



Perspectives Executive Summary

For the 12-month period beginning January 1, 2018

AS GOOD AS IT GETS?

- After a stellar year for the world economy in 2017, the main question is not whether the growth outlook is good or lacklustre. The real question is: how long can this last? How long can the equity bull market continue before it hits a bump in the road?
- The dominant view moving into 2018 is that inflation still won't be a threat and that central banks have plenty of time to raise interest rates. If inflation rears its ugly head faster than generally expected, it could spoil the party for global investors.

Equities versus Fixed Income

- Equities still look more attractive than bonds. It will take a more significant rise in yields to tip the balance in favour of fixed income.

Loonie and Greenback

- Several factors will restrain the upside for the Canadian dollar—a limited upside for oil prices, particularly Canadian oil prices, and NAFTA negotiations that will spill over well into 2018.
- Any U.S. dollar strength over the coming year is expected to be limited and thinly based. A widespread appreciation is not likely. Instead, we are projecting a shift into consolidation mode, implying increased volatility in foreign exchange markets throughout the year.

Bitcoin (special section in this edition)

- The biggest shortfall we can see with Bitcoin (or any of the other cryptocurrencies) is the lack of a large stable “guarantor”. Major fiat currencies such as the U.S. or Canadian dollar have a government behind them to back their use as the sole means of exchange for that country. Cryptocurrencies lack a major proponent that can be relied upon to sustain and expand their use as a means of exchange.

Regional Markets

- **U.S.:** The U.S. economy continues to operate above its economic potential. This increases the risk of an overheated economy that could eventually force a faster-than-expected tightening by the Fed.
- **International Developed Markets:** The eurozone economy is expected to grow above its potential over the next four quarters, with widening growth differentials between the strong economies (e.g. Germany) and weaker economies (e.g. Italy).
- **Emerging Markets:** Despite a run of very strong performance in emerging market equities, this geographic sector remains the most attractive due to its stabilizing fundamentals.
- **Canada:** Upcoming monetary policy-setting decisions by the Bank of Canada will be dictated by financial stability considerations, targeting both household debt deleveraging and a soft landing in housing.

Expected Returns

Expected returns for the one-year period beginning January 1, 2018	In Canadian Dollars			In Local Currency		
	Global Reflation	Policy Renormalization	Global Recession	Global Reflation	Policy Renormalization	Global Recession
Probabilities	15.0%	65.0%	20.0%	15.0%	65.0%	20.0%
Canada Money Market	1.5%	1.3%	0.8%	1.5%	1.3%	0.8%
Canada Bond	-1.8%	0.8%	3.0%	-1.8%	0.8%	3.0%
Canada Federal Government Bond	-1.5%	0.9%	5.2%	-1.5%	0.9%	5.2%
Canada Corporate Bond	0.4%	1.3%	0.2%	0.4%	1.3%	0.2%
Canada Real Return Bonds	0.8%	-0.5%	3.0%	0.8%	-0.5%	3.0%
Canada High-Yield Bond	4.5%	3.8%	-4.9%	4.5%	3.8%	-4.9%
International Government Bond	-7.5%	-2.4%	7.7%	-3.9%	-1.7%	4.9%
Canada Equity	13.8%	5.3%	-19.2%	13.8%	5.3%	-19.2%
United States Equity	7.6%	4.6%	-13.7%	10.5%	4.1%	-16.8%
International Equity	12.4%	5.8%	-18.5%	16.7%	7.8%	-18.3%
Emerging Equity	15.4%	8.8%	-24.5%	17.1%	9.5%	-21.3%

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Asset Allocation Outlook

Asset Class	Underweight		Neutral	Overweight	
	Significant	Moderate		Moderate	Significant
Equity Relative to Fixed Income			✓		
Fixed Income					
Canadian Money Market	✓				
Canadian Government Bond					✓
Canadian Corporate Bond					✓
International Government Bond		✓			
Equity					
Canadian Equity			✓		
U.S. Equity		✓			
International Equity (Developed Markets)					✓
Emerging Markets					✓
Currency (versus U.S. Dollar)					
Canadian Dollar			✓		
Euro		✓			
Japanese Yen		✓			
British Pound			✓		
Swiss Franc		✓			
Australian Dollar		✓			
Emerging Markets					✓

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