2017 Capital Market Outlook

Executive Summary

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Entering a new phase

The world economy and financial markets are entering a new phase. The negative impact of issues (such as weak economic growth, deflation/low inflation, severe currency adjustments, commodity price free-fall, and monetary policy experiments) that have weighed on capital markets in the recent past are beginning to abate. The world is now entering a period where modest global growth and modest inflation can lead to a normalization of yields and modest results for equity markets. To be clear, the world is not out of the woods entirely and we don't expect things to be spectacular, but the fact that these issues are improving rather than worsening, marks an important inflection. Our asset mix recommendation favours equities over fixed income.

KEY TAKEAWAYS

- We expect modest improvement in global GDP growth.
- We see US economic growth leading with marginal improvement from Europe, Canada and Emerging Markets.
- We expect 2017 will see the MSCI World, S&P 500 and S&P/TSX Composite Indices string together back-to-back positive years.
- For 2017, we expect Canadian equities to realize total returns in the neighborhood of 10%, while we expect US equities to finish the year within a percent or two of a 7% total return. The divergence between sector results is likely to be large, providing greater opportunity for active managers versus a passive management approach.
- We hold a positive outlook for equities in Europe and the Emerging Markets, but a negative outlook for Japanese equities.
- Fixed Income will struggle to manage a positive return in 2017. We expect the total return to be flat, but if the yield curve were to shift up by much more than a half percent, we expect to see returns from the FTSE/TMX Canadian Bond Universe turning negative.
- High quality fixed income securities have the ability to offset bouts of equity market weakness regardless of the underlying trend or the absolute level of yields.
- Our forecast for the Canadian dollar is to trade in the low 70¢ range in 2017.
- We expect oil to reach an average WTI price of US$53/bbl over the course of 2017, beginning below that level and ending the year above.

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Summary Outlook

GLC ASSET MANAGEMENT GROUP

Fixed Income

*Since June 2016

	Weight: Under	Weight: Neutral	Weight: Over	Change in view*
We expect the total return to be flat. Investors face a sideways market as slowly rising (normalizing) yields grind against the time required for higher coupons to make a positive contribution. Active management to navigate the yield curve and pick-up additional yield through credit instruments (provincials, investment grade and high yield) does provide the opportunity for a slight positive gross return, but likely sub 1%.	○ ○ ●	○ ○ ○	○ ○ ○	=
Government Bonds With low and rising yields, government bonds offer little upside. Government bonds maintain their usefulness within a portfolio as an important risk mitigation tool.	○ ○ ●	○ ○ ○	○ ○ ○	=
Investment Grade Corporate Bonds We expect investment grade corporate bonds to outperform governments. Spreads have some limited room for further tightening. Their generally shorter duration and higher running yield is a benefit in a rising rate environment.	○ ○ ○	● ○ ○	○ ○ ○	▼
High-Yield Corporate Bonds High yield spreads have moved down, there is some limited room for further tightening. The higher running yield and correlation to equity markets make them suitable for a portion of more risk tolerant portfolios.	○ ○ ○	● ○ ○	○ ○ ○	=

Equity

	Weight: Under	Weight: Neutral	Weight: Over	Change in view*
We maintain our overweight in equities. Rising global GDP and inflation favour equities over bonds. We see improving fundamental trends in most global economies. Valuations are manageable.	○ ○ ○	○ ○ ○	● ○ ○	=
Canadian Equity Canada is our favoured market due to its greater sector leverage to global growth and recovering commodity prices. Canada's valuations are more justifiable, given the greater cyclical nature of our market.	○ ○ ○	○ ○ ○	● ○ ○	=
US Equity The outlook for US equities is positive, with a great deal of uncertainty due to potential policy changes. Fortunately, we assess the risk to be skewed to the upside versus the downside on potential policy impacts. Valuations are slightly elevated and the divergence between sector results is likely to be large.	○ ○ ○	○ ○ ●	○ ○ ○	▲
European Equities European equities remain near 2½ year lows. Valuations are more attractive than in North America, with similar positive earnings growth expectations. The degree of uncertainty is high, but so is the potential upside should we see even small positive surprises.	○ ○ ○	○ ○ ●	○ ○ ○	▲
Emerging Markets The recovery for emerging markets has further to go on firmer global growth and commodity prices. The recent pullback sets up an opportunity for a solid positive return, respecting that this asset class by nature is complex and for the risk tolerant investor.	○ ○ ○	○ ● ○	○ ○ ○	▲