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Monthly Overview

As December 31 marked the end of Q4, this write-up takes a quarterly perspective on the markets and the economy.

Like us, there's a good chance you might have participated in a holiday party conversation or two about the merits of Bitcoin and the fantastic opportunities in marijuana stocks. These topics seemed to be all the rage this season, especially amongst those with very limited general investment knowledge. Crypto currencies and weed stocks aside, December was a mixed month for global equities, but it did mark the end of a very robust quarter for stock prices overall.

Canadian stocks, as measured by the S&P/TSX Composite, showed a 4.4% improvement during the period. The consumer staples and materials sectors posted gains in excess of 6% during Q4, while the ever narrow and ever volatile health care sector surged 47% on the quarter. This sector accounts for less than 1% of the index, but a pair of weed stocks - Canopy Growth Corp. and Aphria Inc. - were both higher by more than 150% in Q4, giving the sector plenty of juice. For the year, the S&P/TSX Composite was up 9.1%.

The S&P 500 closed the year with a 1.8% loss in December, but that failed to put much of a damper on the quarterly performance of the index, which charged higher by 7%. Top sectors for the quarter were consumer discretionary, technology and financials, which jumped 10.2%, 9.4% and 9%, respectively; on expectations surrounding tax reform south of the border. The broader index was up 13.5% for the full year.

International equities participated in the rally as well, as the MSCI EAFE leapt 4.7%. Asian markets were also very strong during the quarter, with the MSCI AC Asia benchmark posting a gain of 8.5%. Emerging markets stocks surged

7.7% in Q4 and ended 2017 higher by 28.1%, making the MSCI EM index the top performer of the broad-based benchmarks we follow.

Fixed income returns closed the year with a whimper, although quarterly numbers were in the black. The Canadian investment grade fund benchmark, as measured by the FTSE TMX Canada Universe Bond index, gained 2% in Q4, while the Barclays Global Aggregate Bond benchmark was up 1.4% over the same period. Total returns for these benchmarks for 2017 were 2.5% and 0.03%, respectively.

The loonie was marginally weaker versus the U.S. dollar during the fourth quarter, but 2017 was a strong year overall for our domestic currency as it ran up by more than 7% against the greenback. All figures are in CAD terms unless otherwise indicated.

The Bank of Canada elected to keep its benchmark rate unchanged at 1% during its two policy meetings during the year's final quarter. In the meantime, the U.S. Federal Reserve bumped its target rate to 1.50% in Q4, up from 1.25%.

We won't have the final tally for Canadian real GDP growth in Q4 for some time, but the measure was flat in October. Services-producing industries saw a 0.2% increase in output driven by healthy contributions from wholesale, retail and real estate, which offset declines in finance/insurance and administration support. Economists are looking for 2017 GDP growth to come in at about the 2% level.

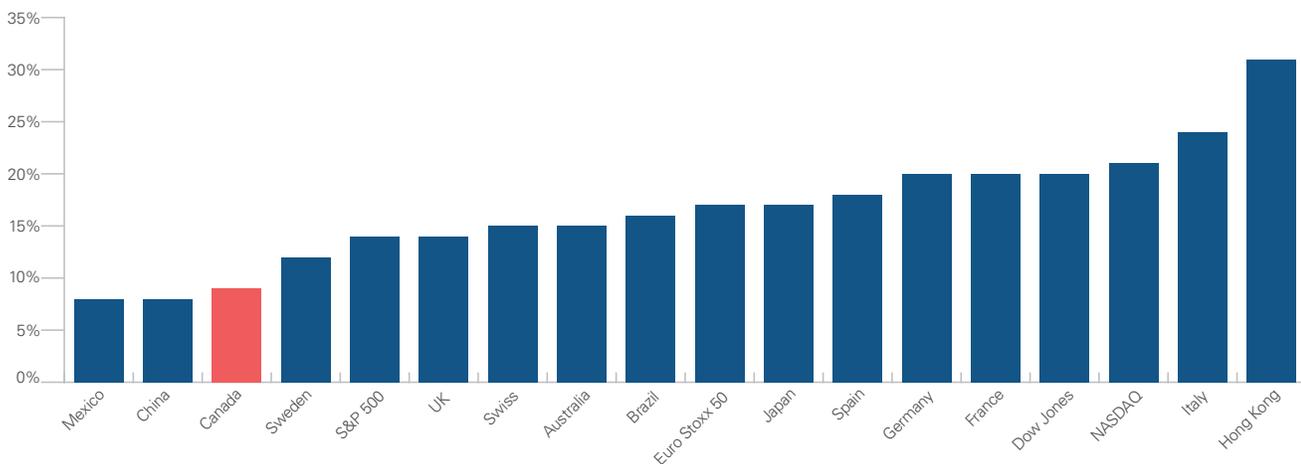
South of the border, the Bureau of Economic Analysis's latest estimate of Q3 GDP growth came in at 3.2%. Momentum seems to have carried over to Q4 based on various monthly reports. Real GDP is expected to have expanded an annualized 2.5% in the last quarter of the year.

Monthly Market Statistics

Data to December 31, 2017, unless otherwise indicated

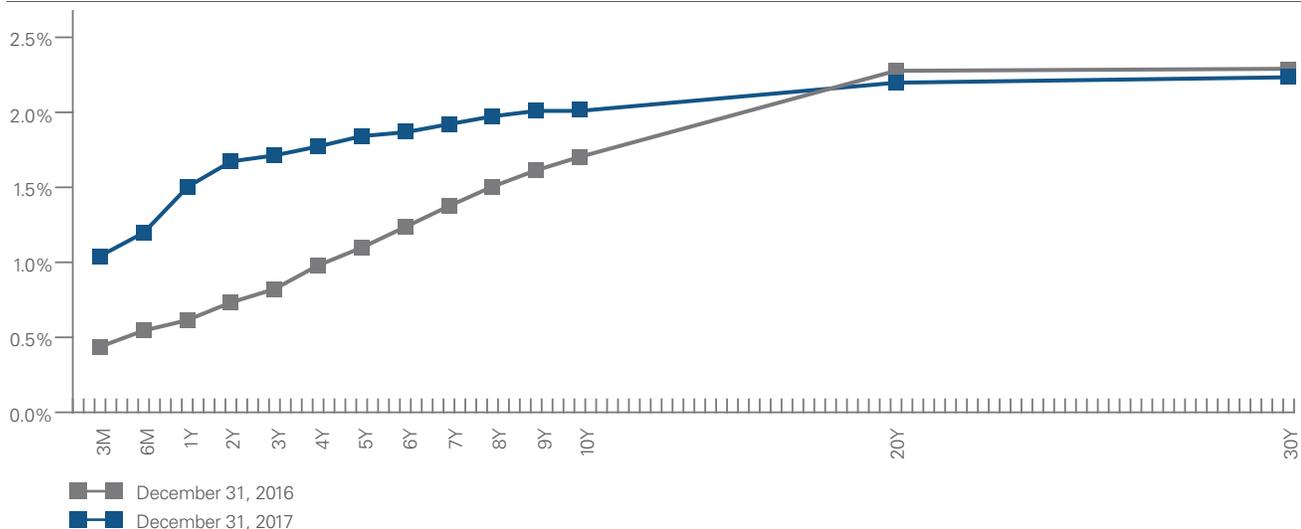
The composition of the Canadian stock market, as represented by the S&P/TSX Composite index, is fairly distorted in that 54% of the benchmark consists of financial services and energy stocks. Only 21% of the S&P 500 index is in those two sectors. Health care, technology and consumer stocks are massively underrepresented, and this is one of the reasons we've always been advocates of allocating a substantial portion of the equity component of client portfolios to foreign stocks. Not only can doing so provide better exposure to those underrepresented sectors, it can help to drive returns. 2017 was a period in which investing abroad would have paid off. While the performance of the Canadian market on the year was decent, it pales in comparison to what was achieved elsewhere.

2017 Equity Index Returns (% in CAD)



Source: Bloomberg

Canadian Sovereign Yield Curve



Source: Bloomberg

Monthly Market Statistics

Data to December 31, 2017, unless otherwise indicated

Equity Index Returns (% in CAD)

Index	1 Mo	3 Mo	6 Mo	YTD	1Yr	3Yr	5Yr	3Yr Std Dev
S&P/TSX Composite	1.2	4.4	8.3	9.1	9.1	6.6	8.6	7.4
S&P/TSX Small Cap	2.6	4.7	7.1	2.6	2.6	7.2	5.3	13.9
S&P 500	-1.8	7.0	7.4	13.5	13.5	14.3	21.3	10.0
MSCI EAFE	-1.3	4.7	6.1	17.1	17.1	11.2	13.6	12.0
MSCI World	-1.6	6.0	6.9	14.7	14.7	12.7	17.6	10.4
MSCI World Small Cap	-1.4	5.7	8.0	15.0	15.0	15.0	19.3	11.0
MSCI Europe	-1.0	2.9	5.1	17.6	17.6	10.1	13.1	13.0
MSCI EM	0.5	7.7	11.8	28.1	28.1	12.2	9.6	15.5
MSCI AC Asia	-0.9	8.5	9.8	23.1	23.1	14.0	14.3	12.9

Source: Bloomberg

Fixed Income Returns (% in CAD)

Index	1 Mo	3 Mo	6 Mo	YTD	1Yr	3Yr	5Yr	3Yr Std Dev
FTSE TMX Canada Universe Bond	-0.4	2.0	0.2	2.5	2.5	2.6	3.0	4.3
Barclays Global Agg	-2.6	1.4	-0.8	0.0	0.0	4.6	5.5	4.9
Barclays High Yield Very Liquid Index	-2.7	0.5	-1.7	-0.8	-0.8	8.0	9.6	6.0

Source: Bloomberg

Commodity Prices (Prices and Returns in USD)

Cross	12/29/2017 Price (\$)	MoM Change (%)	YoY Change (%)
WTI Crude Oil/BBL	60.42	5.3	12.5
Natural Gas/mmBTU	2.95	-2.4	-20.7
Copper/pound	3.30	8.7	31.7
Silver/oz	17.15	4.7	7.2
Gold/oz	1309.30	2.8	13.7

Source: Bloomberg

Economic Data

Canada	
Real GDP - Q3 (q/q ann. % change)	1.7
Consumer Prices (y/y % change)	2.1
Unemployment Rate, Nov '17	5.9
United States	
Real GDP - Q3 (q/q ann. % change)	3.2
Consumer Prices (y/y % change)	2.2
Unemployment Rate, Oct '17	4.1

Source: Bloomberg, Stats Canada

One Month Sector Returns (% in CAD)

Sector	S&P/TSX Composite 1M returns	S&P 500 1M returns
Consumer Discretionary	-0.5	-0.6
Consumer Staples	0.0	-0.7
Energy	1.1	1.8
Financials	0.7	-1.0
Health Care	24.2	-3.5
Industrials	2.3	-1.1
Info Tech	0.4	-2.9
Materials	3.6	-1.0
Real Estate	0.9	-3.4
Telecom Services	-1.1	2.7
Utilities	-0.9	-8.9

Source: Bloomberg

Exchange Rates

Cross	12/29/2017	6 Mos Ago	1Yr Ago
USD/CAD	1.26	1.30	1.34
EUR/CAD	1.51	1.48	1.41
GBP/CAD	1.70	1.69	1.66
CAD/JPY	89.66	86.71	87.01

Source: Bloomberg

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