

Commentary

ECONOMIC OUTLOOK

- US GDP expected to grow 3% with strong consumer confidence and spending together with low unemployment
- Canada's growth expected to be only 1.5 – 2.0% with slower housing and retail spending
- Concern in European Union with slowing growth and impending tariff war
- China maintaining growth near 6.5% but potential US tariffs could cause short term economic weakness
- Economic recovery in Japan continues with stronger corporate profits and accommodative monetary policy

INTEREST RATE/INFLATION OUTLOOK

- US and Canadian short term rates at 1.75% – 2.00% and 1.25% respectively
- US short term rates increased in June by 0.25%; expected to increase by 0.50% more this year
- Canadian short term rates increased 0.25% in January; expected to increase 0.25% more in 2018
- Longer term rates will rise slightly with continuing U.S. economic expansion
- 2.0% inflation expected in North America and Europe

ASSET MIX OUTLOOK

- Favoured equity markets (in order): US, Canada, Japan, Europe, Emerging Markets
- Continue to overweight equities vs. fixed income as earnings still growing while interest rates rising slowly

MARKET OUTLOOK

- Markets remain supported by strong US economic fundamentals - higher corporate profits, increased investment / infrastructure spending and deregulation
- Still concern over extended market valuations, potential higher inflation and rising interest rates in 2nd half of 2018
- Geopolitical concerns continue over US tariff threats with China, EU, Canada and Mexico
- US corporate profit growth expected at 15% plus this year
- Lower taxes and strong corporate balance sheets in the U.S are supporting acquisitions / dividend increases / stock re-purchases
- Oil \$70 – \$80 US; C\$ 0.75 – 0.78 range vs. US\$ in 3rd Q
- Focusing on Canadian dividend paying equities, US growth equities, International (EAFE) equities and Canadian corporate bonds