Insights & Strategies

PRIVATE CLIENT SOLUTIONS

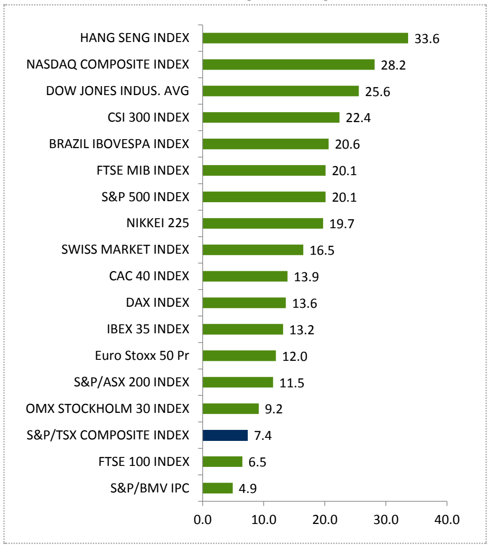
December 11, 2017

Inside this Issue

The Year That Was

It has been an eventful year. The year started off with Donald J. Trump officially being sworn in as the US's new Commander and Chief. His unorthodox style and use of Twitter have provided many memorable moments (and a few we would rather forget). Trump was elected with a mandate to reform US health care, remove burdensome regulations and boost economic growth through fiscal stimulus measures such as infrastructure spending and tax cuts/reforms – a tall order for any president, let alone one who faced so much external and internal opposition. As we approach year end, Trump's tax plan appears to be the only item he can check off from his to-do list, a much needed win for the Donald.

2017 Total Return (% LC*)



Source: Bloomberg, *In local currency.
As at December 7, 2017.

The US was not alone in providing political drama, as a number of important elections took place in 2017. Germany, France, the UK and Japan all saw their citizens heading to the polls. Japan's Prime Minister Shinzo Abe won a third consecutive general election in October, further reinforcing his aggressive monetary and fiscal agenda implemented to spur economic growth. Germany handed Chancellor Merkel another term, but her fragile minority government appears to be on the brink of collapse as we head into year end.

Geopolitical tensions were front and centre throughout much of the year. The Trump/Kim Jong-Un show kept the world on edge as both leaders traded jabs and military tensions rose. The war of words jumped into high gear with North Korea test firing an ICBM in February, followed by an additional 15 tests, with the last one showing the world the US is well within range of the "Rocket Man's" missiles. Later in the year, the UN Security Council would unanimously approve fresh sanctions on North Korean trade and investment but it did little to slow North Korea's nuclear ambitions. The situation in the Middle East also saw tensions rise between the US and Russia. In April, the US launched 59 Tomahawk cruise missiles at an air base in Syria in response to a suspected chemical weapons attack on a rebel-held town. Russia would describe the strikes as an act of "aggression", but would later agree with the US to a limited ceasefire in three war-torn provinces in southwest Syria. Sadly, the Syrian conflict will enter its seventh year in 2018.

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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To the surprise of many investors, asset prices were unfazed by the geopolitical drama that played out in Washington and across the globe. Market sentiment was buoyed by a global expansion that kicked into high gear halfway through the year. In fact, 2017 marked the first year since the late 1990s technology boom that the global economy experienced a similar and sustained expansion. The percentage of countries with their purchasing manufacturing indices (a measure of industrial activity) in expansionary territory rose to 97% this year, its highest level since June 2007 and according to the IMF, the global economy is on pace to expand by 3.6% in 2017, a level not seen since 2011.

The synchronized global upswing supported corporate earnings. The S&P 500 is looking to finish 2017 with ~12% year-on-year (yoy) earnings growth, while in Canada, a recovery in commodities has the S&P/TSX set to deliver ~13% yoy earnings growth. Against this backdrop, central banks began to remove some of the unprecedented monetary stimulus. The US Federal Reserve continued down the long path of normalizing monetary policy by hiking rates twice and announcing it would begin to reduce the size of its balance sheet in a steady and predictable manner. While the Fed reduced its overall monetary stimulus, aggregate major central bank balance sheets and policy rates remained supportive of risk assets.

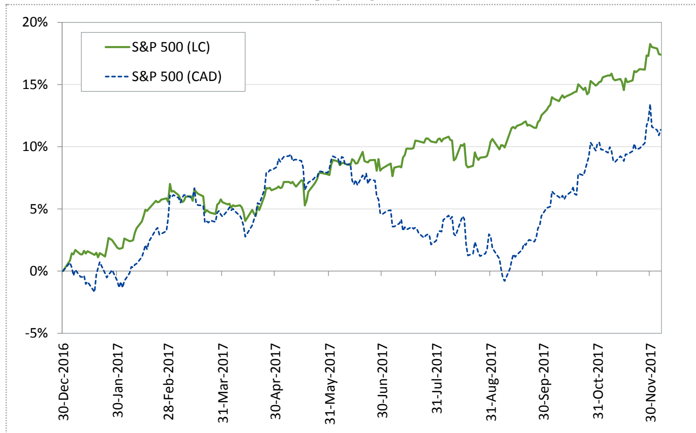
Central Bank Policy Rates – A little Tighter

Country	Current Rate	One year ago	Change
Canada	1.00%	0.50%	+0.50%
US	1.25%	0.75%	+0.50%
UK	0.50%	0.25%	+0.25%
Eurozone	0.00%	0.00%	0.00%
Japan	-0.05%	-0.05%	0.00%
Switzerland	-0.75%	-0.75%	0.00%
Sweden	-0.50%	-0.50%	0.00%

Source: Bloomberg, Raymond James Ltd.

Canadians were also reminded this year how currency can weigh on returns, something we haven't witnessed since 2009 when the Canadian dollar advanced ~27% versus the US dollar. An about face by the Bank of Canada in May sparked a 4-month 12% rally in the currency, eliminating a good majority of paper profits earned by investing outside of the Canadian market.

S&P 500 in Local Currency (LC) and CAD terms

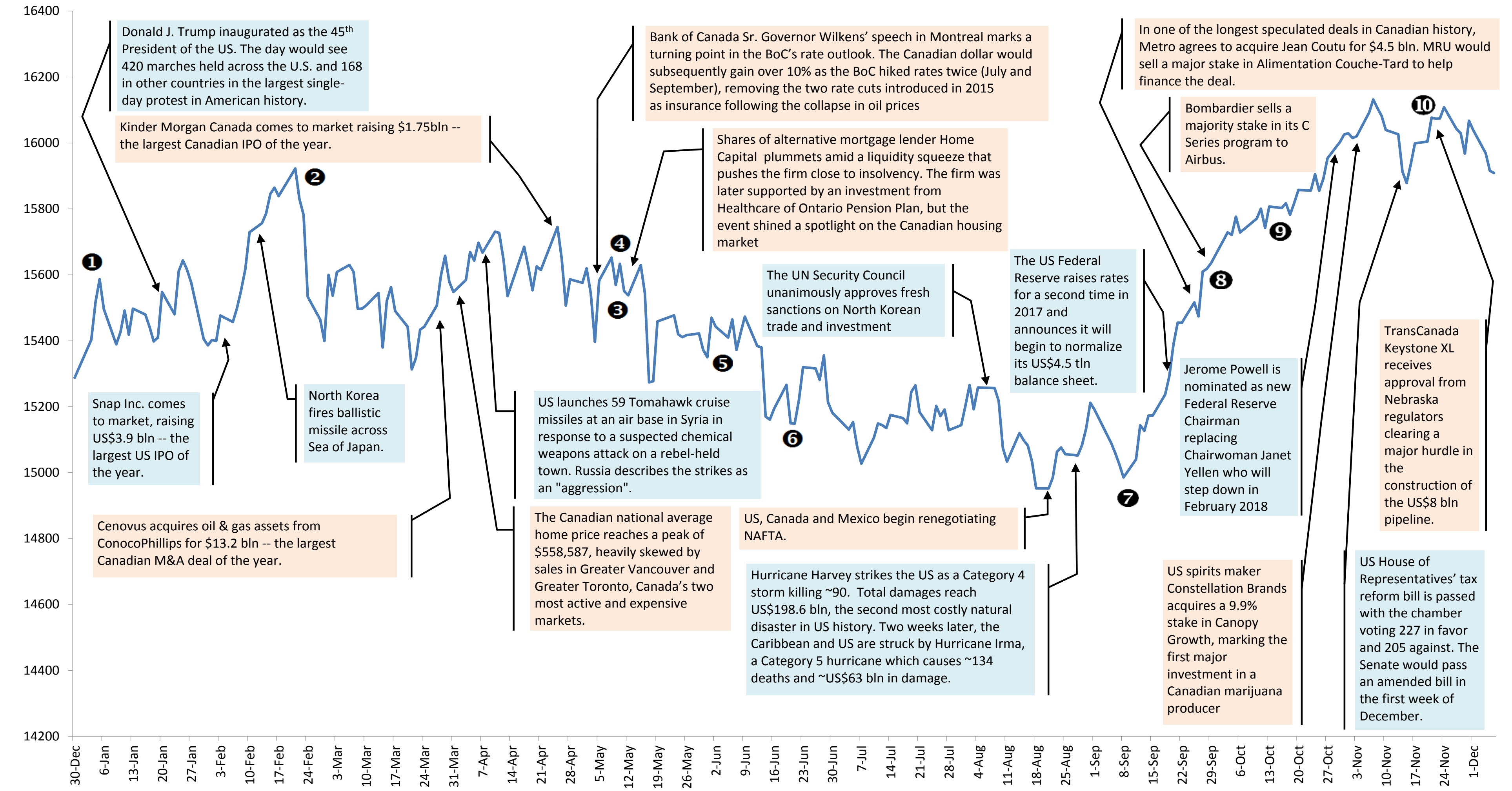


Source: Bloomberg, Raymond James Ltd.

For all the good global news, one would have thought Canadian companies would share in the wealth. However, the first half of the year was difficult for Canadian equities. After achieving a fresh new high in February, the S&P/TSX spent the next 4 months in a steady downward draft. Concerns about the Canadian housing market weighed on financials; questions about OPEC compliance, rising US production and US inventories levels held back oil prices; and materials failed to participate in the underlying rally in commodity prices. But, by mid-summer, things changed. Canadian housing prices found a firmer footing which helped to change sentiment towards the Canadian banks. The Canadian consumer continued spending despite two Bank of Canada rate hikes, supporting consumption growth. Oil prices bottomed in July amid strong OPEC compliance, supply disruptions and inventory improvements. The commodity subsequently pushed through a key resistance level of US$54-US$55/bbl and traded at its highest level since July 2016 as we approached year end. The S&P/TSX spent the remainder of the year catching up to its developed market peers, rallying nearly 8% off the summer low. The good news is we believe the S&P/TSX has further room to run in 2018.

Jason Castelli
VP & Portfolio Manager

S&P/TSX Index - The Year That Was

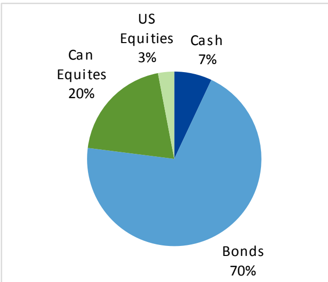


❶ Gold closes at year low of US$1,152.15/oz; ❷ Natural gas closes at year low of US$2.56/MMbtu; ❸ Copper trades at year low of US$248.55/lb; ❹ Natural gas closes at year high of US$3.42/MMbtu; ❺ Cdn Gov't 10-year yield hits low of 1.393%; ❻ WTI oil trades at year low of US$42.31/Bbl; ❼ Gold closes at year high of US$1,347.30/oz; ❽ Cdn Gov't 10-year yield hits high of 2.133%; ❾ Copper trades at year high of US$323.90/lb; ❿ WTI oil trades at year high of US$58.85/Bbl. = Canadian = International

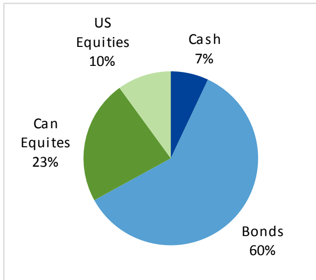
Investor Profiles and Asset Class Weightings

Recommended Asset Allocation

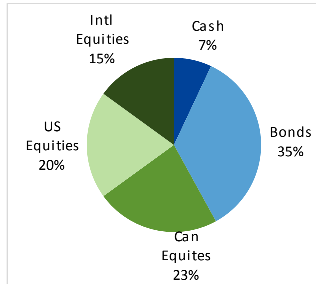
Capital Preservation



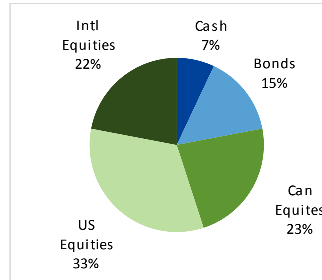
Conservative



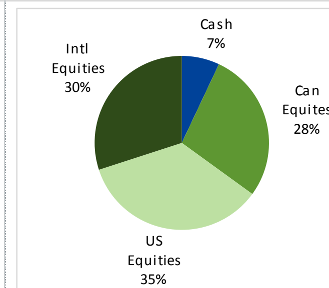
Moderate



Growth



Aggressive Growth



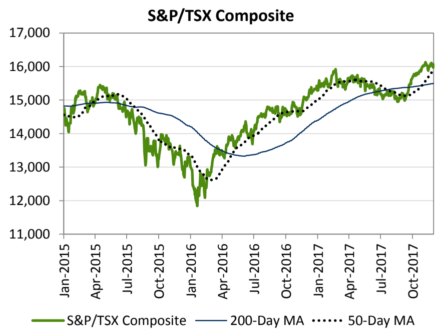
	Capital Preservation	Conservative	Moderate	Growth	Aggressive Growth
Cash	7%	7%	7%	7%	7%
Bonds	70%	60%	35%	15%	0%
Can Equities	20%	23%	23%	23%	28%
US Equities	3%	10%	20%	33%	35%
Intl Equities	0%	0%	15%	22%	30%
Tactical Asset Mix (Bonds include cash)					
Bonds | Equities	77 | 23	67 | 33	42 | 58	22 | 78	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

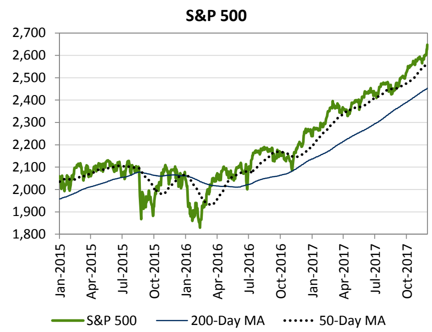
Description

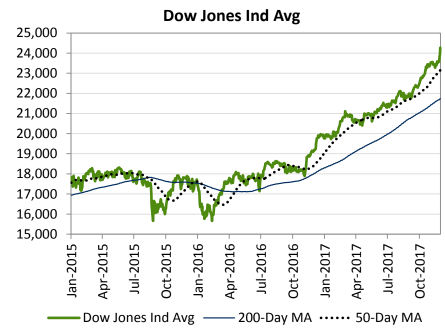
Capital Preservation	Conservative	Moderate	Growth	Aggressive Growth
May be appropriate for investors with long-term income distribution needs who are sensitive to short-term losses. The equity portion of this portfolio generates capital appreciation, which is appropriate for investors who are sensitive 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.

Charts of Interest

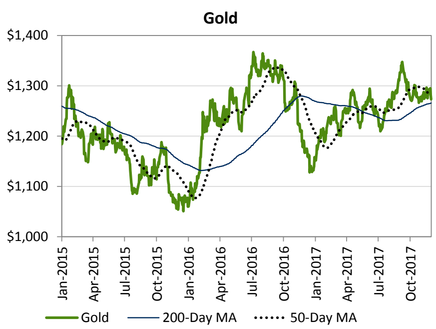
Markets

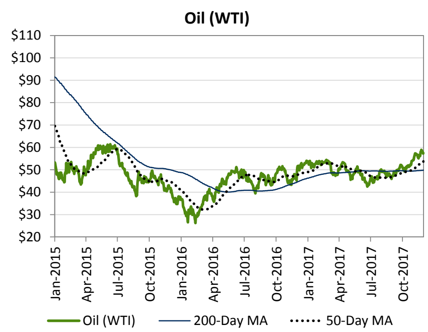


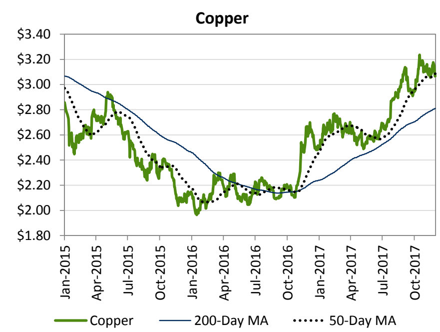




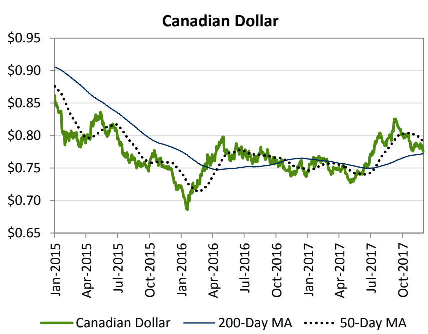
Commodities

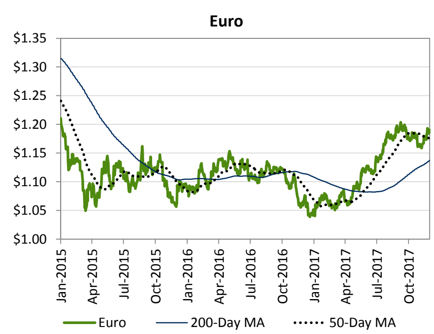


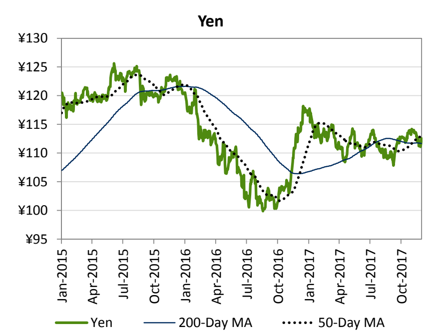




Currencies







Source: Bloomberg, Raymond James Ltd. Performance as at November 30, 2017.

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