

# Perspectives Executive Summary

For the 12-month period beginning October 1, 2016

## CENTRAL BANKS PASS THE BATON

- Central banks have done all they can for economic stimulus. Governments must now step in.
- Sub-zero interest rates and quantitative easing (QE) are having intensifying undesired effects on world economies.
- Political risks will be particularly elevated over the coming months with elections in the U.S. in November and in many European countries in 2017. Unfortunately, this will substantially delay the potential use of fiscal policy to support economic activity.

## 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.
- That being said, bonds are unlikely to rally much in the case of a "risk-off" equity correction and will likely provide a lower degree of portfolio diversification than in the past.

## Loonie and Greenback

- The Canadian dollar will likely lose ground—not only against the U.S. dollar, but against other global currencies.
- Negatives for the loonie include an ongoing Canadian economic slowdown and possible renewed weakness from a deteriorating oil trade balance.

## Regional Markets

- **U.S.:** The strength of the U.S. dollar and sluggish growth abroad are making it very hard for U.S. exporters. Meanwhile, corporate America is still coping with a deepening and long-lasting profit recession.
- **Europe and Japan:** Monetary policy in these regions has reached its limits at a time when their economies are struggling. Japanese leading economic indicators are signaling rising odds that the country is tipping back into recession.
- **Emerging Markets:** The Chinese economy is meeting 2016 government growth targets. Employment indicators have stopped deteriorating and the profit cycle for industry has turned positive.
- **Canada:** The widely expected and widely hoped-for 2016 Canadian economic recovery is not materializing.

## Expected Returns

Expected returns for the 12-month period beginning October 1, 2016	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%	0.3%	0.6%	0.5%	0.3%
Canada Bond	-1.5%	0.4%	2.5%	-1.5%	0.4%	2.5%
Canada Federal Government Bond	-2.4%	0.1%	3.5%	-2.4%	0.1%	3.5%
Canada Corporate Bond	0.9%	1.2%	-0.3%	0.9%	1.2%	-0.3%
Canada Real Return Bonds	-2.6%	-0.6%	1.8%	-2.6%	-0.6%	1.8%
Canada High-Yield Bond	4.8%	2.3%	-16.5%	4.8%	2.3%	-16.5%
International Government Bond	-11.5%	0.8%	9.7%	-4.4%	-0.7%	1.2%
Canada Equity	10.2%	3.4%	-19.8%	10.2%	3.4%	-19.8%
United States Equity	2.8%	3.9%	-7.6%	8.1%	1.9%	-15.0%
International Equity	5.6%	5.8%	-19.3%	11.7%	4.7%	-22.8%
Emerging Equity	10.9%	6.1%	-20.6%	13.5%	7.7%	-18.9%

## Asset Allocation Outlook

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

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