



# QUARTERLY INVESTMENT REVIEW

September 30, 2017

# Economic Commentary

Third Quarter 2017

## BOC On The Rise

The Bank of Canada raised interest rates by 25 b.p. at each of its two meetings during the third quarter. The rate hike in early July was expected by the markets, however, the subsequent move in September caught a few investors off-guard as many felt the next move would not occur until October. The Canadian dollar rallied dramatically on the back of these moves and touched a high of 1.21 in early September. However, follow-up comments by the BOC indicated that there is no predetermined path for interest rates and that future moves would be very much data dependent. The BOC also mentioned that they would keep an eye on the level of the Canadian dollar, given the impressive strength that the dollar has shown this year. The dollar retreated at the end of the quarter on these dovish comments by the BOC.

## Canadian Economy Leading the Pack

The Canadian economy expanded at a 4.5% annual rate in the second quarter following a 3.7% pace in the first quarter, making it the fastest growing economy in the G7. This represents the fastest growth rate to start the year in Canada since 2002. The Canadian consumer led the way, fueled by low interest rates and a strong job market. Economic growth is expected to subside over the balance of the year due to the impact of higher interest rates as well as a slowdown in the Toronto housing market.

## Fed Cautiously Moving Forward

After raising interest rates twice during the first half of the year, the U.S. Federal Reserve remained on hold during the third quarter. Fed Chair Janet Yellen cautioned that interest rate hikes would continue. Lower-than-expected inflation, however, continues to be the main catalyst that could prevent the Fed from raising rates over the near-term.

The Fed did announce in September that it would begin shrinking its \$4.5 trillion balance sheet.

## Equity Markets Nearing Record Highs

The low interest rate environment has helped fuel equity markets to record highs. Despite equity valuations that appeared stretched, most global markets continue to move higher. However, interest rates have begun to rise as the yield on the ten-year Government of Canada bond has increased from a low of 0.95% one year ago, to 2.10% at the end of the quarter. Major global central banks are now shifting away from stimulative monetary policies, which could impact equity markets going forward.

Geopolitical and catastrophic headline risks have increased over the past year. Election results in several countries have resulted in a change of the status quo, which has led to a great deal of uncertainty with regard to future policies. In addition, many natural catastrophic events have occurred, including several hurricanes and earthquakes, which will significantly impact future economic growth. Despite the high level of uncertainty and risks in the market, volatility indices are at historic lows.

## Key Metrics

Indicator	Value	Chg Q3	Chg 1Y
S&P/TSX Composite	15,634.94	3.7%	9.2%
S&P 500 (USD)	2,519.36	4.5%	18.6%
MSCI EAFE (USD)	1,973.81	5.5%	19.7%
FTSE TMX Universe Bond Index	1,016.28	-1.8%	-3.0%
USD/CAD	\$0.80	4.0%	5.3%
WTI Crude (\$/bl)	\$51.67	10.5%	-1.3%
GoC 10Y Bond	2.10%	+33.7 bp	+110.3 bp
GoC Deposit Rate	1.00%	+50 bp	+50 bp
Cdn CPI YoY	1.4%	0.4%	0.1%
US 10Y Treasury	2.33%	+2.9 bp	+73.9 bp
Fed Funds Rate	1.25%	0	+75 bp
USD CPI YoY	1.9%	0.3%	0.4%

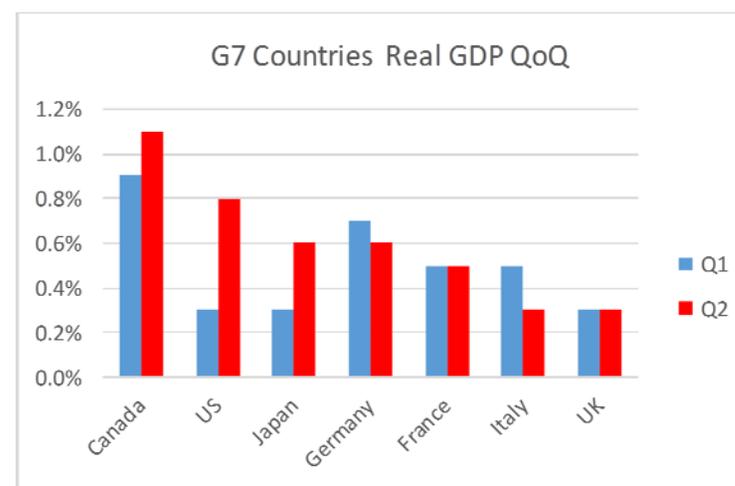
## Top Themes

Canada's economy firing on all cylinders

US Fed cautious on path to normalization

Record high equity markets ; record low volatility

## Top Chart: Canada Leads G7 Economies



Source: Bloomberg, Lincluden

# Portfolio Highlights

Q3 2017

## TOTAL EQUITIES

Ticker	Security	Sector	Commentary
BDT	Bird Construction Inc.	Industrials	Bird reported results that were near consensus. More importantly the company outlined that it expects earnings in the second half of the year would compare favourably with the prior year, and better than the street had been expecting.
CNQ	CANADIAN NATURAL RESOURCES	Energy	The shares rallied on the back of higher oil prices.
CVE	CENOVUS ENERGY INC.	Energy	Cenovus rebounded strongly partly due to rising oil prices but also because the shares regained some of its losses after being severely punished for its transformational acquisition of assets in March. As it makes progress on its plan to sell non-core assets to pay down debt, tracking our projected path to balance sheet repair, sentiment towards the stock has improved but it continues to trade below net asset value.
HCG	HOME CAPITAL GROUP	Financials	Following the announcement that Warren Buffett's Berkshire Hathaway was purchasing 20% of Home Capital, the shares ran up to almost \$20. At this point some sell-side firms reduced their price target on Home Capital due to share price appreciation. This resulted in a sell-off of the stock and a weaker quarter.
SLF	SUN LIFE FINANCIAL INC	Financials	The shares performed well on the back of strong quarterly results that exceeded expectations.
SU	SUNCOR ENERGY INC.	Energy	The shares rallied on the back of higher oil prices. Also helping the stock price was that the company left its production guidance unchanged for the year and the stock was also upgraded by some investment banks.
TD	TD BANK	Financials	The shares performed well on the back of strong quarterly results that exceeded expectations.
TECK/B	TECK RESOURCES - CL B	Materials	In the prior quarter, Teck's stock had corrected, falling from recent highs. Many viewed this as an over-correction and a potential buying opportunity. Also following many quarters of debt reduction, Teck's debt rating is approaching investment grade again. Lastly, results from the second quarter were better than expected fueled by a higher realized coking coal price.
ARYN VX	ARYZTA AG	Consumer Staples	The shares declined as its earnings results came in below expectations. Guidance for next year was reduced on lower volumes. The company recently hired a new CEO and CFO, which we believe should help address its operating issues. The valuation is attractive for a company that generates solid free cash flow. Asset sales are expected to help de-lever the balance sheet, which should provide a positive catalyst.

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Q3 2017

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Ticker	Security	Sector	Commentary
BBBY	BED BATH & BEYOND	Consumer Discretionary	The stock detracted from the performance as it reported disappointing results that included a cut to their forward guidance that was below expectations. Sales trends continue to be negative in-store while their online channel is showing solid growth. The company continues to make investments to grow its omni-channel capabilities, further impacting its operating results. Sentiment in the shares is low and the operating trends are weak, however the company continues to generate positive free cash flow and is buying back their stock. Valuation is very attractive and we believe there is upside once the company's investments come to fruition.
CVX	CHEVRON CORP	Energy	The shares increased on the back of higher oil prices. The company also had good quarterly results with the downstream division performing well. Chevron also achieved higher production volumes.
C	CITIGROUP INC	Financials	The stock had a positive performance as it's quarterly results exceeded expectations with lower credit losses and a healthy capital position. The company also held an investor day which provided for encouraging profitability targets out to 2020.
RDS/A	ROYAL DUTCH SHELL ADR 'A' SHS	Energy	The shares increased on the back of higher oil prices. The company also had good quarterly results with the downstream division performing well. Royal Dutch Shell also achieved higher production volumes. Free cash flow was strong again and asset dispositions remain on track, both helping to de-lever the balance sheet.
TEVA	TEVA PHARMACEUTICAL ADR	Health Care	The position was sold following the disappointing Q2 results that also featured a dividend cut and lowered guidance. We became increasingly concerned about the strain being placed on the balance sheet. Separately, Allergan announced that it intends to sell its 10% stake in TEVA over the next few months, providing further pressure on the stock.
VZ	VERIZON COMMUNICATIONS INC COM	Telecommunication Services	The stock performed well as the company stronger than expected Q2 results, with a rebound in wireless activations. Additionally, the stock benefitted from the rumoured consolidation in the industry between Sprint and T-Mobile.
DG FP	VINCI SA	Industrials	The stock increased in price as the company reported solid results with stronger than expected sales. Vinci has high exposure to the French economy which is showing positive momentum after a period of flat growth.