

April 2018

James Gauthier, CFA
Head of Funds ResearchDenise Davids, MBA
Senior Manager, Investment Funds

Monthly Overview

As March 31 marked the end of Q1, this write-up takes a quarterly perspective on the markets and the economy.

Markets were bombarded with their fair share of uncertainty during the first quarter. One doesn't get a proper picture of the ups and downs that were experienced by simply looking at market returns after the dust settled. January was a very strong month for most stock markets around the world (with the noticeable exception of Canada), but by quarter's end, most of these markets had given up January's gains and were flat or in the red.

A February inflation scare and subsequent tariff-related saber rattling out of the White House rankled investors' nerves, leading to markedly higher levels of volatility and challenging conditions for stocks as the quarter came to a close.

Canadian stocks, as measured by the S&P/TSX Composite, slid 0.2% in March and were off by 4.5% during the first quarter. Small cap stocks were hit harder as the S&P/TSX Small Cap benchmark plummeted nearly 8% on the quarter. Information technology was the best performing sector in the large cap index in Q1. The gain there was 12%, which was followed by the 7.1% jump in health care stocks. The combined weighting of those sectors, however, is a relative pittance when compared to the energy space. This sector accounts for about a fifth of the overall value of the S&P/TSX Composite index and it tumbled 10.1% during the quarter, including a 6.1% loss in March alone. This was despite the fact that the price of crude oil was actually higher by 7.4% in USD terms over the quarter.

Stocks south of the 49th parallel were higher by 2.2% during Q1 in CAD terms, as measured by the S&P 500, despite March's 1.9% fall-off. These returns were assisted slightly by weakness in the loonie. Turning to individual sectors, consumer discretionary and information technology names surged 7.3% and 7.0% in Q1, respectively. The broader index was weighed down by weakness in utilities (-13.1%) and

real estate (-9.6%). International stocks were mixed during the quarter as the MSCI EAFE index rose 1.4% during the quarter but slid 1.2% in March. All figures in CAD.

Canadian investment grade bonds were flat on the quarter, with the broad-based FTSE index posting a 0.1% gain. Contrasting the aforementioned 7.4% gain in WTI crude oil during Q1, natural gas shed nearly 12%, while gold leapt 3.5% and silver was marginally lower.

The consensus forecast for Canadian economic growth in 2018 is set at 2.2%, which represents an uptick from the most recently reported YoY quarterly figure of 1.7%. The bank stood firm on its policy rate of 1.25% during its January and March meetings. The low start to the year from a growth standpoint, along with overhangs surrounding the tariff issue and stalled NAFTA negotiations suggest Poloz and company are likely in no hurry to turn hawkish. The Canadian unemployment rate most recently came in at 5.8%, matching its all-time low. The Canadian economy added 283 thousand positions for the 12 months ended February 28, with growth entirely due to full-time work.

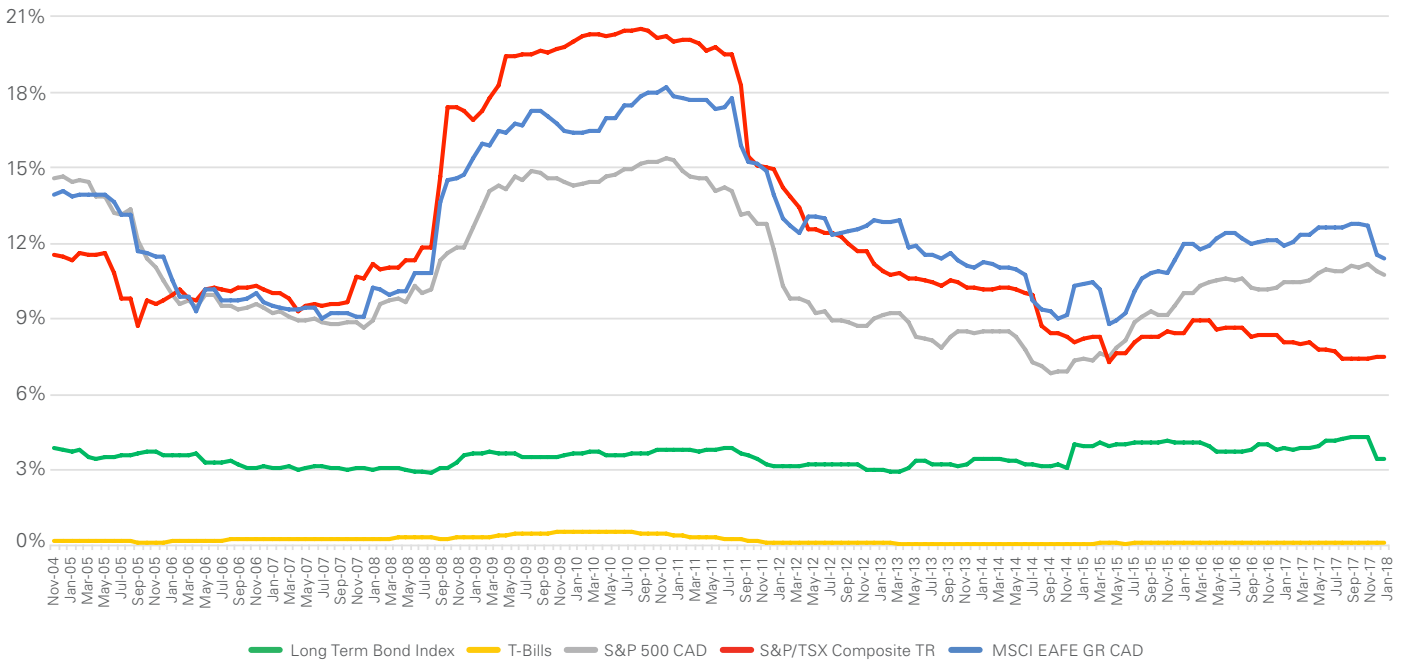
The U.S. Federal Reserve hiked its overnight rate by 25 basis points in March, bringing it to 1.75%, and forecast at least two more hikes during the balance of the year. The U.S. central bank called for inflation to begin creeping higher after being below 2% for some time. The Fed hiked rates three times in 2017. Policymakers also projected U.S. economic growth of 2.7% in 2018, up from the expectation of 2.5% that was laid out in December. The Fed also noted that it expects the U.S. unemployment rate to end 2018 at 3.8%, down from the most recent reading of 4.5%. A big question mark hanging over the U.S. (and the global) growth story is the threat of protectionist trade policies and the implementation of tariffs. Retaliatory action by trading partners could damage the export sector and lead to higher consumer prices, both factors that are not constructive to growth.

Monthly Market Statistics

Data to March 31, 2018, unless otherwise indicated

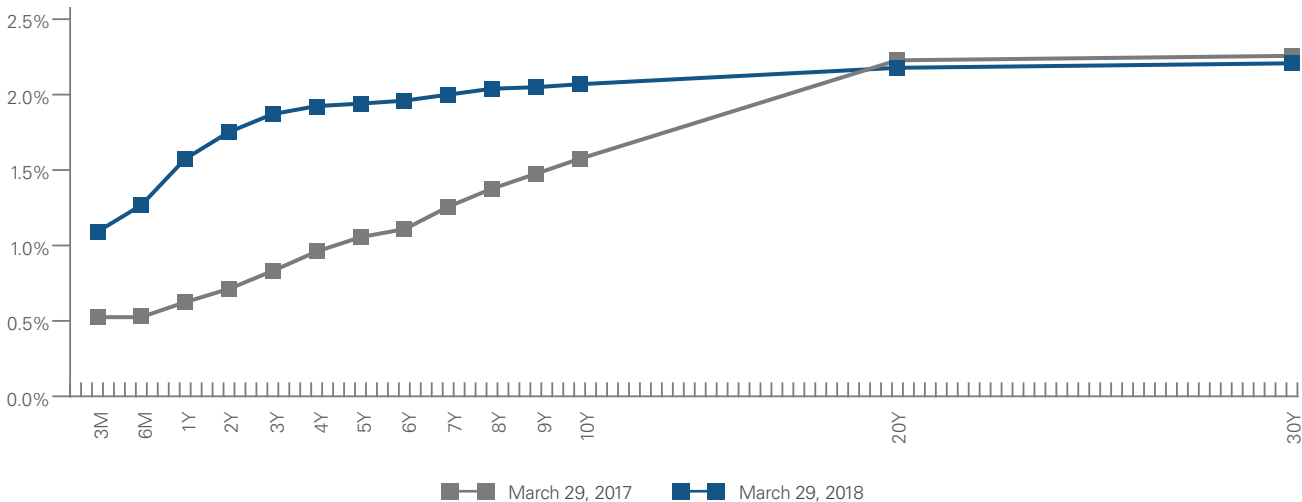
Standard deviation is a measure of volatility. While volatility for T-bills and bonds tend to be low and steady, stock volatility tends to be much higher and the level volatility itself is highly variable. Remember that over very long periods of time, stocks almost always outperform cash and T-bills. We continue to believe that long term investors should have a material allocation to stocks, but it is crucial to understand the volatility dynamics of the asset class. The Chart of the Month is an illustration of the fact that the volatility picture for stocks can sometimes get a little wild. Having a tolerance for this craziness is a required trait for long term investors.

Annualized Rolling Standard Deviation of Selected Asset Classes



Source: Morningstar

Canadian Sovereign Yield Curve



Source: Bloomberg

Monthly Market Statistics

Data to March 31, 2018, unless otherwise indicated

Equity Index Returns (% in CAD)

Index	1 Mo	3 Mo	6 Mo	YTD	1Yr	3Yr	5Yr	3Yr Std Dev
S&P/TSX Composite	-0.2	-4.5	-0.3	-4.5	1.7	4.1	6.9	7.4
S&P/TSX Small Cap	-1.2	-7.7	-3.4	-7.7	-6.7	4.4	3.5	14.1
S&P 500	-1.9	2.2	9.4	2.2	10.5	11.4	18.8	10.2
MSCI EAFE	-1.2	1.4	6.1	1.4	11.7	6.7	12.3	12.2
MSCI World	-1.5	1.7	7.8	1.7	10.7	9.2	15.7	10.6
MSCI World Small Cap	0.7	2.4	8.3	2.4	12.8	10.9	16.9	11.0
MSCI Europe	-0.6	0.9	3.8	0.9	11.5	6.0	12.2	12.1
MSCI EM	-1.3	4.3	12.5	4.3	21.4	9.8	10.5	16.4
MSCI AC Asia	-1.8	2.6	11.5	2.6	16.7	9.2	13.2	13.4

Source: Bloomberg

Fixed Income Returns (% in CAD)

Index	1 Mo	3 Mo	6 Mo	YTD	1Yr	3Yr	5Yr	3Yr Std Dev
FTSE TMX Canada Universe Bond	0.8	0.1	2.1	0.1	1.4	1.2	2.9	3.4
Barclays Global Agg	1.8	4.4	5.9	4.4	3.8	3.8	6.4	4.9
Barclays High Yield Very Liquid Index	0.0	1.7	2.2	1.7	-0.3	4.6	9.0	5.8

Source: Bloomberg

Commodity Prices (Prices and Returns in USD)

Commodity	3/29/2018 Price (\$)	MoM Change (%)	YoY Change (%)
WTI Crude Oil/BBL	64.94	-4.8	14.1
Natural Gas/mmBTU	2.73	-11.0	-3.9
Copper/pound	3.03	-2.8	14.9
Silver/oz	16.27	-5.3	-11.4
Gold/oz	1322.80	-1.6	5.1

Source: Bloomberg

One Month Sector Returns (% in CAD)

Sector	S&P/TSX Composite	S&P 500
Consumer Discretionary	-3.2	0.4
Consumer Staples	-2.7	-4.1
Energy	-6.1	-7.2
Financials	-3.2	1.1
Health Care	-10.0	-0.6
Industrials	1.3	-0.1
Info Tech	5.8	4.1
Materials	-4.0	-1.4
Real Estate	-0.6	-3.0
Telecom Services	-2.1	-3.3
Utilities	-3.4	0.0

Source: Bloomberg

Economic Data

Canada	
Real GDP - Q4 (q/q ann. % change)	1.7
Consumer Prices (y/y % change)	2.2
Unemployment Rate, Feb '18	5.8
United States	
Real GDP - Q4 (q/q ann. % change)	2.9
Consumer Prices (y/y % change)	2.2
Unemployment Rate, Feb '18	4.1

Source: Bloomberg, Stats Canada

Exchange Rates

Cross	03/29/2018	6 Mos Ago	1Yr Ago
USD/CAD	1.29	1.25	1.33
EUR/CAD	1.58	1.47	1.42
GBP/CAD	1.81	1.67	1.67
CAD/JPY	82.62	90.22	83.64

Source: Bloomberg

General Disclosures

The information and opinions contained in this report were prepared by Industrial Alliance Securities Inc. ('iA Securities'). iA Securities is owned by Industrial Alliance Insurance & Financial Services Inc. ('iA Financial'). iA Financial is a TSX Exchange listed company and as such, iA Securities is related to iA Financial. The opinions, estimates and projections contained in this report are those of iA Securities as of the date of this report and are subject to change without notice. iA Securities endeavours to ensure that the contents have been compiled or derived from sources that we believe to be reliable and contain information and opinions that are accurate and complete. However, iA Securities makes no representations or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to iA Securities that is not reflected in this report.

Nothing contained in this report is or should be relied upon as a promise or representation as to the future. The pro forma and estimated financial information contained in this report, if any, is based on certain assumptions and management's analysis of information available at the time that this information was prepared, which assumptions and analysis may or may not be correct. There is no representation, warranty or other assurance that any projections contained in this report will be realized.

Opinions, estimates and projections contained in this report are our own as of the date hereof and are subject to change without notice. This report is not to be construed as an offer or solicitation to buy or sell any security. The reader should not rely solely on this report in evaluating whether or not to buy or sell securities of the subject company. The reader should consider whether it is suitable for your particular circumstances and talk to your investment advisor.

Definitions

"The author" means any partner, director, officer, employee or agent of iA Securities who is held out to the public as a publisher of Investment Fund Research or whose responsibilities to iA Securities include the preparation of any written investment fund research report for distribution to clients or prospective clients of iA Securities.

Conflicts of Interest

The author and or associates who prepared this report are compensated based upon (among other factors) the overall profitability of iA Securities, which may include the profitability of investment banking and related services. In the normal course of its business, iA Securities may provide financial advisory services for issuers. iA Securities will include any further issuer-related disclosures as needed.

The Authors' Certification

The author whose name appears on the front page of this report hereby certifies that (i) the opinions expressed in the report accurately reflect the author's personal views about the marketplace and are the subject of this report and all strategies mentioned in this report that are covered by such the author and (ii) no part of the author's compensation was, is, or will be directly or indirectly, related to the specific views expressed in this report.

Dissemination of Reports

iA Securities uses its best efforts to disseminate its investment fund research reports to all clients who are entitled to receive the firm's investment fund research reports, contemporaneously on a timely and effective basis in electronic form, via fax or mail.

For Canadian Residents: This report has been approved by iA Securities, which accepts responsibility for this report and its dissemination in Canada. Canadian clients wishing to effect transactions should do so through a qualified salesperson of iA Securities in their particular jurisdiction where their iA is licensed.

For U.S. Residents: This report is not intended for distribution in the United States.

For E.U. Residents: This report is not intended for distribution in the European Union.

For U.K. Residents: This report is not intended for distribution in the United Kingdom.

Intellectual Property Notice

The materials contained herein are protected by copyright, trademark and other forms of proprietary rights and are owned or controlled by iA Securities or the party credited as the provider of the information.

Regulatory

Industrial Alliance Securities is a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada.

Copyright

All rights reserved. All material presented in this document may not be reproduced in whole or in part, or further published or distributed or referred to in any manner whatsoever, nor may the information, opinions or conclusions contained in it be referred to without in each case the prior express written consent of iA Securities.



INVESTED IN YOU.