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MARKET SUMMARY—Global equity markets were hammered through the last month of 2015 and further punished during the first month of 2016. The Canadian bell weather S&P/TSX Composite gave back 3.41% to end the year, and proceeded to lose a further 1.44% in January. On a full year basis for 2015, the S&P/TSX handed investors a loss 11.09%, while the smaller capitalization S&P/TSX Venture index returned negative 24.42%. The high dependency of the Canadian economy on resources sectors and their concentration in our equity indices, in conjunction with a commodity death spiral, made Canadian equity markets among the worst global performers in 2015.

The picture south of the border, albeit less dramatic than Canada, was certainly not inspiring for equity investors. The S&P500 index lost 1.75% in December and a further and more precipitous drop of 5.07% during January.

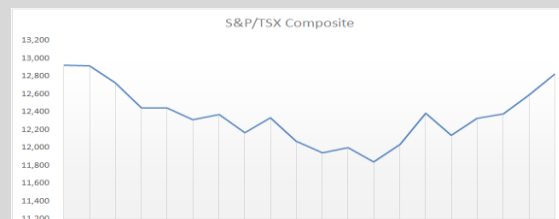
A similar experience in Europe, with the EUROSTOXX 50 down in excess of 6% in each of December and January, while Emerging Markets (MSCI EM) dropped 22.23% in December, followed by nearly 6.5% in January. The start of 2016 for most regions, clearly saw some of the most challenging market conditions since the 2008 Financial Crisis.

The global economy has unquestionably slowed and remains precariously balanced on the back of soft economic data across most regions of the world. Persistently weak global commodity prices (i.e. oil price shock) and depreciating nominal currency values versus the dollar (i.e. free fall of the Loonie below CAD\$0.70/USD) round out the financial backdrop. Overall risk levels have increased since the fourth quarter of 2015 and warning signs have become more prevalent, causing financial market volatility to rise above already elevated levels. We can expect heightened volatility and market instability to remain a fact of life well through the first half of 2016, and perhaps through the balance of the year. Headwinds emanating from geopolitical conflict (i.e. most recently ISIS), Russian aggression, and the increasing significance of China within the world economy, have amplified these risks, the collective of which should be closely and prudently monitored over the near term for their cumulative affect on the markets.

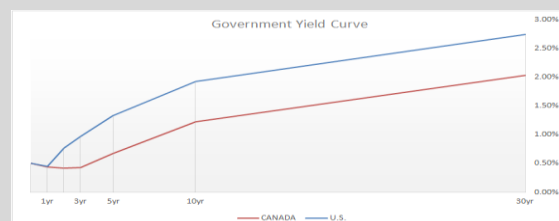
Despite these concerns however, there is little evidence to suggest that the global economy is in any real danger of relapsing into recession. Global monetary policy remains historically accommodative, inflation non-existent (or conversely the risk of deflation not particularly material [the global commodity route is likely near its bottom]), and even the slowdown across the emerging markets (and most notably China), have had measured impact directed more specifically towards

MARKET DIARY -- MONTH AT A GLANCE

Equities	Close Jan 29	MoM TotRet	YTD TotRet
S&P/TSX Composite	12,822.13	-1.44%	-1.44%
S&P/TSX Venture	499.52	-4.97%	-4.97%
Dow Jones	16,466.30	-5.50%	-5.50%
S&P500	1,940.24	-5.07%	-5.07%
NASDAQ	4,613.95	-7.86%	-7.86%
FTSE 100	6,083.79	-2.54%	-2.54%
EURO STOXX 50	3,045.09	-6.81%	-6.81%
Nikkei 225	17,518.30	-7.96%	-7.96%
MSCI EAFE	4,480.05	-7.23%	-7.23%
MSCI Emerging Markets	319.46	-6.49%	-6.49%



Fixed Income	Yield	MoM Chg	YTD Chg
 BoC Overnight Rate	0.50%	n/c	n/c
3mos Canada T-Bill	0.45%	-5 bps	-5 bps
2yr Canada	0.42%	-6 bps	-6 bps
10yr Canada	1.22%	-17 bps	-17 bps
30yr Canada	2.03%	-12 bps	-12 bps
 Fed Funds Rate	0.50%	n/c	n/c
90d U.S. T-Bill	0.31%	+5 bps	+5 bps
2yr UST	0.77%	-27 bps	-27 bps
10yr UST	1.92%	-35 bps	-35 bps
30yr UST	2.74%	-27 bps	-27 bps



Currencies	Jan 29	MoM Chg	YTD Chg
CAD/USD	0.72	-0.95%	-0.95%
USD/CAD	1.40	+0.99%	+0.99%
CAD/EUR	0.66	-0.68%	-0.68%
CAD/JPY	86.68	-0.21%	-0.21%
CAD/GBP	0.50	+2.49%	+2.49%

Market Factors	Jan 29	MoM Chg	YTD Chg
Volatility Meter – VIX	20.20	+1.99	+1.99
Advance/Decline – TSX	5.94	+5.39	+5.39

Source: Bloomberg

resource dependent nations. Most leading indicators remain relatively normalized and fail to suggest any overt cause for real economic concern.

Dissecting the global outlook into its constituent regions, we find divergence not only with respect to monetary and fiscal strategy but also with respect to real economic conditions.

UNITED STATES—In the United States, three core themes have softened what was previously a promising economic picture, but more importantly have deflected focus (and fears) to the state of the weaker global economy rather than general U.S. economic resilience. These more recent consternating factors are: (1) a decline in the U.S. manufacturing sector, (2) weaker corporate profitability, and (3) widening corporate credit spreads, including the sustained and rising trajectory for high-yield bond spreads suggesting a potential end to the current business cycle.

The U.S. ISM Manufacturing index has followed a downward trend which is potentially a cause for concern in isolation but U.S. leading indicators do not corroborate this picture and global industrial production remains stable.

A strong U.S. dollar is expected to continue as currency markets look for further U.S. dollar gains despite the bull market maturing into its fifth year (but recall the last currency cycle lasted 5 – 10 years). Policy “normalization” by the U.S. Fed (i.e. anticipated increases in the Fed Funds rate to more normal levels), while conversely elsewhere in the world, central bank policies have focused on expansion (i.e. economic stimulation through short-term rate reductions), means that widening interest rate differentials will ensure the U.S. dollar bull will continue to have legs.

U.S. (and global) inflation remains at historically low levels but should begin to eventually edge higher through the near to medium term. The routing of global commodity prices has largely completed its course and we believe that prices will eventually recover but this is more likely to occur gradually over potentially a 3-5 year time frame—don’t expect to see \$100/barrel WTI crude oil prices anytime again soon.

The divergence in global monetary policy is only likely to become more pronounced in the coming quarters as the Federal Reserve, which has already raised short-term lending rates once by 25 basis points in December, contemplates further rate hikes through 2016. The FOMC refrained from further tightening at its January meeting, however, it is widely anticipated that a gradual and moderated increase in the Fed Funds rate will occur through 2016, but likely limited to the magnitude of 75 -100 basis points, far less than the typical response and pace at the turning point of monetary policy. Very low inflation, persistent global economic slack, and decelerating growth rates among the Emerging Markets in particular have given the Fed the luxury of being patient in normalizing monetary policy.

While short-term interest rates are expected to remain low for the foreseeable future, many economic forecasts suggest a modest and gradual increase in medium to longer-term corporate bond yields through 2016, and we’ve already seen dramatic widening among high yield corporate spreads. The anticipated increase in rates will put considerable pressure on bond returns, making this an asset class that will likely continue to underperform in 2016. That said, with significant volatility in equity markets, bonds (specifically governments) offer a buffer and stability through periods of higher volatility and therefore some meaningful income oriented exposure may be suitable and reasonable.

While equity markets have experienced considerable volatility through 2015, overall the direction has been primarily sideways. Starting off 2016 however, broad based major U.S. equity indices have sold off considerably as investors flee risky assets for safety. Through the first 5 weeks of 2016, the S&P 500 is off approximately 10.5%, making

valuations more attractive but the key to rising equity prices will not be focused on multiples expansion as they were in 2015 and prior. Instead, corporate earnings growth will be the key to recovery and upward market advancement. Consensus expectations for corporate earnings growth call for profit levels to be modestly higher in 2016 and 2017 however, recent pressure on corporate profitability bears watching.

Overall, the U.S. economy is doing all right, apart from distress shown in the manufacturing sector (representing ~15% of overall GDP contribution). The consumer sector and employment are strong, and the housing sector remains resilient. With the first and only U.S. rate hike since 2008 (25bps last December), the Fed is likely to remain cautious and measured in its approach to monetary tightening. Markets are currently pricing in only a single additional rate increase through 2016.

CANADA—The impact of low resource prices has beleaguered the Canadian economy, and despite GDP growth eking back into marginally positive territory during the second half of 2015, leading indicators continue to signal persistent weakness while economic slack has grown considerably. Regional disparity on a national basis is highly pronounced—Alberta and other oil producing/exporting provinces are mired in recessionary conditions, while Ontario on the other hand is growing more robustly than it had prior to the financial crisis of 1998.

The Canadian labour market remains remarkably resilient—confirming that the national economy has not truly experienced recessionary conditions (albeit perhaps briefly in Q1 2015) but it does appear to reaffirm the less optimistic message that productivity growth has indeed been poor. The Canadian central bank has stated that it believes the potential rate of economic growth in Canada over the next few years will be below 1.5%. In this challenging environment, it would not be inconceivable for further downward pressure on the Canadian dollar to persist. More importantly however, is whether export growth will benefit from the lower currency value—while some sectors do appear to be benefiting, overall, aggregate trade improvement appears underwhelming.

GLOBAL—China remains a key area of concern and focus for global markets. Four specific factors provide impetus for this distress; (1) a new currency regime, (2) a growing equity market bubble, (3) clear credit excesses in specific areas, and (most importantly), (4) decelerating economic growth. Issues with a more free floating Chinese Yuan have generally been dismissed as more trivial in nature, however China's credit challenges remain very real. The Bank of International Settlements (BIS) has put China at the top of its list among nations most likely to experience future credit distress, and this is highlighted by the fact that Chinese banks are experiencing non-performing loan growth of over 60% per year! While the "official" jump off point is actually quite tame with only 1.5% of all loans in default, estimates of the actual figures range from 2-3 times higher. The deceleration in Chinese GDP has been a phenomenon that has been taking shape for a number of years now, and official GDP growth at 7.0% may also be circumspect given the country's ebbing credit flows and diminished competitiveness—and as a result, it is unlikely that China will reclaim a growth trajectory similar to prior heights.

The greatest risks to global equity markets remain the issues emanating from the emerging markets. Deceleration in China and a building stock market bubble, recession in Brazil as it battles the spectre of inflation and stagnant growth, and deep recessionary woes plaguing Russia, are all factors of cumulative concern.

The economic situation in the Eurozone remains fragile after experiencing two recessions in a relatively short time frame. The region also remains mired in a series of new corporate-economic problems (i.e. Volkswagen crisis), as well as an influx of middle eastern refugees (i.e. Syria), terrorism (i.e. Paris), and polarizing politics as part of the overall thematic. Despite these challenges, financially the region is improving and the Eurozone has achieved consistent economic growth for over a year. Low commodity prices, historically stimulative (low) borrowing costs (i.e. European Central Bank policy), and a weak Euro are central tendencies supporting a positive economic outlook for the region.

OIL—The price of crude oil as measured by global WTI has been extraordinarily challenged, having collapsed over the past 18+ months due to several factors including; the multi-year surge in U.S. oil production from low cost shale regions in the country's mid north and south west, OPEC's reluctance and eventual abandonment of its swing producer role, decelerating emerging market oil related demand, and more recently, the on-streaming of oil production and distribution from Iran. But, ultra-low oil prices can't and won't last forever! With improving supply/demand economics, global demand for oil is improving and with this, price stabilization and gradual recovery will eventually follow.

SUMMARY OF KEY POINTS

- Expect higher market volatility though 2016
- Expect inflation to remain low
- Expect modest and measured monetary pressures for the Fed to hike further in 2016 but the Fed has the luxury to remain patient
- Expect credit spreads to continue to widen, particularly among lower grade and high yield securities (investors are demanding a higher credit risk premium)
- Expect credit spreads to widen more than any potential fall in short-term credit yields

PORTFOLIO POSITIONING

1. FOCUS on QUALITY
2. FOCUS on SAFETY
3. REMAIN WELL DIVERSIFIED
4. Favour equities versus fixed income
5. Underweight economically sensitive industry sectors
6. Overweight defensive sectors
7. Favour high quality government bonds over corporate credit
8. Favour IG credit over HY
9. Maintain duration LOW (≤ 3.0 years)

ASSET ALLOCATION — TACTICAL POSITIONING

Strategic asset mix addresses the blend of the major asset classes offering the risk/return trade-off best suited to an investor's profile. It can be considered to be the benchmark investment plan that anchors a portfolio through many business and investment cycles, independent of a near-term view of the prospects for the economy and related expectations for capital markets. Tactical asset allocation refers to fine tuning around the strategic setting in an effort to add value by taking advantage of shorter term fluctuations in markets.

Fixed Income	<i>Underweight</i>
Canadian Equities	<i>Neutral</i>
U.S. Equities	<i>Neutral</i>
International Equities	<i>Overweight</i>
Emerging Markets	<i>Underweight</i>

- Overweight equities versus fixed income
- Overweight exposure to U.S. and international equities
- Focus on quality and lower beta securities
- Focus on defensive equity sectors
- With volatility likely to be elevated, time entry points—buy on pullbacks

KEY ECONOMIC INDICATORS – CANADA



Event	Date	Consensus Est.	Prior
RBC Canadian Manufacturing PMI (Jan)	Feb 1	49.3 A	47.5
Bloomberg Nanos Confidence (Jan 29)	Feb 1	52.1 A	52.3
Int'l Merchandise Trade (Dec)	Feb 5	-\$2.22Bil	-\$1.99Bil
Unemployment Rate (Jan)	Feb 5	7.1%	7.1%
Net Change in Employment (Jan)	Feb 5	6.1k	22.8k
Participation Rate (Jan)	Feb 5	65.9%	65.9%
Housing Starts (Jan)	Feb 8	n/a	173.0k
New Housing Price Index YoY (Dec)	Feb 11	n/a	1.6%
Existing Home Sales MoM (Jan)	Feb 16	n/a	-0.6%
Manufacturing Sales MoM (Dec)	Feb 16	n/a	1.0%
Int'l Securities Transactions (Dec)	Feb 17	n/a	\$2.58Bil
Wholesale Trade Sales MoM (Dec)	Feb 18	n/a	1.8%
Retail Sales MoM (Dec)	Feb 19	n/a	1.7%
Retail Sales Ex Auto MoM (Dec)	Feb 19	n/a	1.1%
CPI YoY (Jan)	Feb 19	n/a	1.6%
CPI Core YoY (Jan)	Feb 19	n/a	1.9%
Industrial Product Price MoM (Jan)	Feb 29	n/a	-0.2%
Current Account Balance (Q4/2015)	Feb 29	n/a	-\$16.21Bil

A=actual; R=revised

Source: Bloomberg

KEY ECONOMIC INDICATORS – U.S.



Event	Date	Consensus Est.	Prior
Markit US Manufacturing PMI (Jan F)	Feb 1	52.6 (52.4 A)	52.7
Construction Spending MoM (Dec)	Feb 1	0.6% (0.1% A)	-0.4% (-0.6% R)
ISM Manufacturing (Jan)	Feb 1	48.4 (48.2 A)	48.2 (48.0 R)
Wards Domestic Vehicle Sales (Jan)	Feb 2	13.70Mil	13.46Mil
Wards Total Vehicle Sales (Jan)	Feb 2	17.30Mil	17.22Mil
Factory Orders (Dec)	Feb 4	-2.8%	-0.2%
Durable Goods Orders (Dec F)	Feb 4	-4.5%	-5.1%
Initial Jobless Claims (Jan 30)	Feb 4	277k	278k
Trade Balance (Dec)	Feb 5	-\$43.20Bil	-\$42.37Bil
Change in Nonfarm Payrolls (Jan)	Feb 5	190k	292k
Unemployment Rate (Jan)	Feb 5	5.0%	5.0%
Average Hourly Earnings YoY (Jan)	Feb 5	2.2%	2.5%
Labor Force Participation Rate (Jan)	Feb 5	n/a	62.6%
Consumer Credit (Dec)	Feb 5	\$16.00Bil	\$13.95Bil
Wholesale Inventories MoM (Dec)	Feb 9	-0.2%	-0.3%
Wholesale Trade Sales MoM (Dec)	Feb 9	n/a	-1.0%
Retail Sales Advance MoM (Jan)	Feb 12	0.1%	-0.1%
Retail Sales Ex Auto MoM (Jan)	Feb 12	0.1%	-0.1%
PPI Final Demand YoY (Jan)	Feb 17	n/a	-1.0%
PPI Ex Food and Energy YoY (Jan)	Feb 17	n/a	0.3%
Housing Starts (Jan)	Feb 17	n/a	1149k
Housing Starts MoM (Jan)	Feb 17	n/a	-2.5%
Building Permits (Jan)	Feb 17	n/a	1232k (1204k R)
Building Permits MoM (Jan)	Feb 17	n/a	-3.9% (-6.1% R)
Capacity Utilization (Jan)	Feb 17	n/a	76.5%
Philadelphia Fed Business Outlook (Feb)	Feb 18	n/a	-3.5
CPI YoY (Jan)	Feb 19	n/a	0.7%
CPI ex-Food & Energy YoY (Jan)	Feb 19	n/a	2.1%
Markit US Manufacturing PMI (Feb Prelim)	Feb 22	n/a	52.4
S&P/Case-Shiller US HPI YoY (Dec)	Feb 23	n/a	5.35%
Consumer Confidence Index (Feb)	Feb 23	n/a	98.1

Existing Home Sales (Jan)	Feb 23	n/a	5.46Mil
Existing Home Sales MoM (Jan)	Feb 23	n/a	14.7%
New Home Sales (Jan)	Feb 24	n/a	544k
New Home Sales MoM (Jan)	Feb 24	n/a	10.8%
Durable Goods Orders (Jan Prelim)	Feb 25	n/a	n/a
Durables Ex Transportation (Jan Prelim)	Feb 25	n/a	n/a
GDP Annualized QoQ (Q4 2015 S)	Feb 26	n/a	0.7%
Personal Income (Jan)	Feb 26	n/a	0.3%
Personal Spending (Jan)	Feb 26	n/a	0.0%
U. of Michigan Sentiment Index (Feb F)	Feb 26	n/a	n/a
Real Personal Spending (Jan)	Feb 26	n/a	0.1%

A=actual; R=revised

Source: Bloomberg

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