Spring 2018

Our *Playbook* is designed to share our quarterly views in a visual presentation with comments providing context to what we believe are the pertinent issues of the most recent quarter and what we see moving forward.

Capital Market Returns

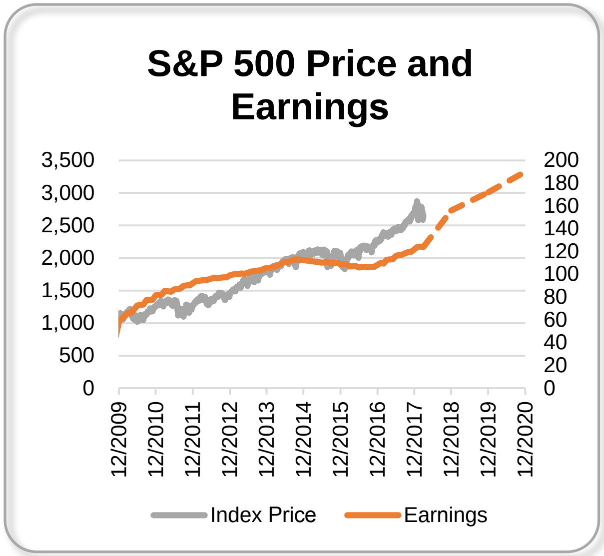
- *Equity markets showed they don’t always go up.*
- *Bond market reflects inflation fears.*

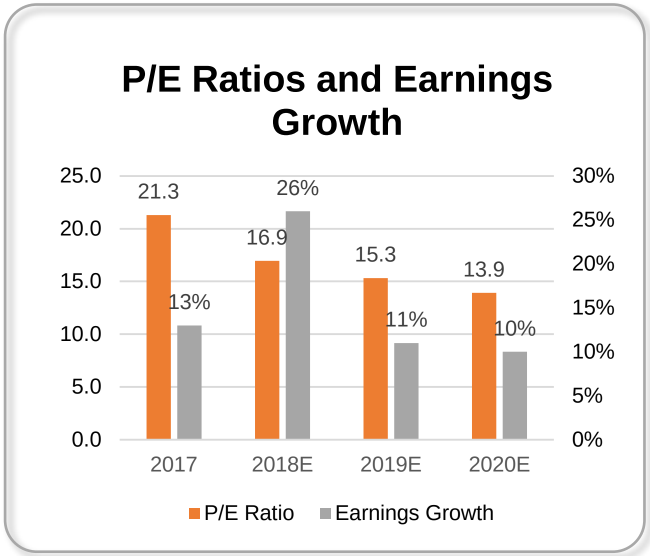
	2018 Q1 Return (%)	1-Year Return (%)
U.S. Large Cap Equities	(0.8)	14.0
U.S. Mid Cap Equities	(0.8)	11.0
U.S. Small Cap Equities	0.6	12.7
International Large Cap Equities	(1.5)	14.8
Emerging Market Equities	1.4	24.9
Canadian Equities	(4.7)	1.0
Global REITs	(5.5)	0.9
U.S. Gov’t/Credit 1-5 Year	(0.5)	0.2
U.S. Gov’t/Credit 5-10 Year	(1.9)	0.7
U.S. High Yield	(0.9)	3.8
Emerging Market Debt	(1.5)	3.2
Canadian Aggregate Bond	(0.0)	2.2

*All indexes used are total return index. Q1 return represents indices return from December 31, 2017 to March 31, 2018. 1-Year Return represents indices return from March 31, 2017 to March 31, 2018. Indices used as followed: U.S. Large Cap Equities – S&P 500 Total Return Index, U.S. Mid Cap Equities – S&P 400 Total Return Index, U.S. Small Cap Equities – S*P 600 Index, International Large Cap Equities – MSCI EAFE Net Total Return USD Index, Emerging Market Equities – MSCI EM Net Total Return USD Index, Canadian Equities – S&P/TSX Composite Net Total Return Index, Global REITs – S&P Global REIT USD Total Return Index, U.S. Govt/Credit 1-5 Year – Bloomberg Barclays U.S. Government/Credit 1-5 Year Total Return Index, U.S. Govt/Credit 5-10 Year – Bloomberg Barclays U.S. Government/Credit 5-10 Year Total Return Index, U.S. High Yield Bond – Bloomberg Barclays U.S. Corporate High Yield Total Return Index, Emerging Market Debt – Bloomberg Barclays Emerging Market USD Aggregate Total Return Index, Canadian Aggregate Bond – Bloomberg Barclays Canadian Aggregate Total Return Index.*

Fundamentals Strong, but Investors Jittery

- *Stock market supported by strong economic fundamentals, increasing revenues and earnings growth. U.S. earnings forecasted to rise 26% year-over-year in 2018, over half due to U.S. corporate tax cuts.*
- *Valuations continue to look reasonable one to two years forward.*
- *Corporations, pre-tax benefits, holding record cash: $2.39 trillion (excluding financials), up from $2.2 trillion in 2016 and $1.75 trillion in 2010.*
- *Inflation scare in February caused sharp sell-off as investors worried about possible spike in interest rates. After rebound March saw increased investor concerns over trade tariffs, rising interest rates and tech sector growth.*
- *Tension between strong economic fundamentals and investor concerns likely to continue through the second and third quarter of this year.*

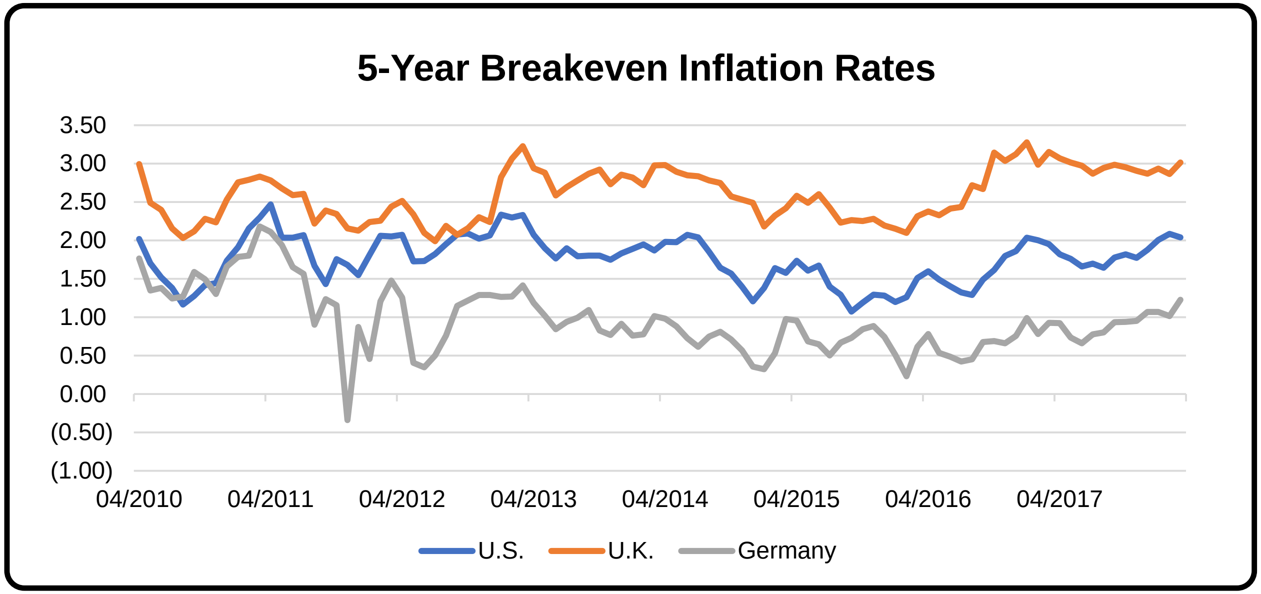




Source: Bloomberg. Earnings represents trailing 12 month earnings of the index. P/E ratio represents P/E ratio based on index level of March 29, 2018, realized earnings for 2017, and Bloomberg Estimated earnings for 2018 – 2020..

U.S. Inflation Expectations in Focus but Little-Changed

- *Long-term inflation expectations implied by world government bond markets remain subdued.*
- *The U.S. 5-Year Treasury-Inflation Protected Security (TIPS) breakeven rate, which represents long-term inflation expectations, is currently 2.04%, which is very close to the Federal Reserve Bank target inflation rate of 2.0%.*
- *Likewise 5-Year breakeven inflation rates are 1.75% for Canada, 1.2% - 1.3% for major European countries, with U.K. as the outlier of 3.01%.*
- *If inflation expectations increase significantly, bond yields could move up causing additional risk to equity and bond markets. However, at the present time, macroeconomic risks look balanced and sharp increases appear unlikely.*

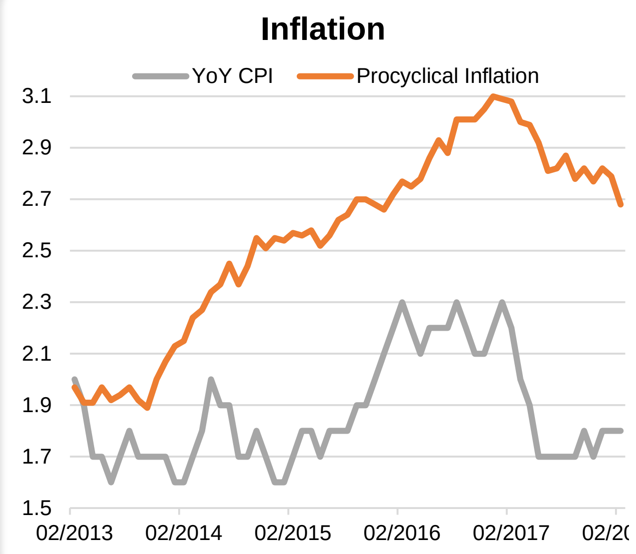


Source: Bloomberg. Major European countries' 5-Year breakeven inflation includes Germany at 1.23%, Italy at 1.24, and France at 1.24

Inflation: A Deeper Dive

- *Along with an increase in the labor supply, declining procyclical inflation may be one reason that recent headline inflation (CPI) and long-term inflation expectations remain subdued.*
- *Low unemployment rates in the U.S. have traditionally coincided with higher wages in Procyclical sectors (construction, manufacturing, and restaurants) as demand for labor outstrips supply. Recently, wage growth has actually declined in these sectors, which have increasingly used part-time employees who receive fewer benefits.*

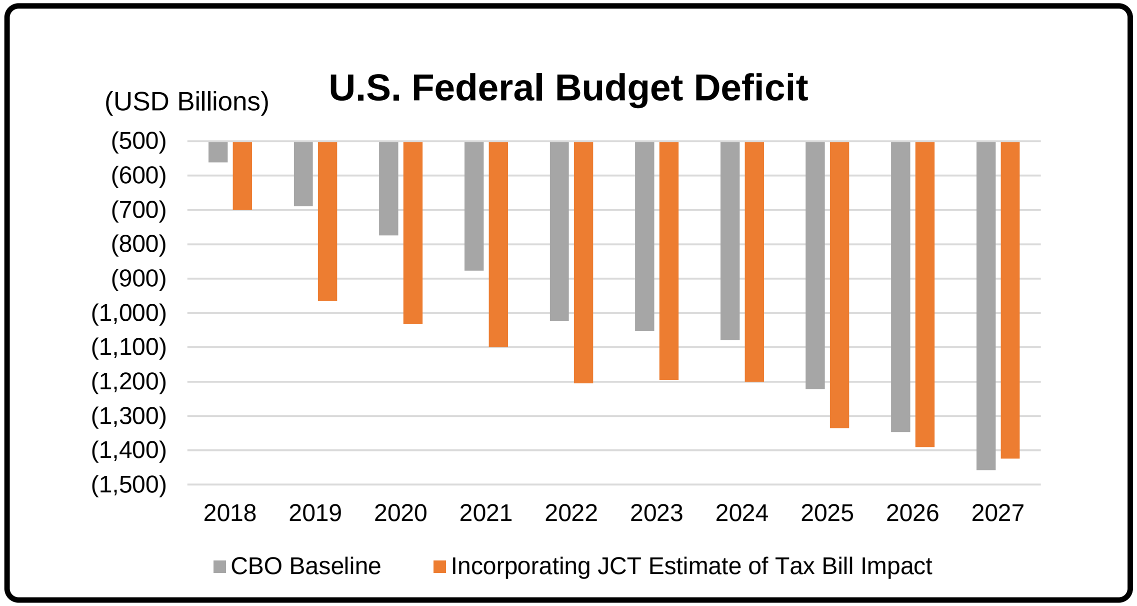
Procyclical (42%)	**Acyclical (58%)**
Housing	Health-Care Services
Recreational Services	Financial Services
Food Services	Clothing
Nondurable Goods	Transportation



Source: Bloomberg and Federal Reserve Bank of San Francisco..

Tax Cuts Increase U.S. Budget Deficit

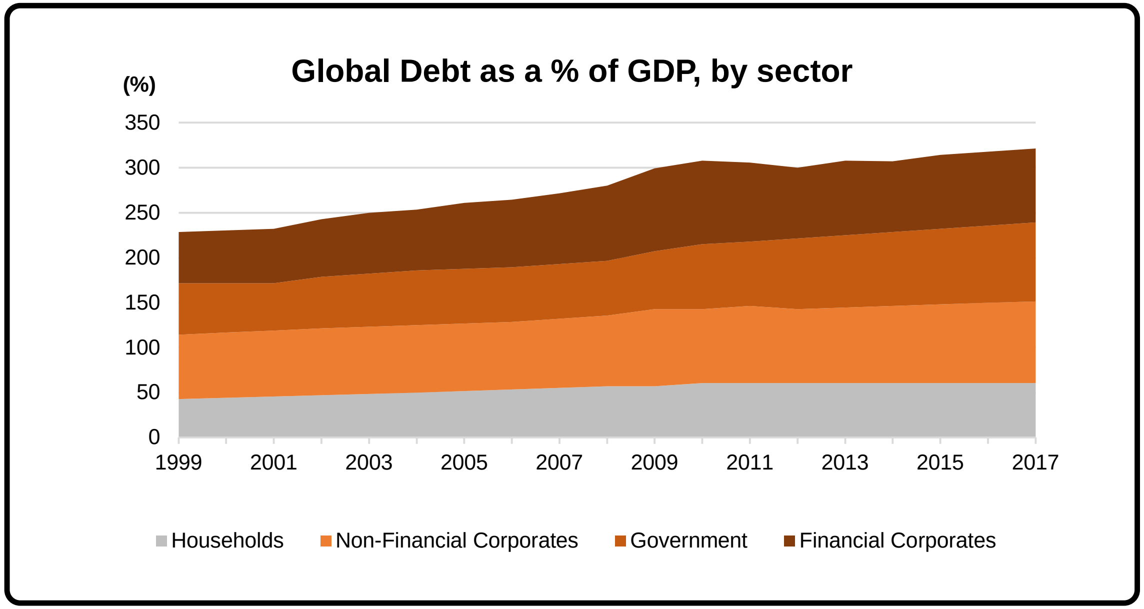
- *While recent U.S. tax cuts provide a significant boost to corporate earnings, it reduces Federal tax revenue, thereby increasing the annual Federal Budget deficit to over $1 trillion by 2020 and over $1.4 trillion in 2027.*
- *Tax reforms are unlikely to survive a party change in the White House and Congress and may be reversed in the future as the U.S. fiscal position deteriorates and the urgency to confront large shortfalls in Social Security and Medicare funding rises.*
- *Increasing budget deficit requires higher treasury bond issuance, which may continue to put upward pressure on government bond yields. Various forecasts estimate that U.S. National Debt will exceed 100% of U.S. GDP by 2021.*



Source: Congressional Budget Office (CBO); Joint Committee on Taxation (JCT); Bloomberg Economics

Global Debt Rising

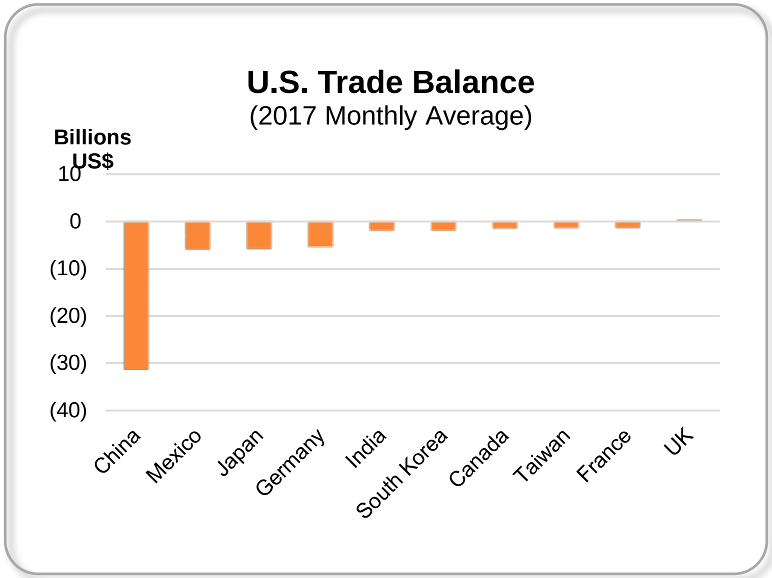
- *Global debt as a percent of GDP has continued to grow following the financial crisis of 2007-2008.*
- *Massive Quantitative Easing programs by central banks in the U.S., Europe, and Japan have resulted in government bond buying, bloating central bank balance sheets while providing monetary stimulus to the global economy.*
- *Low interest rates and tight credit spreads have encouraged companies to borrow and leverage balance sheets to increase corporate earnings. Over the last five years, households have shown the most discipline.*
- *Increased global debt makes it likely that interest rates will not rise to historic highs because GDP is more sensitive than ever to a rise in interest rates. While rates may increase, they probably won't go very high.*

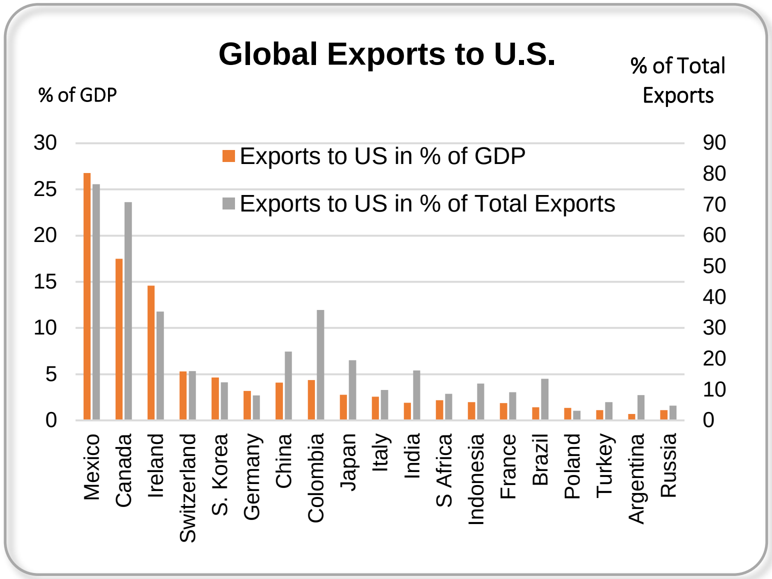


Source: Institute of International Finance, and Financial Times.

Tariffs Reflect More Aggressive U.S. Trade Posture

- *China's 2025 plan articulates a plan to "dominate every single emerging industry of the future" including artificial intelligence, robotics, quantum computing and others.*
- *China currently runs a trade surplus of approximately $300 billion per year with the U.S. and U.S. officials have expressed a desire to reduce this amount by approximately $100 billion.*
- *Intellectual property rights and foreign ownership restrictions are foremost in the trade negotiations. While we feel the U.S. will likely have some success in the reducing its trade deficit with China, it is unlikely to meaningfully change the balance of trade between the two countries in the short-term.*
- *The U.S. receives 65-75% of total exports from Canada and Mexico each year. Although China has the largest trade surplus with the U.S. of any country, the U.S. receives about 25% of total Chinese exports, representing less than 5% of Chinese GDP. In 2017, exports are only 20% of China's GDP.*





Source: United States Census Bureau and Bloomberg. Calculated based on 2017 annual data. Global sectors with the largest exposure to U.S. demand include European pharmaceuticals, biotech and health care equipment, Asian semiconductors, Japanese Autos, British capital goods, energy and consumer services. Global sectors with the smallest exposures to U.S. demand include real estate, retail, utilities, banks, food & stables, and telecoms.

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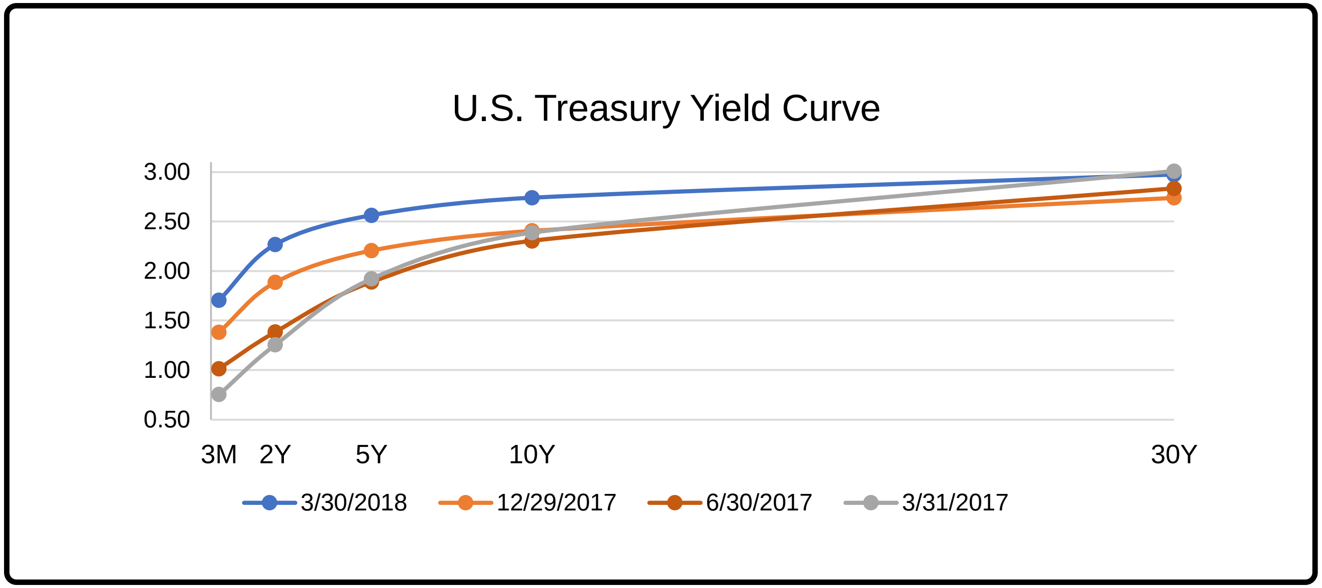
Steep Rise in Rates

- *High upward swings in short rates, causing a drop in short bond values.*
- *T-bills rose nearly 100 bps in the last year and 32 bps in Q1, while the 2-Year bond rose 100 bps over the last 12 months and 38 bps in Q1.*
- *The 10-Year bond rose modestly, indicating little fear of inflation.*



Source: Bloomberg. Based on treasury yield of 3-month, 2-year, 5-year, 10-year, and 30-year bond of specified dates.

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April 19, 2018