# Investment Commentary – September 30, 2017

**Fixed Income:** Canada's economy expanded at its fastest rate in six years, which prompted the Bank of Canada to hike its overnight rate twice over the quarter. The Canadian yield curve shifted upwards, particularly in the front end, reflecting the tightening monetary policy. Further out along the yield curve, the spread between U.S. and Canada government bonds with longer maturities narrowed. The Federal Reserve (the Fed) will start the process of reducing the size of its balance sheet in October and left the door open for more rate hike later this year. The FTSE TMX Canadian Universe Bond Index lost 2.1%, dampened by the rise in yields. Corporate bonds outperformed, supported by a pickup in growth and improved corporate fundamentals. We believe the future moves of the yield curve will be dependent on changes in wage and inflation expectations and on central bank actions. The recent flattening of the Canadian yield curve might be overdone. The fixed-income portfolio has been positioned accordingly, by keeping the overall duration slightly shorter than that of the benchmark index for most of the quarter.

**U.S. Equity:** The S&P 500 closed the quarter at an all-time new high and made an additional 15 new closing highs during the quarter. Tax reform and Fed policy spurred bullish mood of investors who largely brushed off geopolitical risks and economic disruptions caused by several hurricanes. The negative effects from the rising dollar and declining oil prices over the last two years began to wane. Despite a strong earnings season in the third quarter, with 73% of S&P 500 companies reporting positive earnings surprises and 70% reporting positive sales surprises, S&P 500 valuations ticked higher, with the P/E ratio for the Index rising from 20.96 to 21.49 over the quarter, which compares to a ten-year average of about 17. Information Technology led sector gains, followed by Telecommunication Services and Materials. While our base case is that the economy will continue to expand and that the odds of a recession remain fairly low, there are scenarios that could lead to volatile stock markets, including an escalation of tensions with North Korea, U.S. budget gridlock, tax reform uncertainty and policy mistakes by the Fed or the Trump administration. As a result, we have become more cautious about short-term prospects, and have adjusted our portfolios accordingly.

**Canadian Equity:** In response to strong economic performance, the Bank of Canada increased its policy rates in July and September. Canadian equities generally trended lower over the third quarter; market sentiment was affected by looming uncertainty about the NAFTA negotiations and worries about Canada's competitiveness against a backdrop of higher taxes, currency headwinds, higher interest rates and increased labour costs. However, the S&P/TSX Composite Index bounced back from its 2017 low at the end of the September. One factor was a recovery in oil prices from a quarterly low of US$44 per barrel to US$52 at quarter-end. Not surprisingly, Energy was the top sector performer, with a 6.6% gain, followed by Consumer Discretionary and Financials. Canada's major banks delivered another strong earnings season, largely on strength in domestic banking and wealth management. The recent strength in the Canadian dollar might have a negative impact on earnings, particularly for companies exporting to the U.S. market. That said, we believe the country's economy can absorb a strong Canadian dollar, and that Canadian equities are fairly valued, based on strong corporate profit margins.

**International Equity**: It was a relatively stable quarter in international equities. The European Central Bank (ECB) maintained very low interest rates and continued its bond purchase program at 60 billion euros per month. Although the European economic recovery was better than the ECB expected over the first half of the year, inflation remains below target and justifies its continued program of monetary accommodation. Stock markets were buoyed by continued monetary support and encouraging economic and earnings growth, and by having much of 2017's political drama in the rear-view mirror. Over the quarter, the MSCI EAFE GR Index increased by 1.6%, in Canadian dollar terms. Equity valuations are tighter than they were, but not excessively expensive. We continue to find value opportunities in international markets where the macro environment remains supportive. The rising euro could be a problem for Europe's exporters and might hurt economic growth and corporate earnings in Europe.

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# Investment Performance – as at September 30, 2017

| Funds | 1 mth | 3 mths | 6 mths | YTD | 1 yr | 2 yrs | 3 yrs | 5 yrs | Since Inception | Inception Date |
|---|---|---|---|---|---|---|---|---|---|---|
| Monthly Income Fund Series A | 1.3% | 0.3% | -0.1% | 1.2% | 1.2% | 4.9% | 3.5% | 5.4% | 5.1% | 9-Jan-12 |
| Dividend Growth Fund Series A | 3.8% | 1.8% | 1.0% | 1.9% | 8.8% | 9.8% | 5.5% | 9.2% | 8.5% | 9-Jan-12 |
| Diversified Income Portfolio Series A | -0.2% | -0.9% | -0.4% | 1.1% | -0.5% | 2.3% | 2.7% | | 3.1% | 20-Jan-14 |
| Cons. Portfolio Series A | 0.6% | -0.5% | -0.2% | 1.2% | 0.4% | 2.7% | 2.6% | 4.5% | 4.5% | 9-Jan-12 |
| Balanced Portfolio Series A | 1.3% | 0.2% | 0.3% | 1.7% | 1.9% | 3.9% | 3.6% | 5.7% | 5.6% | 9-Jan-12 |
| Mod. Growth Portfolio Series A | 1.9% | 0.7% | 0.6% | 2.1% | 3.9% | 5.6% | 4.6% | 7.1% | 6.8% | 9-Jan-12 |
| Growth Portfolio Fund Series A | 2.7% | 1.4% | 1.0% | 2.6% | 5.8% | 7.3% | 5.5% | 8.4% | 7.9% | 9-Jan-12 |
| Agg. Growth Portfolio Series A | 3.2% | 1.8% | 1.3% | 3.3% | 7.8% | 8.8% | 6.3% | 9.8% | 9.1% | 9-Jan-12 |

Past performance is no guarantee of future performance. Returns under 1 year are simple rates of return. All others are annual compound rates of return. All returns are calculated after taking expenses, management and administration fees into account.

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