

Perspectives Executive Summary

For the 12-month period beginning January 1, 2017



PLOTTING A COURSE FOR AN UNCERTAIN YEAR AHEAD

- The global economic expansion is expected to continue in 2017, but growth is unlikely to accelerate. Uncertainty around our forecast is unusually large this quarter, given many policy unknowns as we enter 2017.
- Since the U.S. election of Donald Trump, the prospect of U.S. fiscal stimulus amid accommodative monetary conditions has dramatically changed global financial dynamics.
- Other aspects of a new Trump administration, such as trade protectionism, have, so far, been treated with benign neglect by financial markets. This may come to haunt investors in the first 100 days of the new administration.

Equities versus Fixed Income

- We continue to adopt a more neutral stance between equity and fixed income for the time being to reflect the various global economic and political uncertainties.

Loonie and Greenback

- The projected widening in Canadian versus U.S. monetary policy differentials will keep the U.S. dollar well supported against the Canadian dollar.
- The U.S. dollar outlook is not that clear for 2017. U.S. dollar strength is hurting U.S. exporters but the Fed is likely to continue to raise interest rates regardless.

Regional Markets

- **U.S.:** Odds of another U.S. growth disappointment are higher than generally estimated for two reasons: 1) the strong U.S. dollar will likely kill all hope for a U.S. export recovery and 2) rising borrowing costs could impede the overall economy and real estate in particular.
- **Europe:** Going forward, eurozone exports are not likely to be the growth engine they have been. As a result, growth in the eurozone could disappoint and prove problematic for the region's weaker links (e.g. Italy).
- **Emerging Markets:** Emerging Asian equity markets remain attractively valued, especially following the post-U.S. election sell-off. This remains our preferred global equity region.
- **Canada:** The heavy debt load of Canadian consumers and the lack of a recovery in Canadian exports are both weighing on Canadian growth prospects.



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Expected Returns

Expected returns for the 12-month period beginning January 1, 2017	In Canadian Dollars			In Local Currency		
	U.S. Renormalization	Policy Limits	Global Recession	U.S. Renormalization	Policy Limits	Global Recession
Probabilities	15.0%	65.0%	20.0%	15.0%	65.0%	20.0%
Canada Money Market	0.6%	0.5%	0.2%	0.6%	0.5%	0.2%
Canada Bond	1.0%	2.8%	5.8%	1.0%	2.8%	5.8%
Canada Federal Government Bond	-0.6%	1.6%	6.3%	-0.6%	1.6%	6.3%
Canada Corporate Bond	3.0%	3.9%	1.5%	3.0%	3.9%	1.5%
Canada Real Return Bonds	2.0%	2.2%	7.8%	2.0%	2.2%	7.8%
Canada High-Yield Bond	6.0%	2.8%	-8.5%	6.0%	2.8%	-8.5%
International Government Bond	-8.3%	2.0%	17.5%	-3.7%	-0.7%	5.6%
Canada Equity	18.2%	8.6%	-14.8%	18.2%	8.6%	-14.8%
United States Equity	8.8%	5.8%	-10.7%	16.8%	5.1%	-16.2%
International Equity	15.8%	9.0%	-7.8%	18.4%	7.1%	-14.6%
Emerging Equity	12.6%	8.8%	-15.6%	18.5%	10.9%	-14.5%

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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