## *Commentary for the First Quarter of 2018*

**The volatility returns**

After a smooth January, market volatility returned in early February. This was largely driven by inflation fears and concern that central banks would accelerate their pace of interest rate hikes as rising yields indirectly lowered equity valuations. As yields rise, the tradeoff between a risky equity return and a risk-free return becomes smaller, therefore investors seek higher potential equity returns in compensation for the higher risk. Volatility continued in March as U.S. protectionist actions against China and steel/aluminum exporters rocked global markets. Markets also suffered from the FANG (Facebook, Amazon, Netflix and Google) stock pullback. FANG stocks were ripe for a correction given that collectively they've outperformed the overall U.S. market significantly for the past 24 months leading into the present equity market correction, coming off of all-time highs. The fact that they have corrected significantly is solely due to the political narrative around data abuse (Facebook), and tax (Amazon). Their business models remain intact, but given the previously lofty expectations for these companies, the dark cloud around them is putting downward pressure on their stock prices.

**Growth Portfolios – continued international tilt**

Despite the recent volatility, we are still seeing synchronized global growth, and we believe equities are the best way to leverage that growth. We continue to view U.S. and international markets as offering better risk-adjusted opportunities, and our growth portfolios maintain a tilt towards international equities while remaining underweight Canada.

**Income Portfolios – yield from varied sources**

Bond yields continue to be a concern for fixed income investors. Yields above 3% may start to look attractive as an alternative to dividend stocks. We're not quite there yet with U.S. 10-year yields at 2.77%, and Canadian 10-year bond yields at 2.13%. We continue to favour high yield (HY) and global bonds over domestic investment grade bonds due to interest rate risk in the latter. HY bonds have shorter duration and wider credit spreads, and their performance is more closely tied to the performance of the underlying companies. The downside to HY and our global bond exposure is that they are more sensitive to investor sentiment. Our Core Plus fixed income strategy provides income from varied sources, lessens interest rate risk in investors' portfolios and provides a reliable, sustainable income stream.

**Balanced Portfolios – upside participation with a premium on downside protection**

Our balanced portfolios reflect our belief that investors can continue to benefit from globally focused portfolios with built-in risk mitigation elements. The equity components of our balanced portfolios leverage our overweight allocation to international and emerging market equities, and an underweight to Canadian equities. The income components of our balanced portfolios benefit from our Core Plus fixed income strategy. This combination provides upside participation in global equity markets, with the downside protection associated with fixed income investing – both enhanced by risk mitigation strategies.

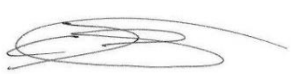
## Outlook

Despite recent volatility, the global economy continues to march along and is not suffering from economic imbalances seen in previous economic cycles. In particular, the U.S. has not leveraged itself as in previous cycles and, as a result, consumer and corporate cash flow is strong and rising. We are carefully watching the U.S. Federal Reserve and other central banks as they face the difficult task of raising rates without triggering a sharp downturn given the impact of rate hikes on the economy. We are still seeing synchronized global growth and the Counsel Portfolios remain globally tilted. We are also maintaining our tilt toward equities, however it is important to note that our quantitative risk mitigation strategies are designed to gradually step out of equities when market signals indicate measurable downward trends. In fact, these strategies have begun to make incremental moves to safety. We must also keep in mind that this type of market volatility is actually normal and long overdue – the return to normalcy will help to curb stretched market valuations, especially in the U.S.

We believe the Bank of Canada was prudent to keep rates at 1.25%, and we may see a hold on any further increases until we have more clarity around trade policy with the U.S. This uncertainty has led to a weakening Canadian dollar and we have decreased our active currency hedge to 25% exposure to U.S. dollars.

Together with our investment specialists, we continue to manage the risks relative to the expected returns for each of our portfolios. Our primary focus is to reduce the impact of market downturns. As always, we encourage you to follow a sound financial plan, and to speak with your Advisor to ensure you are on track to meeting your investment objectives.

Sincerely,



Corrado Tiralongo,
Chief Investment Officer

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