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"MERRY CHRISTMAS, YA FILTHY ANIMAL...AND A HAPPY NEW YEAR." - HOME ALONE 2: LOST IN NEW YORK (1992)

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As 2017 ticked to a close, the S&P/TSX Composite Index (TSX) finished the year up 6.0% which was a solid recovery from what had been a rather poor start to the year. After dropping 0.8% in the first half of the year, the TSX managed to gain 6.8%, helped by West Texas Intermediate crude oil (WTI) which was up 12.5% for the year. U.S. equity indices had a very good year with the S&P 500 index finishing up 19.4% while the Dow Jones Industrial Average (DJIA) returned 25.1%. The Nasdaq Composite Index handily beat the rest in 2017, returning a huge 28.2%.

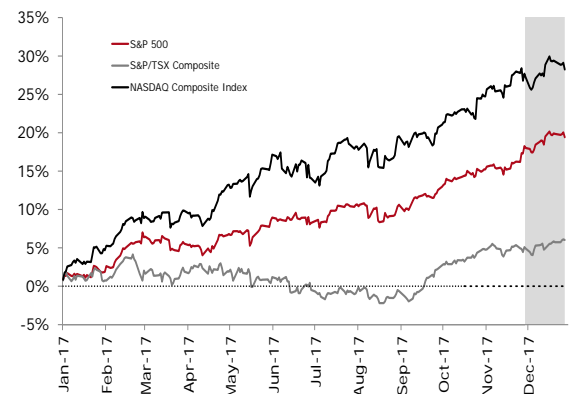
2017 was a year in which the world saw new leadership in several countries - the most notable was U.S. President Donald Trump. With significant controversy surrounding his election, it was evident that his first year in office would be heavily scrutinized. While the media did overstep at times, President Trump did nothing to improve his own reputation. A clear instance of this is the ongoing social media spat with the leader of North Korea. There was one constructive takeaway from Trump's first year and that was the passing by the U.S. Congress of the tax reform bill.

The economic landscape in North America continued to improve in 2017 as U.S. unemployment fell and consumer confidence continued to grow. For the first time since before the Great Recession, global economies began heading in the same direction as we saw synchronized global growth. The U.S. Federal Reserve and the Bank of Canada made significant moves towards normalizing interest rates as the former hiked the Fed Funds rate three times, each time by 25 basis points, throughout the course of the year, while the latter pulled the trigger twice, increasing the overnight rate by 25 basis points each time. On top of monetary policy action, investors continued to question the valuation of North American equities and the late-stage of the bull market as the indices ended the year at all-time highs.

2017 was also a year in which markets and headlines added to the fervor of the "fad" stocks and sectors, the most notable being the budding marijuana sector, Bitcoin/Block chain, Artificial Intelligence and EV/lithium/cobalt. Stocks in these areas saw some unprecedented gains as investors chased prices higher in order not to miss out. While this may have worked for some, we advise against investors blindly rushing into these speculative areas without doing the proper due diligence and understanding the associated risks.

What does 2018 have in store? While we remain positive on equities in 2018, investors need to proceed with caution as the market remains quite enthusiastic despite the ongoing concerns surrounding valuations, geo-political tensions and also given that the global economy has only recently gotten its wheels out of the mud. In terms of the speculative risky sectors and the Bitcoins of the world, they remain exactly that...speculative and risky.

Markets Deliver Gains For The Year



Source: Bloomberg

Bellwether Indices

	Price 31-Dec-17	Price Performance (% Change)				
		1 mo	3 mo	6 mo	12 mo	YTD
S&P/TSX COMPOSITE INDEX	16,209	0.9	3.7	6.8	6.0	6.0
S&P 500 INDEX	2,674	1.0	6.1	10.3	19.4	19.4
DOW JONES INDUS. AVG	24,719	1.8	10.3	15.8	25.1	25.1
NASDAQ COMPOSITE INDEX	6,903	0.4	6.3	12.4	28.2	28.2

Source: Bloomberg



YIELD CURVES FLATTEN IN 2017

Canada & U.S. Yields

The Canadian yield curve flattened over the course of 2017 as the Bank of Canada increased overnight rates twice throughout the year. The picture was similar south of the border as the U.S. yield curve flattened as well with the Federal Reserve hiking rates on three occasions, each time by 25 basis points.

	Yield as of				
	31-Dec-17	-1 mo	-3 mo	-6 mo	-12 mo
3-month Canada T-Bills	1.06	0.88	1.00	0.71	0.46
Canada 5yr Notes	1.87	1.63	1.75	1.39	1.11
Canada 10yr Notes	2.05	1.89	2.10	1.76	1.72
Canada 30yr Bonds	2.27	2.23	2.47	2.15	2.31
US 3-month T-Bills	1.38	1.26	1.04	1.01	0.50
US 5yr Treasuries	2.21	2.14	1.94	1.89	1.93
US 10yr Treasuries	2.41	2.41	2.33	2.30	2.44
US 30yr Treasuries	2.74	2.83	2.86	2.83	3.07

Source: Bloomberg

CANADIAN DOLLAR STRENGTHENS RELATIVE TO USD

The Canadian dollar appreciated in 2017 relative to the U.S. Dollar as did the Euro. The trade-weighted U.S. Dollar lost approximately 1% versus a basket of currencies.

Currency Moves

	Level	Change				
	31-Dec-17	1 mo	3 mo	6 mo	12 mo	YTD
Canadian vs. U.S. Dollar	0.7955	2.6%	-0.8%	3.1%	6.9%	6.9%
Euro vs. Canadian Dollar	1.5090	-1.7%	2.4%	1.9%	6.7%	6.7%
Euro vs. U.S. Dollar	1.2005	0.8%	1.6%	5.1%	14.1%	14.1%
U.S. Dollar vs. Japanese Yen	112.6900	0.1%	0.2%	0.3%	-3.7%	-3.7%
Trade Weighted U.S. Dollar	92.1240	-1.0%	-1.0%	-3.7%	-9.9%	-9.9%

Source: Bloomberg

BASE METALS AND LUMBER SEE STRONG GAINS IN 2017

Base metals saw some strong gains in 2017 as did lumber. While lumber returned 41.5%, copper, nickel, aluminum and zinc saw returns of 30.9%, 27.4%, 34.0% and 28.8% respectively. West Texas Intermediate crude oil put together a strong year gaining 12.5%. Natural gas was the lone detractor amongst the commodities in the adjacent table, with a loss of 20.7%.

Commodities

	Level	Price as of				
	31-Dec-17	-1 mo	-3 mo	-6 mo	-12 mo	YTD %
RJ CRB Commodity Index	193.86	189.17	183.09	174.78	192.51	0.70
Gold Spot US\$/oz.	1303.05	1274.94	1280.15	1241.55	1152.27	13.09
Silver Spot US\$/oz	16.94	16.44	16.65	16.63	15.92	6.42
Brent Crude Oil	66.87	63.57	57.54	47.92	56.82	17.69
West Texas Intermediate Oil	60.42	57.40	51.67	46.04	53.72	12.47
NYMEX Natural gas	2.95	3.03	3.01	3.04	3.72	-20.70
Lumber	448.00	427.70	402.20	365.90	316.60	41.50
Copper 3-month	3.29	3.07	2.94	2.69	2.51	30.92
Nickel 3-month	5.79	5.04	4.76	4.26	4.55	27.35
Aluminum 3-month	1.03	0.93	0.95	0.87	0.77	33.96
Zinc 3-month	1.51	1.43	1.43	1.25	1.17	28.84

Source: Bloomberg

MSCI EMERGING MARKETS LEADS

Index Returns In Canadian Dollars

While North American stock indices had strong returns in Canadian-dollar terms in 2017, the MSCI Emerging Markets Index was the biggest outperformer with a 2017 Canadian-dollar return of 25.7%. On the U.S. side, the Nasdaq Composite Index was the best performer but the weakness in the U.S. dollar detracted from the overall annual returns.

	Price Performance % Change				
	1 mo	3 mo	6 mo	12 mo	YTD
S&P/TSX COMPOSITE INDEX	0.9	3.7	6.8	6.0	6.0
S&P 500 INDEX	-1.6	7.0	7.0	11.7	11.7
DOW JONES INDUS. AVG.	-0.7	11.2	12.3	17.0	17.0
NASDAQ COMPOSITE INDEX	-2.1	7.1	9.0	19.9	19.9
BLOOMBERG EUROPEAN 500	-1.1	2.5	4.6	15.1	15.1
MSCI EAFE	-1.0	4.7	5.6	13.9	13.9
MSCI WORLD	-1.3	6.0	6.4	12.3	12.3
MSCI EMERGING MARKETS	0.7	7.9	11.1	25.7	25.7

Source: Bloomberg, as of December 31, 2017.

EQUITY MANDATES OUTPERFORM

Long-Term Strategic Asset Allocation Investor Profiles (All In C\$)

Mandates with a higher exposure to equities showed better performance than the more-conservative mandates in 2017. Overall, investors had a greater preference for risk-on mandates.

(Global Equity/Cdn. Equity/Bonds/Cash)	Performance % Change				
	1 mo	3 mo	6 mo	12 mo	YTD
CAPITAL PRESERVATION (5 / 15 / 60 / 20)	-0.1	2.2	1.8	3.7	3.7
INCOME (15 / 15 / 60 / 10)	-0.3	2.8	2.4	5.1	5.1
INCOME & GROWTH (25 / 20 / 50 / 5)	-0.4	3.4	3.5	6.8	6.8
GROWTH (45 / 20 / 35 / 0)	-0.6	4.3	4.8	9.3	9.3
AGGRESSIVE GROWTH (65 / 20 / 15 / 0)	-0.8	5.1	6.2	11.7	11.7

Source: Bloomberg and FTSE TMX Global Debt Capital Markets, as of December 31, 2017.

CANADIAN EQUITIES OUTPACE BONDS IN 2017

Asset Class Returns

Canadian stocks outpaced Canadian bonds in 2017 as the monetary policy actions and subsequent flattening of the yield curve put pressure on bonds. On a total-return basis, U.S. equities largely beat out their Canadian counterpart as the S&P 500 Index's total return for 2017 was 21.8% versus the S&P/TSX Composite Index's total return of 9.1%.

	Total Return % Change					Index Yield % 31-Dec-17
	1 mo	3 mo	6 mo	12 mo	YTD	
EQUITIES						
S&P/TSX Composite Total Return	1.2	4.5	8.3	9.1	9.1	2.7
S&P 500 Total Return	1.1	6.6	11.4	21.8	21.8	1.9
BONDS						
FTSE TMX Canada Bond Universe Index	-0.4	2.0	0.1	2.5	2.5	
FTSE TMX Canada Long Term Index	0.0	5.2	0.9	7.0	7.0	
FTSE TMX Canada Mid Term Index	-0.9	1.1	-0.4	1.0	1.0	
FTSE TMX Canada Short Term Index	-0.5	0.3	-0.2	0.1	0.1	

Source: Bloomberg and FTSE TMX Global Debt Capital Markets, as of December 31, 2017.

DECEMBER GAINS MAKE HEALTH CARE 2017'S BEST SECTOR

S&P/TSX Sector Returns

The TSX sectors were mostly positive in 2017 with the health care sector leading all others. This result was skewed by strong gains in the marijuana stocks in December, which gave the sector a return of 24.1% in December alone. This was followed by the consumer discretionary, industrials and information technology sectors. The worst-performing sector was the energy sector, which lost 10% despite a 12.5% gain in West Texas Intermediate crude oil. The underperformance was due to poor performance in the oil & gas exploration & production industry as well as some weakness in the pipelines.

	Index Weight	Price Index 31-Dec-17	Price Performance % Change				YTD
			1 mo	3 mo	6 mo	12 mo	
GICS Sectors							
Consumer Discretionary	5.4	2364.8	-0.7	4.1	8.4	20.4	20.4
Consumer Staples	3.6	4721.6	-0.2	5.8	2.5	6.4	6.4
Energy	20.1	2357.2	0.8	-0.2	5.5	-10.0	-10.0
- Integrated O&G	4.7	3237.6	2.0	3.4	19.6	-5.4	-5.4
- O&G Expl. & Prod.	5.8	1645.2	1.4	1.2	9.4	-15.4	-15.4
- Pipeline	8.2	2404.4	0.1	-2.5	-1.8	-5.8	-5.8
Financials	34.4	2830.9	0.4	4.7	8.6	9.4	9.4
- Banks	23.7	3467.7	1.1	5.5	9.6	10.4	10.4
- Insurance	5.3	1353.0	-1.3	3.0	8.0	5.7	5.7
REITs	2.9	3184.4	0.5	4.7	2.4	5.8	5.8
Health Care	1.1	483.6	24.1	46.3	30.9	32.7	32.7
Industrials	9.4	3003.1	2.0	3.9	6.3	17.9	17.9
Info Technology	3.3	268.7	0.3	3.3	6.5	16.2	16.2
Materials	11.6	2256.4	3.4	4.6	7.7	6.3	6.3
- Gold	5.2	1498.4	1.7	-1.7	-3.6	-2.6	-2.6
- Base Metals	1.2	6626.0	10.4	20.4	37.1	22.8	22.8
- Fertilizer	2.0	5163.7	1.9	7.7	22.4	6.6	6.6
Telecom Services	4.6	1525.0	-2.1	3.2	4.4	9.9	9.9
Utilities	3.7	2166.2	-1.2	1.5	-1.4	6.2	6.2
REIT Returns							
REIT Total Return		6291.9	0.9	6.0	5.0	11.2	11.2

Source: Bloomberg

HANG SENG & MSCI EMERGING MARKETS OUTPERFORM IN 2017

International Indices

Hong Kong's Hang Seng Index led the international indices contained within the adjacent table, with a return of 36.0% in 2017. This was closely followed by the MSCI Emerging Markets Index, which gained 34.3%. European indices fared worse than Asian and U.S. markets but remained roughly in-line with the 6.0% gain seen on the TSX.

	Price Index 31-Dec-17	Price Performance % Change				YTD
		1 mo	3 mo	6 mo	12 mo	
Bloomberg Euro 500	261	0.6	0.1	2.7	7.8	7.8
FTSE Eurotop 100	2,979	0.6	0.0	2.0	5.5	5.5
England FTSE 100	7,688	4.9	4.3	5.1	7.6	7.6
German DAX	12,918	-0.8	0.7	4.8	12.5	12.5
French CAC 40	5,313	-1.1	-0.3	3.7	9.3	9.3
MSCI World	2,103	1.3	5.1	9.8	20.1	20.1
MSCI EAFE	2,051	1.5	3.9	8.9	21.8	21.8
MSCI Emerging Mkts.	1,158	3.4	7.1	14.6	34.3	34.3
Japan Nikkei 225	22,765	0.2	11.8	13.6	19.1	19.1
Hong Kong Hang Seng	29,919	2.5	8.6	16.1	36.0	36.0
Australia S&P/ASX 200	6,065	1.6	6.8	6.0	7.0	7.0
Taiwan Weighted	10,643	0.8	2.5	2.4	15.0	15.0
India Sensex 30 Index	34,057	2.7	8.9	10.1	27.9	27.9

Source: Bloomberg

CANADIAN VENTURE SOARS IN DECEMBER

Canadian venture stocks ended the year with a strong rally, gaining 7.8% in December on the back of strong gains in marijuana stocks. On an annual basis, the S&P/TSX Venture Composite returned 11.6%. Up until December, the S&P/TSX 60 Index had led its smaller-market-capitalization peers. The U.S. saw larger market capitalization sizes outpace the mid and smaller-cap stocks throughout 2017.

Small Cap Stocks Versus Large Cap Stocks

	Price Index	Price Performance % Change				
	31-Dec-17	1 mo	3 mo	6 mo	12 mo	YTD
CANADA						
S&P/TSX 60 INDEX	959.7	0.8	4.1	7.5	6.6	6.6
S&P/TSX MIDCAP INDEX	1008.7	1.1	2.3	4.5	4.2	4.2
S&P/TSX SMALLCAP INDEX	660.5	2.3	4.1	5.9	0.3	0.3
S&P/TSX VENTURE COMP INDEX	850.7	7.8	8.9	11.0	11.6	11.6
U.S.						
S&P 100 INDEX	1183.2	1.3	6.4	10.8	19.3	19.3
S&P 500 INDEX	2673.6	1.0	6.1	10.3	19.4	19.4
RUSSELL 1000 INDEX	1481.8	1.0	6.1	10.3	19.3	19.3
S&P 400 MIDCAP INDEX	1900.6	0.1	5.8	8.8	14.5	14.5
S&P 600 SMALLCAP INDEX	936.3	-0.7	3.6	9.4	11.7	11.7
RUSSELL 2000 INDEX	1535.5	-0.6	3.0	8.5	13.1	13.1

Source: Bloomberg

U.S. PREFERS GROWTH IN 2017

Style Indices

The U.S. showed a strong preference throughout 2017 for growth over value, with the S&P Barra Growth Index and the Russell 1000 Growth Index returning 25.4% and 28.4%, respectively. Meanwhile in Canada, investors showed no preference as both the Dow Jones Canada Growth Index and the Dow Jones Canada Value Index returned 6.1%.

	Price Index	Price Performance % Change				
	31-Dec-17	1 mo	3 mo	6 mo	12 mo	YTD
GROWTH						
DJ CANADA GROWTH INDEX	1790.4	0.6	2.3	1.8	6.1	6.1
S&P BARRA GROWTH INDEX	1533.4	0.5	6.4	11.6	25.4	25.4
RUSSELL 1000 GROWTH INDX	1352.4	0.7	7.5	13.4	28.4	28.4
S&P MID 400 BARRA GROWTH	876.3	-0.3	6.7	9.8	18.4	18.4
S&P 600 BARRA GROWTH INDX	694.4	-0.8	3.6	9.1	13.5	13.5
RUSSELL 2000 GROWTH INDX	946.7	0.0	4.4	10.7	21.3	21.3
VALUE						
DJ CANADA VALUE INDEX	3709.1	0.5	4.5	9.1	6.1	6.1
S&P BARRA VALUE INDEX	1127.0	1.5	5.7	8.7	12.6	12.6
RUSSELL 1000 VALUE INDX	1222.6	1.3	4.7	7.3	10.9	10.9
S&P MID 400 BARRA VALUE	640.4	0.4	4.8	7.8	10.2	10.2
S&P 600 BARRA VALUE INDX	619.5	-0.6	3.6	9.7	9.8	9.8
RUSSELL 2000 VALUE INDX	1883.3	-1.2	1.5	6.2	5.8	5.8

Source: Bloomberg

LONG-TERM RETURNS

Long-Term Returns (As Of 31-Dec-17)

	Return % Change (Compound Annual Growth Rate)						
	1 yr.	2 yr.	3 yr.	5 yr.	10 yr.	15 yr.	20 yr.
S&P/TSX Composite (price)	6.0	11.6	3.5	5.4	1.6	6.2	4.5
S&P/TSX Composite Total Return	9.1	14.9	6.6	8.6	4.6	9.0	7.0
S&P/TSX Income Trust Total Return	10.1	12.6	8.4	7.1	na	na	na
Dow Jones Industrial Average	25.1	19.1	11.5	13.5	6.4	7.5	5.9
Dow Jones Industrial Avg TR	28.1	22.2	14.4	16.4	9.3	10.3	na
S&P 500	19.4	14.4	9.1	13.4	6.2	7.7	5.2
S&P 500 Total Return	21.8	16.8	11.4	15.8	8.5	9.9	na
Nasdaq Comp	28.2	17.4	13.4	18.0	10.0	11.6	7.7
FTSE 100 Index	7.6	11.0	5.4	5.4	1.8	4.6	na
German DAX	12.5	9.7	9.6	11.2	4.8	10.5	5.7
France CAC 40	9.3	7.0	7.5	7.8	-0.6	3.8	na
Japan Nikkei 225	19.1	9.4	9.3	17.0	4.0	6.7	2.0
MSCI World	20.1	12.5	7.2	9.5	2.8	6.8	4.1
MSCI (EMU) Europe	25.3	11.3	6.2	6.2	-2.7	5.1	na
MSCI Emerging Markets	34.3	20.8	6.6	1.9	-0.7	9.6	na
MSCI Emerging Markets Total Return	37.8	24.0	9.5	4.7	2.0	na	na
MSCI EAFE	21.8	9.3	4.9	5.0	-0.9	5.3	2.8
MSCI EAFE Total Return	25.6	12.9	8.3	8.4	2.4	na	na
MSCI Far East	23.4	11.1	9.0	8.3	1.2	5.6	2.6

Source: Bloomberg, CIBC World Markets

Long-Term Returns In Canadian Dollars (As Of 31-Dec-17)

	Return % Change (Compound Annual Growth Rate)						
	1 yr.	2 yr.	3 yr.	5 yr.	10 yr.	15 yr.	20 yr.
S&P/TSX Composite (price)	6.0	11.6	3.5	5.4	1.6	6.2	4.5
S&P/TSX Composite Total Return	9.1	14.9	6.6	8.6	4.6	9.0	7.0
Dow Jones Industrial Average (in C\$)	17.0	13.5	14.5	19.0	8.9	5.9	5.2
Dow Jones Industrial Avg. Tot. Ret. (in C\$)	19.8	16.4	17.4	22.0	11.8	8.6	na
S&P 500 (in C\$)	11.7	9.0	12.0	18.9	8.7	6.1	4.5
S&P 500 Total Return (in C\$)	13.9	11.3	14.4	21.4	11.0	8.3	na
Russell 2000 (in C\$)	5.8	10.8	11.3	18.0	9.7	8.1	5.8
Nasdaq Comp (in C\$)	19.9	11.9	16.4	23.7	12.6	9.9	7.0
MSCI World (in C\$)	12.3	7.2	10.0	14.8	5.2	5.1	3.5
MSCI EMU Europe (in C\$)	17.2	6.1	9.0	11.4	-0.4	3.5	na
MSCI Emerging Markets (in C\$)	25.7	15.1	9.4	6.8	1.6	8.0	na
MSCI EAFE (in C\$)	13.9	4.2	7.7	10.1	1.4	3.7	2.1
MSCI Far East (in C\$)	15.4	5.9	11.9	13.6	3.6	4.1	2.0

Source: Bloomberg, CIBC World Markets, Canadian Dollar-based returns

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