Commentary for the Fourth Quarter of 2017

Markets end the year on a high note

Equity markets around the world recorded another quarter of positive returns led by the S&P 500 Index, which was up 6.84% over the quarter. Equities in the U.S. were particularly buoyed by improved economic growth and strong investor sentiment regarding the tax cuts passed by the U.S. Congress. The S&P/TSX Composite Index was up 4.45% over the quarter despite the Energy sector continuing to lag the rest of the market. EAFE markets (Europe, Australasia and Far East) did well in Q4, ending the quarter up 4.46% led by Japan and Europe. The Federal Reserve increased rates in December as expected, while the Bank of Canada held steady, which helped Canadian bonds – the FTSE/TMX Universe Index was up 2.02% for the quarter.

Equity focus – continued tilt towards international

We continue to view U.S. and International markets, especially emerging markets, as offering better risk-adjusted opportunities. The Counsel portfolios continue to benefit from our tilt toward international equities and away from Canada. Although domestic equities do allow Canadian investors to hold familiar companies, benefit from preferential tax treatment, and eliminate foreign currency risk, Canada's stock market is very narrow by global standards, with significant concentration in the Materials, Energy and Financial sectors. As global markets become more integrated and home bias less relevant, we've ensured the Counsel portfolios reflect the opportunities that are available globally. This continued shift towards international equities has provided the benefit of higher returns found in international and emerging markets, while minimizing exposure to the weaker returns experienced in Canadian markets.

Fixed income focus – finding yield globally

Bond yields are still an area of concern for fixed income investors. With Canadian 10-year yields at 2.05% and U.S. 10-year yields at 2.35%, it can be difficult to find higher-yielding fixed income securities without adding substantial risk. Similar to our global equity focus in the Counsel portfolios, we have augmented our core Canadian fixed income holdings with significant weightings in global and, to a lesser extent, high-yield fixed income securities. This diversification, or "core plus" strategy, has allowed our fixed income components to consistently outperform the Canadian bond index. Investment structures designed to provide yield often have risks that are difficult to identify, so it is important to note that all Counsel income portfolios provided higher total risk adjusted return and income as compared to Canadian and U.S. Government 10 year bonds – this is a testament to the effectiveness of our core plus fixed income strategy.

Benefits of a balanced portfolio

Our balanced portfolios, including the Counsel Balanced Portfolio, benefited from a combination of our core plus fixed income strategy and our global equity focus, providing our investors with valuable asset class diversification. In this way, our balanced portfolios offer the best of both worlds.

Outlook
Looking ahead, we believe the positive trend will continue over the next few quarters provided growth rates remain steady. Markets would be vulnerable to a correction if growth accelerates too quickly and drives up valuations to unsustainable levels. In our view, the economy is likely to continue to grow at a moderate pace and central banks are likely to continue along a path of gradual interest rate increases. In this environment, equities are likely to continue to outperform fixed income and we are maintaining our tilt toward equities. With that said, we continue to look for opportunities to further mitigate risk in our portfolios where necessary.

As we enter the first quarter of 2018, it is important to remember that even during positive times your best bet is to stick to a long-term financial plan. Good professional advice and a well-diversified portfolio are your keys to realizing your financial goals. Speak with your Advisor to ensure you are on track to meeting your investment objectives.

Sincerely,

Corrado Tiralongo,
Chief Investment Officer