized by commodities looking abnormally cheap relative to equities. In the chart below, we plot this relationship showing that commodities relative to stocks are trading at their lowest level in more than two decades. This is particularly interesting given our view that global growth remains intact and that inflation will reappear in 2018.

We see oil trading in a range of US$55-65/bbl in 2018; however, the performance differential between the commodity and equities will narrow in 2018 as we anticipate energy equities to play catch up to the commodity this year. We see industrial metals benefiting from increased demand from the world's largest economy and if the US Congress agrees on an infrastructure spending program, this would provide an additional tailwind. We see gold also benefitting as higher inflation will push real rates into negative territory. Typically when this occurs gold prices perform well.

### Commodity to Stocks




### S&P 500 Return Ahead of Market Peaks*

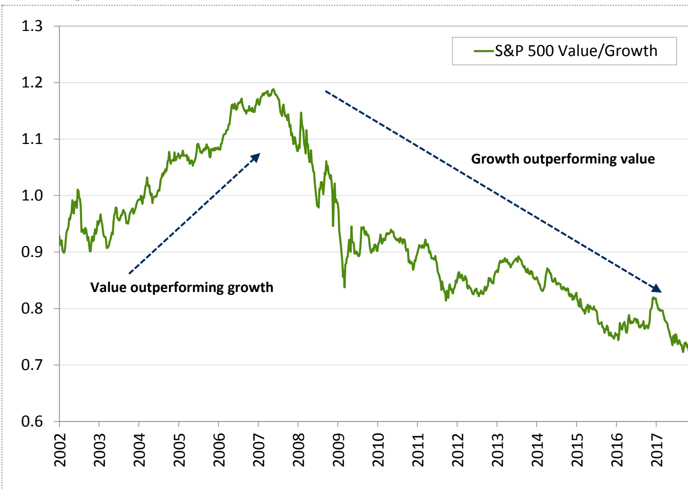
| Peak | Months Prior to Peak | | |
|---|---|---|---|
| | 24 mths | 12 mths | 6 mths |
| Mar-1937 | 129% | 33% | 19% |
| May-1946 | 72% | 33% | 15% |
| Aug-1956 | 74% | 20% | 15% |
| Dec-1961 | 32% | 32% | 11% |
| Feb-1966 | 30% | 11% | 11% |
| Nov-1968 | 44% | 18% | 12% |
| Jan-1973 | 39% | 19% | 14% |
| Nov-1980 | 65% | 39% | 29% |
| Aug-1987 | 93% | 40% | 20% |
| Jul-1990 | 45% | 15% | 10% |
| Mar-2000 | 42% | 22% | 20% |
| Oct-2018 | 36% | 18% | 9% |
| **Average** | **58%** | **25%** | **15%** |
| Min | 30% | 11% | 9% |
| Max | 129% | 40% | 29% |

Source: Bloomberg, Raymond James Ltd. * Total return.

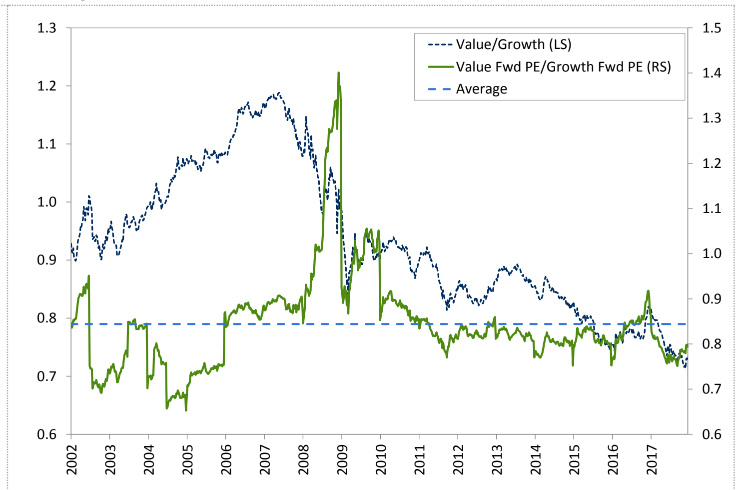
## Value Strikes Back

The improved growth outlook has implications for investment styles. Growth stocks have performed well for an extended period of time which we attribute to investors seeking growth in a low growth environment. In our view, investors have been willing to pay a premium for growth stocks due to the subpar economic growth since the 2008-2009 financial crisis. However, robust global growth and the additional stimulus should temporarily diminish this premium. Over the long term, we believe investors should focus on secular growth stories and we acknowledge that growth tends to outperform in the late-stage of a bull market; however, we believe value investing will come back into favour in 2018. We believe we are in the early stages of this rotation helped by the successful passing of US tax legislation. From a valuation perspective, value as an investment style looks particularly attractive relative to growth, trading below its long-term average.

### Value/Growth ratio




### Value/Growth PE




Source: Bloomberg, Raymond James Ltd.

## S&P/TSX Forecast & Sector Calls

Our S&P/TSX Composite Index 2018 price target is 17,650 – the average across the bullish, base and bearish case scenarios we present below. If realized, this would equate to an 8.9% price return and, including a dividend of 2.8%, would equal a total return of 11.7%.

| Scenario | S&P/TSX Projection | Comments |
|---|---|---|
| Bullish Case | 20,700 | Oil prices break above $70/bbl and other commodities are bid. Equity market sentiment rises pushing valuation multiples higher. |
| Base Case | 18,300 | Our base case is a modest recovery in commodities supporting S&P/TSX earnings. Canadian housing and consumer spending moderate but do not present a material drag on the overall economy. A new NAFTA deal is reached. |
| Bearish Case | 13,900 | Oil prices and other commodities fall amid a global slowdown. Canadian housing and consumer spending contracts more than anticipated presenting a material drag on the overall economy. |

| Sector | Positioning | Comments |
|---|---|---|
| Consumer Discretionary | N | We remain Neutral on the sector. We see rising long-term yields and a stretched consumer balance sheet with little room to increase discretionary spending acting as a headwind. We favour Movie & Entertainment and Specialized Consumer Services. |
| Consumer Staples | UW | We downgrade to Underweight. We favour Food Retail as inflationary pressures tend to benefit grocers. |
| Energy | OW | We remain Overweight the sector. We believe the performance gap between the commodity and equities will narrow. Crude oil will trade in a range of approximately US$55-US$65/bbl. We favour Oil & Gas E&Ps and Equipment Servicers. |
| Financials | N | We downgrade the sector to Neutral. We believe changes to mortgage rules and limited room for consumer credit growth will mute bank earnings. We favour insurers over the banks as we believe the Canadian yield curve will experience a slight re-steepening. |
| Health Care | N | Upgrade this sector to Neutral. We anticipate the sector to benefit from the pending legalization of recreational marijuana. |
| Industrials | OW | We remain Overweight. Construction, as a percentage of GDP, across most developed markets is rebounding off multi-year lows. Further, public infrastructure investment is around 30% below normalized levels. On an industry level, we favour Construction & Engineering, Railroad and Trucking. |
| Information Technology | N | We downgrade IT to Neutral. We believe there are Canadian companies that can benefit from US capex spending within the IT Consulting & Services and Application Software sub-sectors. |
| Materials | OW | We upgrade to Overweight. China delivered better-than-expected growth in 2017 and we assume the same for 2018. We favour Diversified Metals & Mining producers, where favourable supply/demand dynamics exist, and high-quality Gold producers. |
| Real Estate | N | We remain Neutral on Real Estate. We favour REITs that are sensitive to the economic cycle such as Residential and Industrial REITs. We also favour REITs with international exposure. |
| Telecom | N | We remain Neutral on Telecom. We favour Integrated Telecom Services. |
| Utilities | UW | We downgrade to Underweight. We favour Independent Power Producers and Renewables. |

***Jason Castelli, CFA***
***VP, Portfolio Manager***

# Equities

## Non-Canadian Canadian

For a number of years now we have been using the term "Non-Canadian Canadian" (NCC) to describe companies that although domiciled in Canada and run by Canadian management teams, generate the majority of their revenue and profits from non-Canadian jurisdictions. Many of these businesses are companies with very strong business models and management teams that have outgrown the Canadian market and used their competitive advantages to expand into foreign markets. In the majority of cases the US is the main source of foreign revenues, which is not surprising based on common geography, language and culture. Investing in NCC's allows Canadian investors to buy into the US economy and the US dollar without having to look outside the TSX.

Based on our 2018 outlook for the Canadian and US markets, we see investing in NCC's as a strong theme for the year. Although stock market valuations are higher in the US than Canada, we see more potential for economic growth and a stronger currency south of the border. The impacts from the new US tax policy will be felt in 2018 and should accelerate the pace of GDP growth while at the same time improving profit margins for US corporations, including NCC's. We also expect the Fed to be more aggressive with rate hikes (we forecast a minimum of 3 hikes in 2018) than the Bank of Canada (we forecast 1-2). This leads us to believe there is more risk to the downside within our $0.78-$0.82/$1.00 CAD/US exchange rate forecast.

In the table below we highlight companies from our coverage universe that qualify as Non-Canadian Canadian companies (>50% of revenue from outside of Canada) and the breakdown of their revenue streams. In this group we have left out natural resource companies as geographic location has less impact on profits due to the fact that most major commodities are priced in US dollars.

Non-Canadian Canadian Companies (>50% of revenue from outside of Canada)

| Company | Ticker | Industry | USA | Can | Other | Company | Ticker | Industry | USA | Can | Other |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Kinaxis | KXS | Technology | 93% | 5% | 3% | Fortis | FTS | Utilities | 46% | 49% | 4% |
| Algonquin Power | AQN | Utilities | 91% | 9% | 0% | CCL Industries | CCL.B | Materials | 46% | 5% | 49% |
| Waste Connections | WCN | Industrials | 88% | 12% | 0% | Sun Life Financial | SLF | Financials | 41% | 41% | 17% |
| Gildan Activewear | GIL | Cons Disc | 87% | 8% | 5% | Brookfield Asset Mgmt | BAM.A | Financials | 41% | 22% | 36% |
| Intertape Polymer | ITP | Industrials | 83% | 7% | 10% | Manulife Financial | MFC | Financials | 40% | 25% | 36% |
| Cott Corporation | BCB | Cons Disc | 76% | 7% | 17% | WSP International | WSP | Industrials | 37% | 17% | 46% |
| Emera | EMA | Utilities | 70% | 24% | 6% | Maxar Technologies | MAXR | Industrials | 29% | 29% | 43% |
| Brookfield Prop Partners | BPY.UN | Real Estate | 70% | 4% | 26% | Brookfield Infra | BIP.UN | Utilities | 25% | 10% | 65% |
| Nutrium | AGU | Materials | 65% | 18% | 17% | Shawcor | SCL.B | Energy | 22% | 28% | 50% |
| Alimentation Couche Tard | ATD.B | Cons Disc | 63% | 13% | 24% | Bank of Nova Scotia | BNS | Financials | 13% | 49% | 38% |
| Open Text | OTEX | Technology | 48% | 9% | 43% | Dream Global REIT | DRG.UN | Real Estate | 0% | 0% | 100% |

Source: Bloomberg, Raymond James Ltd.

In summary, we believe the economic dynamics of 2018 on both sides of the border should help many Non-Canadian Companies to outperform their domestic peers thanks to higher top-line revenue growth from expanding US GDP and at the same time seeing appreciation from valuable US dollars. Names in this group that we feel have the best chance for outperformance in 2018 are: **Kinaxis (KXS-T), Waste Connections (WCN-T), Intertape Polymer (ITP-T), Alimentation Couche Tard (ATD.B-T)** and **Manulife Financial (MFC-T)**.

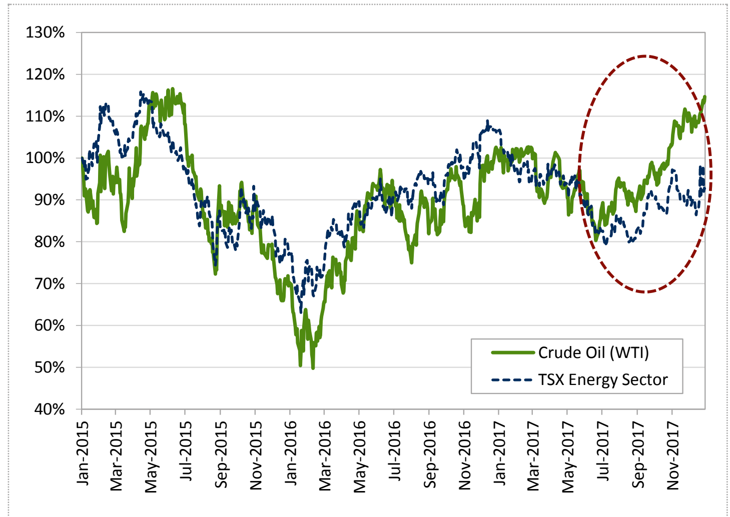
## Inflation – Late Cycle

Looking back, amongst the big investment stories of 2017 was what we did not see, namely inflation and volatility. We believe 2018 will change to a degree with both remaining at reasonable levels but trending higher. On the inflation side of the equation, we look at the US economy and see tight labour markets and strengthening GDP growth, which should lead to higher wages and stronger demand. This in turn should lead to moderately higher inflation, which tends to drive increased demand for commodities and other late-cycle sectors. For Canadian investors an obvious way to play this trend is through the energy sector, which makes up 20% of the S&P/TSX.

In the 2017 version of our *Market Outlook,* we started the year neutral on energy. We upgraded to overweight in April after seeing positive signals on global supply/demand thanks to OPEC's compliance to their production cuts and a generally improving global

economy. With inventories tightening, crude oil prices moved higher from April through December, going from US$47.00/bbl at the time of our upgrade to US$60.42/bbl at year-end. However, over the same period, energy producers did not follow suit and we saw a significant divergence between the commodity price and equities (see chart).

Crude Oil vs Producers




Source: Bloomberg, Raymond James Ltd.

At least part of the reason for the dislocation has to do with investor sentiment. Some feel that with higher prices we will see US shale oil flooding back into the market to erase any gains made by the OPEC cuts. We agree that this is a risk; however, we also feel that production growth will be more restrained in this cycle as a lot of the accelerating factors in the first US shale oil run (2009-2014) have been tempered. Specifically, lenders and capital markets are more concerned with return on capital and less on absolute volume growth (the polar opposite of last time). This will lead to more conservative investment with higher required rates of return. The sweet spots of the top shale basins will continue to grow at an aggressive pace but we expect less speculative investment in more peripheral plays and thus, we expect to see more moderate and less disruptive growth rates as we saw in 2009-2014.

Moreover, we do not see the divergence between equities and the commodity as a permanent change; so either the price of the commodity needs to come down or the price of equities needs to move up. Our bet is on the latter for a number of reasons:

- OPEC and its partners have shown strong production discipline and extended cuts to the end of 2018
- Global crude and refined product inventories have been dropping since Q2 2017 and should reach the historical average in the latter half of 2018
- Demand growth was solid at 1.7% in 2017 and should continue to improve in 2018 with synchronized global economic growth
- Cost deflation within the oilfield services sector is starting to ebb, raising the marginal cost of supply (i.e., the floor price for oil)
- Political instability in a number of large exporting nations (Venezuela, Nigeria, Libya) is constraining supply with risk of greater disruptions, especially in Venezuela

For Canadian oil-related stock picks, we like **Canadian Natural Resources (CNQ-T), Vermilion Energy (VET-T) and Whitecap Resources (WCP-T).**

- **CNQ** had a very busy 2017. The company made a $12.7 billion purchase of Shell Canada's Canadian upstream assets (including the 190,000 bbls/d Athabasca oil sands mining project) and capped the year with the completion of Phase 3 of its Horizon oil sands project, adding another 80,000 bbls/d. The impact from the 2017 activity is a wall of free cash flow coming in 2018 and 2019. This cash will initially be used to pay down debt but over time will start to find its way back to shareholders through dividend hikes and share buybacks. We forecast that CNQ will have the highest free cash flow yield (~8.5%) amongst any of the senior North American oil and gas producers in 2018-2019 and we anticipate investors will pay up for this competitive advantage.
- **VET** provides investors with an internationally-focused mid-cap oil and gas producer with solid production growth (9% in 2018) coupled with a generous but rock-solid yield (5.5%). Moreover, a majority of Vermilion's production (56%) is priced off of Brent crude oil, the international benchmark, which is currently commanding a 10% premium over WTI, the North American benchmark. We expect this premium to be maintained in 2018 as OPEC continues to cut back on Brent-priced barrels and US shale producers pump out more WTI-based ones.
- **WCP** recently completed a major acquisition, purchasing 14,600 bbls/d of low-decline, light and medium oil production from a senior Canadian competitor for $964 million. The deal increases WCP's production by 15%, extends its reserve life by 7% and is immediately accretive to cash flow, allowing for the second of two 5% dividend increases in 2017. WCP has no exposure to heavy oil and a 3.4% yield, which are key differentiating factors versus most other mid-cap oil producers.

On the natural gas front, fundamentals are not as positive as major shifts in regional production growth in Canada (Montney and Deep Basin) and the US (Marcellus) have created infrastructure bottlenecks that are constraining access to markets and driving down prices. This is especially acute in Canada, where the benchmark AECO price has remained stubbornly below C$2.00/mcf since the summer. That said, frigid winter temperatures are benefiting near term demand and we think the sell-off in natural gas pure-plays has been more than overdone. This has created significant value in top tier names like **Peyto Exploration (PEY-T)**, the lowest-cost natural gas producer in Canada. Even without a major breakout in AECO, we feel PEY's share price will bounce-back from levels not seen since 2009. For investors who want exposure to natural gas but with a bit more security, we recommend **Kelt Energy (KEL-T),** which produces natural gas with a high percentage of natural gas liquids (NGLs). NGLs are priced off of crude oil and therefore receive a premium to "dry" gas.

Another traditional way to protect against higher inflation is through the mining sector but particularly gold. The consensus gold price forecast for 2018 is relatively neutral at this time, calling for US$1,331/oz vs. an average of US$1,260/oz. in 2017. However, there is typically a strong correlation between higher inflation levels and gold as it is the classic "store of value". Thus, we see room for upside on the commodity as well as multiple expansions for the producers.

Right now our favourite way to play gold is through **Agnico Eagle (AEM-T)** and **Franco Nevada (FNV-T)**. Agnico is a large-cap producer with a strong mixture of production growth, low operating costs and strong geographic location (100% of production from North America and Europe). Franco Nevada is an industry-leading gold royalty and streaming company, meaning its business doesn't undertake any of the risks of owning and operating gold mines, it merely invests in other producers that pay it a percentage of revenues. Finally, for investors looking for a bit more torque amongst the gold miners, our current favourite amongst the juniors is **Detour Gold (DGC-T)**, which owns one of the better new gold mines in Canada and is a takeover candidate.

***Robert Mark, CFA***
***Portfolio Manager***

# Fixed Income

Last year, the Canadian Fixed Income market performed slightly differently from what economists had expected. A recap of last year's market would show that the yield curve flattened dramatically. On the shorter end of the curve, the 2-year Government of Canada bond more than doubled in yield, going from 0.75% to 1.68%, where the market currently sits. On the other hand the longer end (30+ years) went from a yield of 2.31% to 2.24%, actually falling in yield and rallying in price. The consensus for this year shows 1 to 2 rate hikes in the works for the Canadian market, leaning towards a January hike and then staying flat for the rest of the year. Thus, economists are forecasting Canadian bond yields, taken as a whole, will move higher in 2018. Looking at key points in the yield curve, 2 year bond yields are expected to increase by about 50 basis points to approximately 2.10%, 10 year bond yields are expected to increase by roughly 65 basis points to 2.65% and long bonds (30+ years), by 70 basis points to 2.95%.

Investors looking to take advantage of this view should stay short term, preferably through a GIC which offers higher yields in the short end of the curve. That's because the maturity of the instrument in one year will align with the start of higher rates, allowing you to reinvest at those higher rates for another term. To diversify and provide more flexibility, we suggest investing in both a 1-Year GIC and into a laddered fixed income portfolio, such as the Moderate Guided Portfolio managed in-house on the bond trading desk. This will allow you to reap the rewards of both a 1 year maturity at a high relative rate, as well as a ladder of fixed income maturities that range from 2020 to 2027, therefore going from 3-10 years. The advantages of the Moderate Guided Portfolio are that we oversee the positions and suggest trades when we feel the market timing is optimal. We give advisors a trading alert and let them work with their clients to decide whether the trade makes sense for their unique situation. We diversify clients' positions and also provide monthly updates of how the portfolio is doing compared to its benchmark. Currently the modified duration on this portfolio is 5.52 years. Details of this portfolio are on the following page (we have used an example of a $100,000 initial investment).

## Preferred Shares

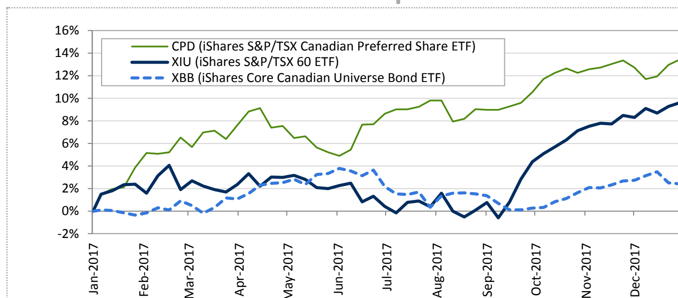
It was a great 2017 for Canadian preferred shares, with a total return of 13.6%. This compared to the S&P/TSX Composite TR at 9.1% and the FTSE/TMX Canada Universe Bond TR at 2.52%. In particular, fixed-resets, which make up approximately two thirds of the market and are correlated to yields, performed well with the help of two rate hikes by the Bank of Canada (BoC).

We are not expecting a repeat of 2017 in 2018, but we anticipate that it will be a good one for preferred shares. The main drivers for 2018 will be:

1. Expected rate hike in the first half of the year: Higher yields, in particular the Government of Canada 5-year yield, are good for fixed-reset preferreds.
2. Lack of new issue product: Banks, which are normally the main issuers of preferred shares are finding other investment vehicles to fulfill their Tier 1 Capital requirements. With the lack of new issues, the demand for current issues will rise.
3. Continued involvement from ETFs: These will help provide liquidity and offer other ways to buy preferred shares with a diversified approach.

We continue to recommend using preferred shares in addition to a laddered bond portfolio and other fixed income instruments to enhance yield and we suggest remaining overweight fixed-reset vs perpetuals due to future rate hike expectations.

**Fixed Income Performance vs Equities for 2017**




**Interest Rate Hike Probabilities for BoC**

| Meeting | Hike Prob | Cut Prob | 1.00 | 1.25 | 1.50 |
|---|---|---|---|---|---|
| 17-Jan-2018 | 87.9% | 0.0% | 12.1% | 87.9% | 0.0% |
| 07-Mar-2018 | 92.5% | 0.0% | 7.5% | 59.5% | 33.0% |
| 18-Apr-2018 | 96.8% | 0.0% | 3.2% | 29.4% | 48.3% |
| 30-May-2018 | 97.7% | 0.0% | 2.3% | 22.0% | 43.0% |
| 11-Jul-2018 | 99.1% | 0.0% | 0.9% | 9.8% | 30.1% |
| 05-Sep-2018 | 99.3% | 0.0% | 0.7% | 8.2% | 26.3% |
| 24-Oct-2018 | 99.6% | 0.0% | 0.4% | 4.8% | 18.1% |
| 05-Dec-2018 | 99.6% | 0.0% | 0.4% | 4.6% | 17.6% |

**Current Rate: 1.00%**

Source: Bloomberg, Raymond James Ltd.

***Harvey Libby & Phil Kwon***
***Fixed Income***

## Raymond James Moderate Fixed Income Guided Portfolio (SAMPLE)

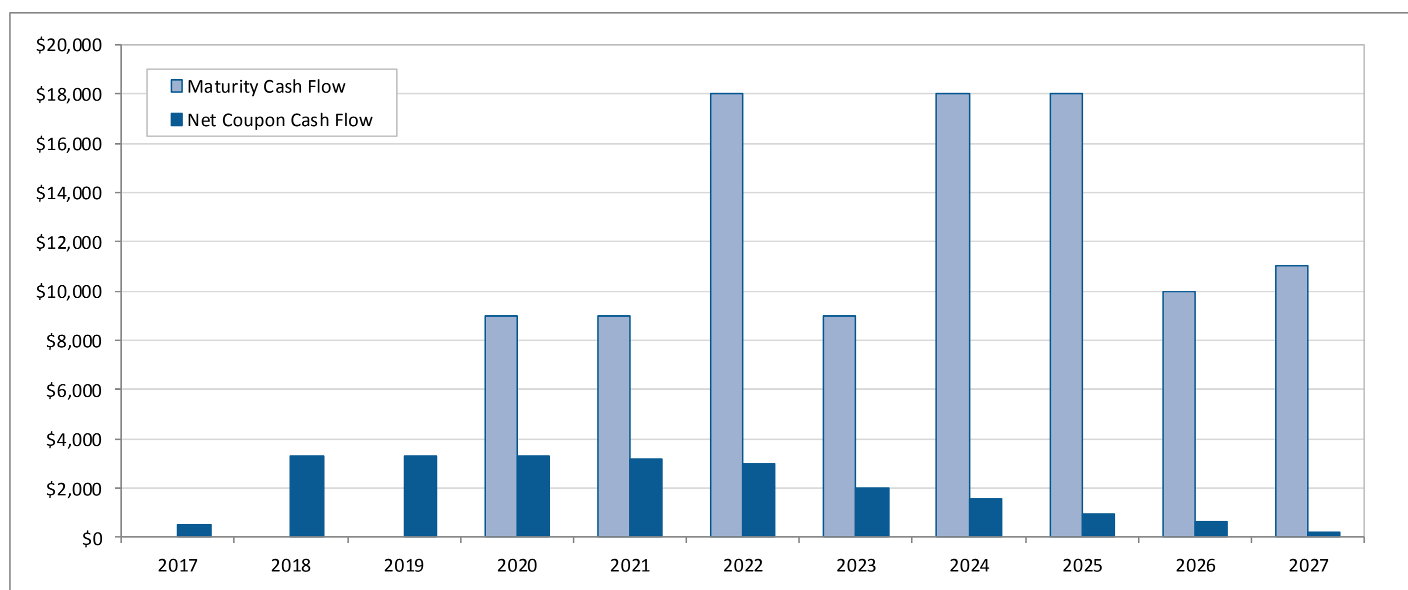
### Overall Portfolio Analysis

| Pricing Date | | Portfolio Parameters | | | | | | | Portfolio Value *(rounded values)* | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ISSUE PRICES AS OF: | 31-Dec-17 | *Weighted Rating | Total Maturity Value | Total Premium (Discount) | Weighted Yield to Maturity | Weighted Annual Equiv. | Weighted Term (years) | Weighted Duration (Mod.) | Total Accrued Interest | Total Principal Cost | Total Portfolio Investment |
| BOND SETTLEMENT: | Standard Conventions | | | | | | | | | | |
| | | A | $102,000 | 0.97% | 3.02% | 3.05% | 6.18 | 5.48 | $533 | $102,986 | $103,519 |

### Individual Issue Analysis

| Issuer | Coupon Rate | Maturity Date | Debt Rating | Maturity (Par) Value | Offering Price | Yield to Maturity | Annual Equiv. | Term (years) | Duration (Mod.) | Accrued Interest | Principal Cost | Total Cost |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Canada Housing Trust | 1.250% | 15-Dec-20 | AA low | $9,000 | $98.100 | 1.91% | 1.92% | 2.96 | 2.88 | $5 | $8,829 | $8,834 |
| Bank of Nova Scotia | 1.900% | 2-Dec-21 | AA | $9,000 | $97.901 | 2.46% | 2.48% | 3.92 | 3.74 | $14 | $8,811 | $8,825 |
| Fairfax Financial Holdings | 5.840% | 14-Oct-22 | BBB high | $9,000 | $110.420 | 3.46% | 3.49% | 4.79 | 4.16 | $112 | $9,938 | $10,050 |
| First Cap Realty | 3.950% | 5-Dec-22 | BBB high | $9,000 | $104.050 | 3.06% | 3.08% | 4.93 | 4.46 | $25 | $9,365 | $9,390 |
| HSBC Bank of Canada | 2.542% | 31-Jan-23 | A high | $9,000 | $99.100 | 2.73% | 2.75% | 5.09 | 4.69 | $96 | $8,919 | $9,015 |
| Telus | 3.350% | 1-Apr-24 | BBB high | $9,000 | $101.747 | 3.04% | 3.06% | 6.25 | 5.57 | $75 | $9,157 | $9,232 |
| George Weston | 4.150% | 17-Jun-24 | BBB | $9,000 | $104.850 | 3.31% | 3.34% | 6.47 | 5.65 | $14 | $9,437 | $9,451 |
| Wells Fargo & Co | 3.874% | 21-May-25 | A high | $9,000 | $102.350 | 3.51% | 3.54% | 7.39 | 6.37 | $38 | $9,212 | $9,250 |
| Province of Ontario | 2.600% | 2-Jun-25 | AA low | $9,000 | $100.601 | 2.51% | 2.53% | 7.42 | 6.70 | $19 | $9,054 | $9,073 |
| Bell Canada | 2.900% | 12-Aug-26 | BBB high | $10,000 | $96.400 | 3.38% | 3.41% | 8.62 | 7.45 | $112 | $9,640 | $9,752 |
| Enbridge | 3.200% | 8-Jun-27 | BBB high | $11,000 | $96.594 | 3.63% | 3.66% | 9.44 | 8.03 | $22 | $10,625 | $10,648 |

### Annual Cash Flow

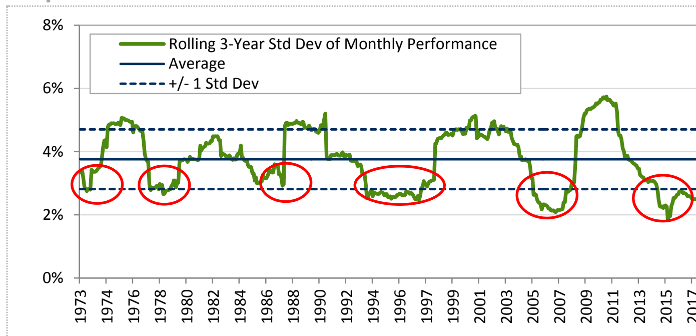


## Active versus Passive Outlook

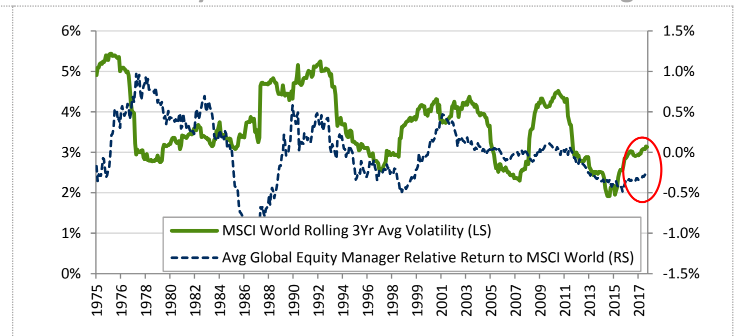
Last year, we witnessed a continuation of some well-established trends, including: a move from active to passive investing, investors positioning for a rising interest rate environment and low levels of volatility across major asset classes. As discussed previously, US equity market volatility remains subdued; in fact, the Chicago Board of Exchange Volatility Index (the VIX) set a new record low in 2017. Our preferred measure of volatility across multiple asset classes is dispersion. Dispersion is a direct measure of how differently individual assets perform compared to the average. When dispersion is decreasing, assets behave more similarly and being selective adds little value as a rising tide lifts all boats. When dispersion is increasing, active managers have a wider opportunity to be selective in what they own, which can add significant value relative to a benchmark. Given these historically low levels of dispersion (see chart below), it remained a challenging environment for active stock pickers in the United States. When we look for reasons why volatility, particularly in the US, hit rock bottom, it's hard to get past the continued flow of money into cheap beta products, like ETFs, and efficiencies created by our access to information and new technologies, but as we also highlighted previously it may be a function of where we are in the current economic cycle.

As noted above, dispersion remained relatively subdued in 2017; however, considering global equities as a whole, we did witness an up-tick as measured by rolling 3-year standard deviation on the MSCI World Index. This uptick in global volatility was complemented by the performance of active managers. The median active manager in Canada outperformed their respective benchmark for Global, International and Canadian equity categories in 2017. This is a trend that was predicted last year and one we anticipate will continue into 2018 in part due to heighted geopolitical uncertainty including: Brexit negotiations which are proving just as difficult as forecasted; political uncertainty in the European Union with Germany's Angela Merkel struggling to secure a coalition government; and tensions in the Korean peninsula. On top of all of this, we have not had a 5% correction in the MSCI All Country World Index in over a year. But where there is uncertainty, there is opportunity, and we think conditions will favour active managers.

**Dispersion Flat-lined in 2017 at Historical Lows**




**Global Volatility Continues to Favour Active Management**




Source: Raymond James Ltd., Bloomberg. *Equal Weighted S&P/TSX, S&P 500, MSCI EAFE Dispersion shown above

We believe that synchronized global growth will continue to be a driving factor for international markets heading into 2018. While both International and Emerging Markets look expensive on the traditional measures of price-to-earnings (P/E) or price-to-book (P/B), from a relative valuation perspective versus the S&P 500 both are attractive. We also believe that US interest rates will continue to rise in 2018, with the expectation for only one rate hike in Canada. Either way, in a rising rate environment, active managers often have a far greater tool kit to mitigate or cushion the impact of rate increases. Therefore beyond equities, we feel that fixed income is also an area where investors can benefit from active management in 2018.

What is the best way to get exposure to emerging markets? We recommend looking at the RBC Emerging Market Fund. RBC is well equipped for this space with supporting infrastructure across the globe and a slightly different approach whereby they look at thematic trends, e.g., water infrastructure. For international exposure, we would recommend CI Black Creek International Equity which is a higher beta play on the EAFE Index and a concentrated portfolio of 30-40 names. And finally in the Canadian fixed income space, we would recommend Mackenzie Core Plus Canadian Fixed income (MKB). This actively managed ETF provides an expanded investable universe and flexibility that we feel is key to navigating a rising rate environment compared to its benchmark peers.

***Spencer Barnes, MSc.***
***Mutual Fund & ETF Specialist***

# Foreign Exchange

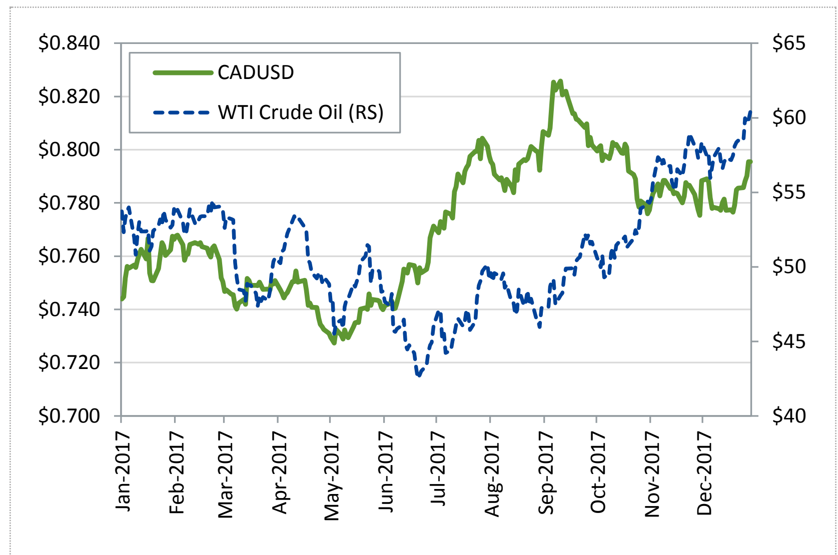
We see the USDCAD pair trading in a relatively tight range in 2018. Similar to last year, the Canadian dollar will be impacted by two main drivers -- crude oil prices and monetary policy/forward guidance from both the BoC and the Fed. The crude oil price (WTI) finished the year up nearly 15% and the Loonie appears to again be following oil prices, as their correlation has increased after it broke down earlier in the year. With the previously-announced OPEC commitment to extend oil production cuts to the end of 2018, we feel this will indeed support prices going forward and see crude oil trading in the USD$55-65/bbl range. We believe the outlook for oil will be a tailwind for the CAD as we push into 2018.

However, acting as a headwind will be the divergence in central bank monetary policy. After three US interest rate hikes in 2017, the Fed is forecasting three additional hikes for 2018, given the strong labor market and anticipated uptick in business expenditures which will push inflation higher. Even if the Fed's inflation target is not met, the central bank has reiterated its commitment to moving forward with future rate hikes. The December's FOMC minutes revealed that most Fed officials are committed to speeding up the pace of future rate hikes based on their expectations that US tax cuts will fuel domestic spending and inflation. The market is currently pricing in the probability of a March rate hike at over 90%.

While the Fed is in a clear tightening mode, the Bank of Canada's (BoC) path forward is less clear. A flat October GDP print out of Canada further reinforced the market's view that GDP growth cooled in the second half of the year and removed some steam from a potential January rate hike. However, with inflation accelerating above the BoC's 2% target along with a stronger labour market, especially after two consecutive months of stellar job prints, we believe a January rate hike is very much possible. It is important to reiterate the cautious tone of Poloz and his economic-data dependency; however, with strong CPI, retail sales and a hot job market, it will certainly be difficult for him to discount the data. With the US economy growing stronger and a December rate hike, the BoC will feel pressured to also hike or risk seeing the Loonie lose steam as investors shift funds to a more attractive US dollar. Other issues in the BoC's crosshairs range from rising housing prices to household debt, and the uncertainty surrounding NAFTA, which may keep the BoC from following the Fed hike-for-hike.

In the short term (i.e., H1/2018), it is our view that political risks and economic data will be the largest drivers moving USDCAD. Given that both the Fed and BoC are expected to raise rates in Q1, we anticipate heightened volatility in the currency markets. We also believe that domestic risks and the uncertainty surrounding NAFTA which may defer domestic capital investment will keep the Loonie suppressed against the Greenback. Looking ahead, if a new NAFTA deal is reached, this will certainly remove any uncertainty and if positive, will surely benefit our currency. We forecast the USDCAD pair to trade in the $1.25-1.28 range in H1/2018, followed by a strengthening in the Canadian dollar in the second half of 2018 and eventually closing out the year in a range of $1.21-1.24.

**CADUSD vs. Crude: 2017**




Source: Bloomberg, Raymond James Ltd.

***Ajay Virk***
***Foreign Exchange***

# Quarterly Chart Package

## Long-Term Market Returns

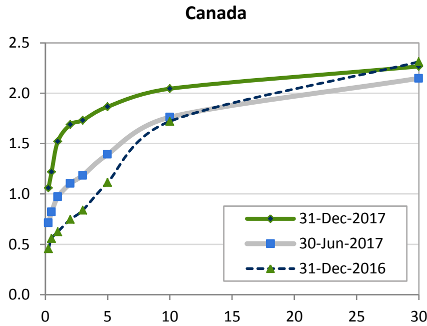
| | Currency | Level | 1 Mo | 3 Mo | 6 Mo | YTD | 1 Yr | 2 Yr | 3 Yr | 4 Yr | 5 Yr | 10 Yr |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Canada** | | | | | | | | | | | | |
| S&P/TSX Comp | CAD | 16,209 | 0.9% | 3.7% | 6.8% | 6.0% | 6.0% | 11.6% | 3.5% | 4.4% | 5.4% | 1.6% |
| S&P/TSX Comp TR | CAD | 54,003 | 1.2% | 4.5% | 8.3% | 9.1% | 9.1% | 14.9% | 6.6% | 7.6% | 8.6% | 4.6% |
| S&P/TSX 60 Comp | CAD | 960 | 0.8% | 4.1% | 7.5% | 6.6% | 6.6% | 12.0% | 3.9% | 5.2% | 6.1% | 1.7% |
| S&P/TSX Small Cap | CAD | 661 | 2.3% | 4.1% | 5.9% | 0.3% | 0.3% | 16.4% | 4.5% | 2.0% | 2.4% | -0.7% |
| **United States** | | | | | | | | | | | | |
| S&P 500 Comp | USD | 2,674 | 1.0% | 6.1% | 10.3% | 19.4% | 19.4% | 14.4% | 9.1% | 9.7% | 13.4% | 6.2% |
| S&P 500 Comp TR | USD | 5,213 | 1.1% | 6.6% | 11.4% | 21.8% | 21.8% | 16.8% | 11.4% | 12.0% | 15.8% | 8.5% |
| Dow Jones Ind Avg | USD | 24,719 | 1.8% | 10.3% | 15.8% | 25.1% | 25.1% | 19.1% | 11.5% | 10.5% | 13.5% | 6.4% |
| NASDAQ Comp | USD | 6,903 | 0.4% | 6.3% | 12.4% | 28.2% | 28.2% | 17.4% | 13.4% | 13.4% | 18.0% | 10.0% |
| S&P 600 Small Cap | USD | 936 | -0.7% | 3.6% | 9.4% | 11.7% | 11.7% | 18.1% | 10.4% | 8.9% | 14.5% | 9.0% |
| **International** | | | | | | | | | | | | |
| DJ Euro Stoxx 50 | EUR | 3,504 | -1.8% | -2.5% | 1.8% | 6.5% | 6.5% | 3.6% | 3.7% | 3.0% | 5.9% | -2.3% |
| FTSE 100 (UK) | GBP | 7,688 | 4.9% | 4.3% | 5.1% | 7.6% | 7.6% | 11.0% | 5.4% | 3.3% | 5.4% | 1.8% |
| CAC 40 (France) | EUR | 5,313 | -1.1% | -0.3% | 3.7% | 9.3% | 9.3% | 7.0% | 7.5% | 5.5% | 7.8% | -0.6% |
| DAX (Germany) | EUR | 12,918 | -0.8% | 0.7% | 4.8% | 12.5% | 12.5% | 9.7% | 9.6% | 7.8% | 11.2% | 4.8% |
| IBEX 35 (Spain) | EUR | 10,044 | -1.6% | -3.3% | -3.8% | 7.4% | 7.4% | 2.6% | -0.8% | 0.3% | 4.2% | -4.0% |
| CSI 300 (China) | CNY | 4,031 | 0.6% | 5.1% | 9.9% | 21.8% | 21.8% | 3.9% | 4.5% | 14.7% | 9.8% | -2.8% |
| HANG SENG (Hong Kong) | HKD | 29,919 | 2.5% | 8.6% | 16.1% | 36.0% | 36.0% | 16.8% | 8.2% | 6.4% | 5.7% | 0.7% |
| NIKKEI 225 (Japan) | JPY | 22,765 | 0.2% | 11.8% | 13.6% | 19.1% | 19.1% | 9.4% | 9.3% | 8.7% | 17.0% | 4.0% |
| TOPIX (Tokyo) | JPY | 1,818 | 1.4% | 8.5% | 12.8% | 19.7% | 19.7% | 8.4% | 8.9% | 8.7% | 16.1% | 2.1% |
| KOSPI (S. Korea) | KRW | 2,467 | -0.4% | 3.0% | 3.2% | 21.8% | 21.8% | 12.2% | 8.8% | 5.2% | 4.3% | 2.7% |
| S&P/ASX 200 (Australia) | AUD | 6,065 | 1.6% | 6.8% | 6.0% | 7.0% | 7.0% | 7.0% | 3.9% | 3.2% | 5.5% | -0.4% |
| BOVESPA (Brazil) | BRL | 76,402 | 6.2% | 2.8% | 21.5% | 26.9% | 26.9% | 32.8% | 15.2% | 10.4% | 4.6% | 1.8% |
| BOLSA (Mexico) | MXN | 49,354 | 4.8% | -2.0% | -1.0% | 8.1% | 8.1% | 7.2% | 4.6% | 3.7% | 2.5% | 5.3% |
| S&P BSE Sensex (India) | INR | 34,057 | 2.7% | 8.9% | 10.1% | 27.9% | 27.9% | 14.2% | 7.4% | 12.6% | 11.9% | 5.3% |
| **Other** | | | | | | | | | | | | |
| MSCI World | USD | 2,103 | 1.3% | 5.1% | 9.8% | 20.1% | 20.1% | 12.5% | 7.2% | 6.1% | 9.5% | 2.8% |
| MSCI EAFE | USD | 2,051 | 1.5% | 3.9% | 8.9% | 21.8% | 21.8% | 9.3% | 4.9% | 1.7% | 5.0% | -0.9% |
| MSCI Emerging Markets | USD | 1,158 | 3.4% | 7.1% | 14.6% | 34.3% | 34.3% | 20.8% | 6.6% | 3.7% | 1.9% | -0.7% |
| MSCI Far East | USD | 3,673 | 0.8% | 8.1% | 11.7% | 23.4% | 23.4% | 11.1% | 9.0% | 5.4% | 8.3% | 1.2% |
| MSCI Europe | USD | 1,797 | 1.4% | 1.9% | 8.0% | 22.1% | 22.1% | 8.6% | 3.8% | 0.5% | 4.4% | -1.6% |
| **C$ Indices** | | | | | | | | | | | | |
| S&P 500 Comp | CAD | | -1.6% | 7.0% | 7.0% | 11.7% | 11.7% | 9.0% | 12.0% | 14.4% | 18.9% | 8.7% |
| S&P 500 Comp TR | CAD | | -1.4% | 7.5% | 8.0% | 13.9% | 13.9% | 11.3% | 14.4% | 16.8% | 21.4% | 11.0% |
| Dow Jones Ind Avg | CAD | | -0.7% | 11.2% | 12.3% | 17.0% | 17.0% | 13.5% | 14.5% | 15.3% | 19.0% | 8.9% |
| MSCI World | CAD | | -1.3% | 6.0% | 6.4% | 12.3% | 12.3% | 7.2% | 10.0% | 10.6% | 14.8% | 5.2% |
| MSCI EAFE | CAD | | -1.0% | 4.7% | 5.6% | 13.9% | 13.9% | 4.2% | 7.7% | 6.1% | 10.1% | 1.4% |
| MSCI Emerging Markets | CAD | | 0.7% | 7.9% | 11.1% | 25.7% | 25.7% | 15.1% | 9.4% | 8.1% | 6.8% | 1.6% |
| MSCI Far East | CAD | | -1.7% | 9.0% | 8.3% | 15.4% | 15.4% | 5.9% | 11.9% | 10.0% | 13.6% | 3.6% |
| MSCI Europe | CAD | | -1.1% | 2.7% | 4.7% | 14.2% | 14.2% | 3.5% | 6.5% | 4.8% | 9.5% | 0.6% |
| Canadian Dollar | USD/CAD | $1.26 | -2.5% | 0.8% | -3.0% | -6.5% | -6.5% | -4.7% | 2.7% | 4.3% | 4.8% | 2.3% |

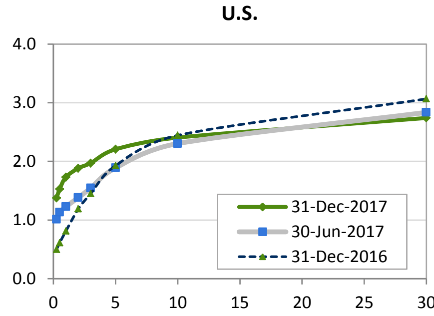
Source: Bloomberg, Raymond James Ltd. All return numbers greater than one year are annualized. Performance as at December 31, 2017.

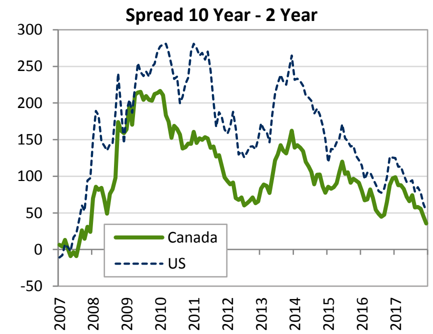
| | Level | 1 Mo | 3 Mo | 6 Mo | YTD | 1 Yr | 2 Yr | 3 Yr | 4 Yr | 5 Yr | 10 Yr |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **S&P/TSX Sectors** | | | | | | | | | | | |
| Consumer Discretionary | 2,365 | -0.7% | 4.1% | 8.4% | 20.4% | 20.4% | 14.1% | 7.9% | 12.3% | 17.3% | 6.2% |
| Consumer Staples | 4,722 | -0.2% | 5.8% | 2.5% | 6.4% | 6.4% | 6.3% | 7.8% | 16.5% | 17.5% | 11.6% |
| Energy | 2,357 | 0.8% | -0.2% | 5.5% | -10.0% | -10.0% | 8.6% | -4.3% | -5.2% | -2.3% | -3.4% |
| Financials | 2,831 | 0.4% | 4.7% | 8.6% | 9.4% | 9.4% | 14.3% | 7.3% | 7.9% | 10.0% | 4.3% |
| Health Care | 484 | 24.1% | 46.3% | 30.9% | 32.7% | 32.7% | -46.8% | -38.0% | -25.3% | -11.8% | 2.3% |
| Industrials | 3,003 | 2.0% | 3.9% | 6.3% | 17.9% | 17.9% | 19.3% | 7.6% | 10.5% | 15.0% | 9.1% |
| Information Technology | 269 | 0.3% | 3.3% | 6.5% | 16.2% | 16.2% | 10.1% | 11.7% | 16.9% | 20.5% | -3.8% |
| Materials | 2,256 | 3.4% | 4.6% | 7.7% | 6.3% | 6.3% | 21.5% | 4.5% | 2.2% | -5.4% | -3.1% |
| Real Estate | 3,184 | 0.5% | 4.7% | 2.4% | 5.8% | 5.8% | 4.9% | 4.3% | 7.6% | 6.1% | 4.0% |
| Telecom Services | 1,525 | -2.1% | 3.2% | 4.4% | 9.9% | 9.9% | 9.9% | 6.1% | 7.2% | 7.4% | 4.4% |
| Utilities | 2,166 | -1.2% | 1.5% | -1.4% | 6.2% | 6.2% | 9.4% | 3.3% | 5.3% | 2.3% | 0.9% |
| **S&P 500 Sectors** | | | | | | | | | | | |
| Consumer Discretionary | 785 | 2.3% | 9.5% | 10.0% | 21.2% | 21.2% | 12.5% | 11.1% | 10.3% | 15.9% | 11.7% |
| Consumer Staples | 587 | 2.0% | 5.8% | 3.6% | 10.5% | 10.5% | 6.4% | 5.5% | 7.3% | 10.2% | 7.0% |
| Energy | 533 | 4.7% | 5.3% | 11.6% | -3.8% | -3.8% | 9.1% | -3.1% | -4.9% | 0.0% | -1.2% |
| Financials | 464 | 1.8% | 8.1% | 13.3% | 20.0% | 20.0% | 20.1% | 11.7% | 12.0% | 16.0% | 1.7% |
| Health Care | 956 | -0.8% | 1.1% | 4.3% | 20.0% | 20.0% | 7.1% | 6.5% | 10.5% | 15.6% | 8.8% |
| Industrials | 638 | 1.8% | 5.5% | 9.4% | 18.5% | 18.5% | 17.3% | 9.4% | 9.0% | 14.2% | 6.1% |
| Information Technology | 1,106 | 0.0% | 8.6% | 17.6% | 36.9% | 36.9% | 23.8% | 16.9% | 17.2% | 19.0% | 10.4% |
| Materials | 379 | 1.7% | 6.4% | 12.3% | 21.4% | 21.4% | 17.7% | 7.5% | 6.8% | 9.8% | 3.8% |
| Real Estate | 204 | -1.0% | 2.3% | 2.4% | 7.2% | 7.2% | 3.5% | 2.8% | 8.2% | 6.2% | 3.7% |
| Telecom Services | 166 | 5.8% | 2.3% | 7.8% | -6.0% | -6.0% | 5.3% | 2.9% | 1.7% | 2.6% | -0.1% |
| Utilities | 267 | -6.4% | -0.6% | 1.4% | 8.3% | 8.3% | 10.2% | 3.6% | 8.5% | 8.5% | 2.2% |
| **Commodities** | | | | | | | | | | | |
| **Energy** | | | | | | | | | | | |
| Crude Oil - WTI (US$/bbl) | $60.42 | 5.3% | 16.9% | 31.2% | 12.5% | 12.5% | 27.7% | 4.3% | -11.5% | -8.0% | -4.5% |
| Brent Crude (US$/bbl) | $66.87 | 5.2% | 16.2% | 39.5% | 17.7% | 17.7% | 33.9% | 5.3% | -11.9% | -9.7% | -3.3% |
| Natural Gas (US$/MMBtu) | $2.95 | -2.4% | -1.8% | -2.7% | -20.7% | -20.7% | 12.4% | 0.7% | -8.6% | -2.5% | -8.9% |
| Heating Oil (US$/gal) | $2.08 | 9.7% | 14.6% | 40.7% | 21.8% | 21.8% | 37.3% | 4.0% | -9.4% | -7.4% | -2.4% |
| Gasoline (US$/gal) | $1.80 | 4.1% | 12.0% | 18.7% | 8.1% | 8.1% | 19.2% | 7.8% | -10.4% | -8.5% | -3.1% |
| **Metals** | | | | | | | | | | | |
| Gold (US$/oz.) | $1,309 | 2.8% | 2.2% | 5.4% | 13.7% | 13.7% | 11.1% | 3.4% | 2.2% | -4.8% | 4.6% |
| Silver (US$/oz.) | $17.15 | 4.7% | 2.8% | 3.5% | 7.2% | 7.2% | 11.5% | 3.2% | -3.0% | -10.7% | 1.4% |
| Aluminum AA (US$/lb.) | $1.03 | 10.7% | 7.9% | 18.2% | 34.0% | 34.0% | 22.7% | 7.0% | 5.9% | 1.8% | -0.6% |
| Copper (US$/lb.) | $3.23 | 7.2% | 11.8% | 22.1% | 30.9% | 30.9% | 24.1% | 4.8% | -0.4% | -1.8% | 0.8% |
| Nickel (US$/lb.) | $5.69 | 14.9% | 21.5% | 35.9% | 27.3% | 27.3% | 20.3% | -5.6% | -2.1% | -5.6% | -7.0% |
| Zinc (US$/lb.) | $1.48 | 5.2% | 5.0% | 20.3% | 28.8% | 28.8% | 43.6% | 15.1% | 12.7% | 9.8% | 3.4% |
| **Soft** | | | | | | | | | | | |
| Wheat (US$/bushel) | $4.27 | 4.3% | -4.7% | -16.4% | 4.7% | 4.7% | -4.7% | -10.2% | -8.4% | -11.3% | -7.0% |
| Corn (US$/bushel) | $3.51 | 2.6% | -1.3% | -5.3% | -0.4% | -0.4% | -1.1% | -4.0% | -4.5% | -12.9% | -2.6% |
| Sugar (US$/lb.) | $0.15 | 0.5% | 12.0% | 10.8% | -22.3% | -22.3% | -0.3% | 1.4% | -2.0% | -4.9% | 3.4% |
| **Currencies** | | | | | | | | | | | |
| Canadian Dollar (CAD/USD) | $0.80 | 2.6% | -0.8% | 3.1% | 6.9% | 6.9% | 4.9% | -2.6% | -4.1% | -4.6% | -2.3% |
| Canadian Dollar (USD/CAD) | $1.26 | -2.5% | 0.8% | -3.0% | -6.5% | -6.5% | -4.7% | 2.7% | 4.3% | 4.8% | 2.3% |
| Euro (EUR/USD) | $1.20 | 0.8% | 1.6% | 5.1% | 14.1% | 14.1% | 5.1% | -0.3% | -3.3% | -1.9% | -1.9% |
| Yen (USD/YEN) | 112.69 | 0.1% | 0.2% | 0.3% | -3.7% | -3.7% | -3.2% | -2.0% | 1.7% | 5.4% | 0.1% |
| Pound Sterling (GBP/USD) | $1.35 | -0.1% | 0.9% | 3.7% | 9.5% | 9.5% | -4.2% | -4.6% | -5.0% | -3.6% | -3.8% |
| U.S. Dollar Index | 92.12 | -1.0% | -1.0% | -3.7% | -9.9% | -9.9% | -3.4% | 0.7% | 3.6% | 2.9% | 1.8% |

Source: Bloomberg, Raymond James Ltd. All return numbers greater than one year are annualized. Performance as at December 31, 2017.

## Yield Curve

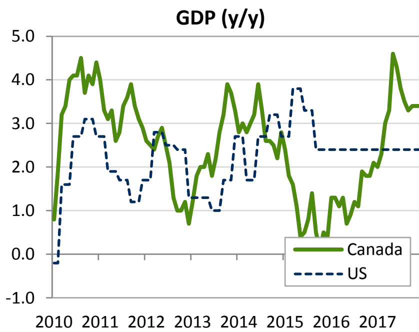


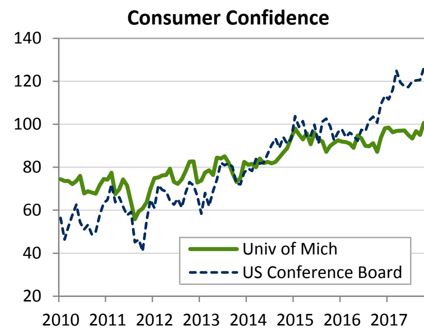



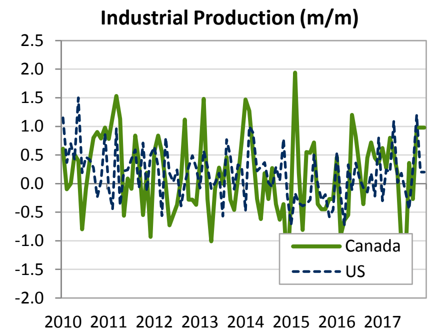



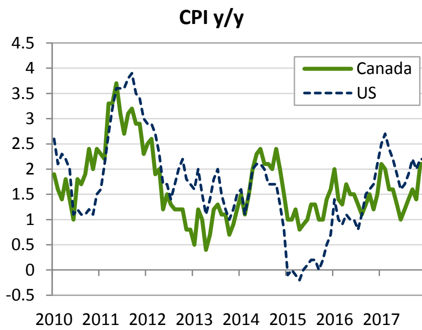

Source: Bloomberg, Raymond James Ltd. Performance as at December 31, 2017.

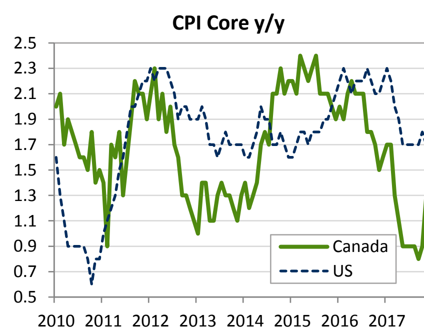
## Economic Data

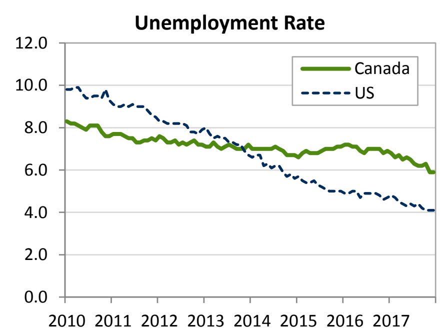


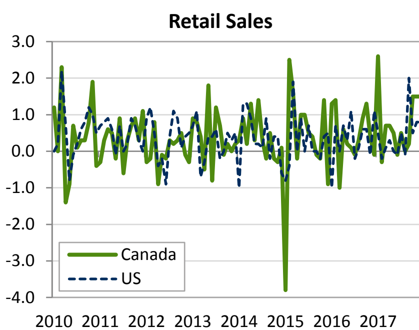



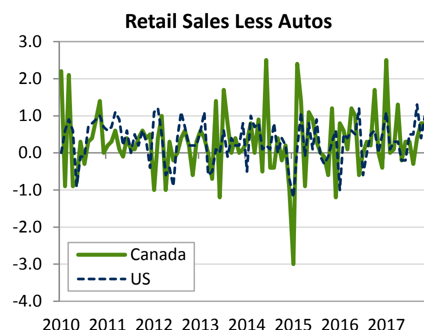



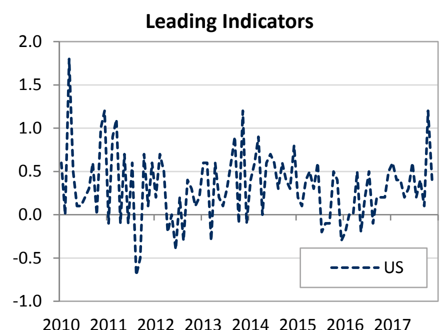



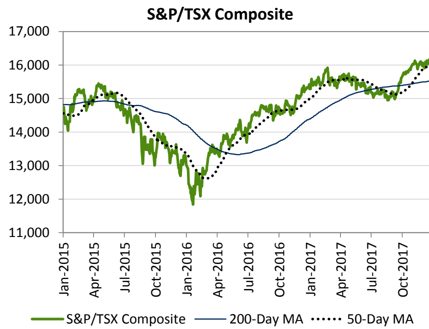



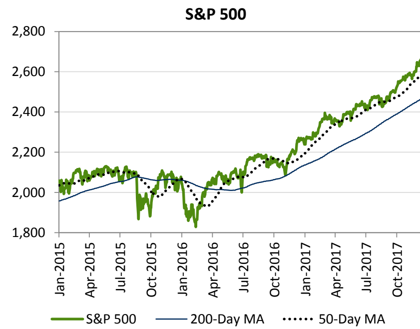



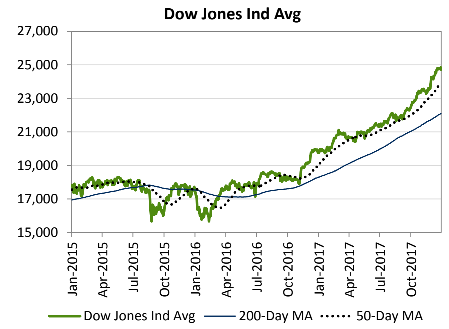

Source: Bloomberg, Raymond James Ltd. Performance as at December 31, 2017.

## Charts of Interest

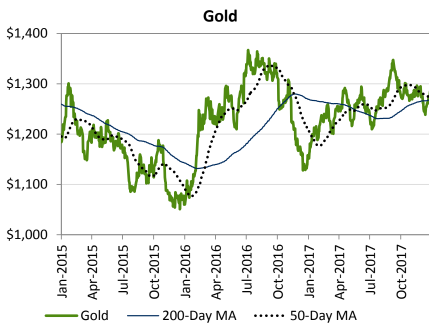
### Markets

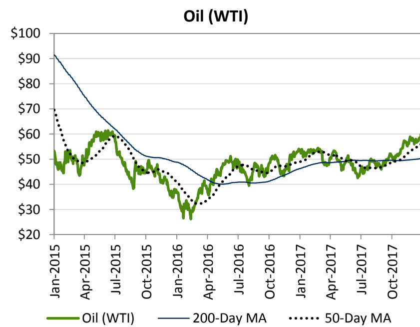


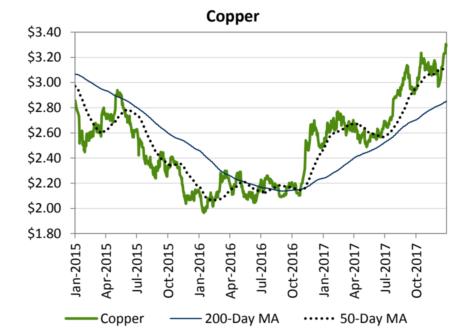



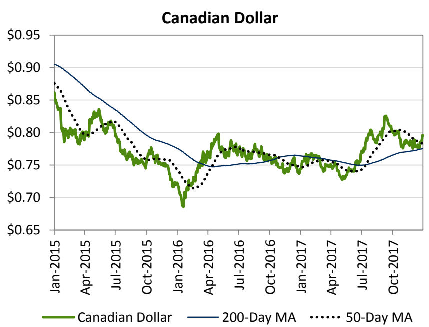

### Commodities

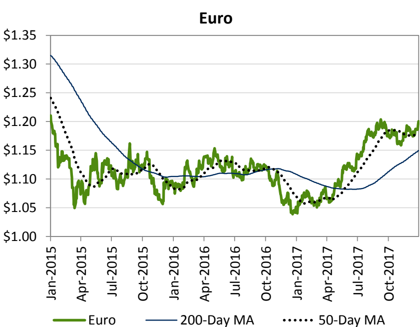


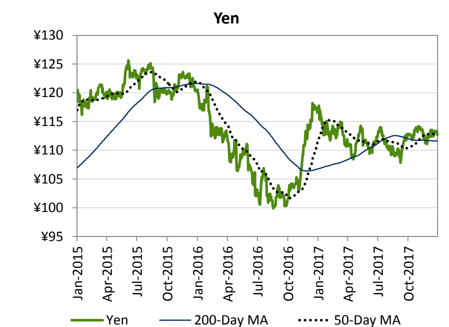




### Currencies




Source: Bloomberg, Raymond James Ltd. Performance as at December 31, 2017.

# Investor Profiles and Asset Class Weightings

| Recommended Asset Allocation | | Capital Preservation | Conservative | Moderate | Growth | Aggressive Growth |
|---|---|---|---|---|---|---|
| Cash | | 7% | 7% | 7% | 7% | 7% |
| Bonds | | 70% | 60% | 35% | 15% | 0% |
| Can Equities | | 20% | 23% | 23% | 23% | 28% |
| US Equities | | 3% | 10% | 20% | 33% | 35% |
| Intl Equities | | 0% | 0% | 15% | 22% | 30% |
| **Tactical Asset Mix (Bonds include cash)** | | | | | | |
| Bonds \| Equities | | 77 \| 23 | 67 \| 33 | 42 \| 58 | 22 \| 78 | 7 \| 93 |
| **Strategic Asset Mix (Bonds include cash)** | | | | | | |
| Bonds \| Equities | | 80 \| 20 | 70 \| 30 | 50 \| 50 | 30 \| 70 | 10 \| 90 |
| **Asset Ranges** | | | | | | |
| Cash | | 0-20 | 0-20 | 0-20 | 0-20 | 0-20 |
| Bonds | | 60-100 | 50-90 | 20-70 | 10-50 | 0-30 |
| Equities | | 0-30 | 10-50 | 30-75 | 50-90 | 70-100 |



**Description**

| Capital Preservation | Conservative | Moderate | Growth | Aggressive Growth |
|---|---|---|---|---|
| May be appropriate for investors with long-term income distribution needs who are sensitive to short-term losses. The equity portion of this portfolio generates capital appreciation, which is appropriate for investors who are sensitive to the effects of market fluctuation but need to sustain purchasing power. This portfolio, which invests primarily in fixed-income securities, seeks to keep investors ahead of the effects of inflation with an eye toward maintaining principal stability. | May be appropriate for investors with intermediate-term time horizons who are sensitive to short-term losses yet want to participate in the long-term growth of financial markets. The portfolio, which fixed-income securities tend to make up the largest proportion of holdings, seeks to keep investors well ahead of the effects of inflation with an eye toward maintaining principal stability. The portfolio has characteristics that may deliver returns lower than that of the broader market with lower levels of risk and volatility. | May be appropriate for investors seeking a balance between capital preservation and capital growth. This portfolio, which is a split between fixed-income securities and equities, seeks to keep investors well ahead of the effects of inflation with an eye toward maintaining principal stability. With roughly half of the portfolio invested in a diversified mix of Canadian and international equities, investors should be comfortable with moderate fluctuations in the portfolios. | May be appropriate for investors with long-term time horizons who are not sensitive to short-term losses and want to participate in the long-term growth of the financial markets. This portfolio, which has a higher weighting in equities, seeks to keep investors well ahead of the effects of inflation with principal stability as a secondary consideration. | May be appropriate for investors with long-term time horizons who are not sensitive to short-term losses and want to participate in the long-term growth of the financial markets. This portfolio, which is primarily invested in equities, seeks to keep investors well ahead of the effects of inflation with little regard for maintaining principal stability. The portfolio may deliver returns comparable to those of the broader equity market with similar levels of risk and volatility. |

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