Financial Markets Summary

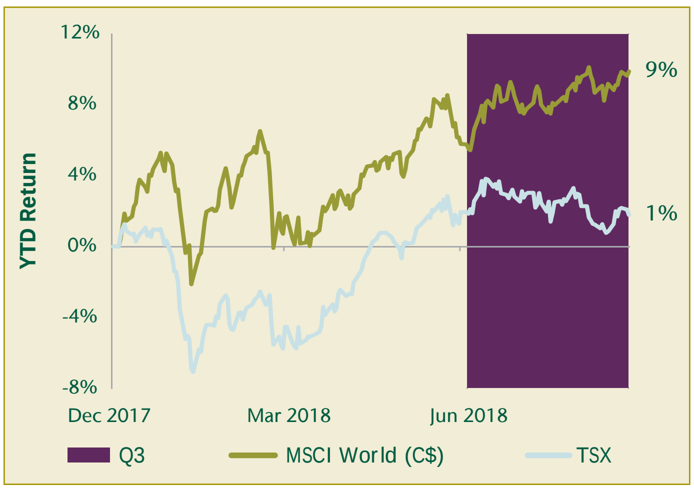
September 30, 2018

PORTFOLIO MARKETS SUMMARY

In the third quarter, portfolios added to modest year-to-date gains, with the positive performance primarily a result of our global equity holdings. Within equities, portfolios benefited from global exposure to US and Japanese equities—the best performers—rising just shy of 8% and 9% in local currency terms respectively. The US and Japan's outperformance was largely due to the healthcare and industrials sectors enjoying outsized returns, both of which comprise large parts of the US and Japanese markets. Elsewhere, equity market performance was much more muted, with Canadian and European equities, for example, flat over the period. Emerging markets, like those in China, India, Eastern Europe and many countries in Central America, had a slightly tougher quarter as investors focused on the effects that global trade concerns could have on those markets. Additionally, a strengthening US dollar put pressure on emerging market countries carrying US dollar-denominated debt. More recently, these risks have abated somewhat against a backdrop of continuing global economic growth.

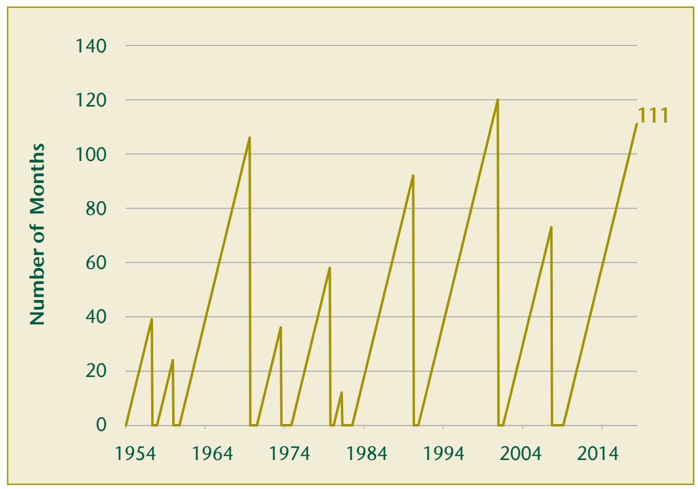
In fixed income, corporate bonds prices increased and they outperformed safer government debt. Central banks around the world continued to raise interest rates, including the US Federal Reserve, the Bank of Canada and the Bank of England.

Global equities (MSCI) outperform Canadian equities (TSX)



Source: MSCI, S&P/TSX

Periods of US economic expansion



Source: National Bureau of Economic Research (NBER), CC&L Private Capital

PORTFOLIO STRATEGY

We have experienced a long period of economic growth. At this juncture, we believe we are in the later stages of the business cycle, which can persist for some time and does not mean that we are looking at an imminent recession—many classic indicators of a recession are still absent. With this in mind, we have used periods of equity market strength to take profits and reinvest them in more stable bond investments: portfolios currently have a neutral balance between equities and bonds. Within the equity allocation, our portfolios have for some time had an overweight allocation to global equities and an underweight allocation to Canadian equities. This has benefitted portfolios as the global equity index has outperformed its Canadian counterpart by almost 8% in Canadian dollar terms this year. We will maintain this positioning as we continue to believe that US fiscal policy and Europe and Japan's more accommodative monetary policy will benefit those regions, while in Canada, we are dealing with slowing economic growth, a highly indebted consumer, expensive house prices and uncertainty regarding future trade agreements. These trends look to continue, benefitting foreign stocks until at least the New Year.

Our view on fixed income continues to favour higher quality, shorter maturity bonds. In the current rising-interest rate environment, we expect to continue to hold shorter maturity bonds, which tend to outperform those with a longer maturity. Similar to our late stage view of equities, we believe the corporate debt market will also present fewer opportunities. Despite low and rising yields, bonds continue to be an important component of our balanced portfolios, providing diversification benefits. Additionally, we continue to recommend clients hold our alternative asset classes, such as hedge strategies, real estate, infrastructure and private loan investments. In the low yield, high valuation world we are living in, alternative assets can provide clients with additional diversification and strong risk-adjusted returns.

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