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Policy And The Markets: On A Collision Course?

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The Fed's Economic Forecasts Vs. Outcomes

FORECAST MADE	FORECAST CHANGE IN REAL GDP OVER NEXT 4 QUARTERS	ACTUAL CHANGE IN REAL GDP OVER NEXT 4 QUARTERS*	PEAK-TO-TROUGH % DROP IN GDP*
DECEMBER 1969	1.4%	-1.2%	-1.5%
NOVEMBER 1973	2.4%	-4.9%	-7.8%
JULY 1981	0.9%	-1.9%	-2.5%
JULY 1990	1.9%	-0.8%	-0.8%
MARCH 2001	2.6%	1.4%	-0.3%
DECEMBER 2007	1.3%	-0.5%	-4.2%

* THESE CALCULATIONS ARE BASED ON THE GDP DATA AVAILABLE AT THE TIME, NOT CURRENTLY PUBLISHED GDP DATA WITH REVISIONS AND CHANGES TO DEFINITIONS ETC.

The Ghastly Performance Of Active Fund Managers

SHARE OF U.S. EQUITY FUNDS UNDERPERFORMING BENCHMARK			
	5 YEARS	10 YEARS	15 YEARS
LARGE-CAP	88%	85%	92%
MID-CAP	90%	96%	95%
SMALL-CAP	97%	96%	93%

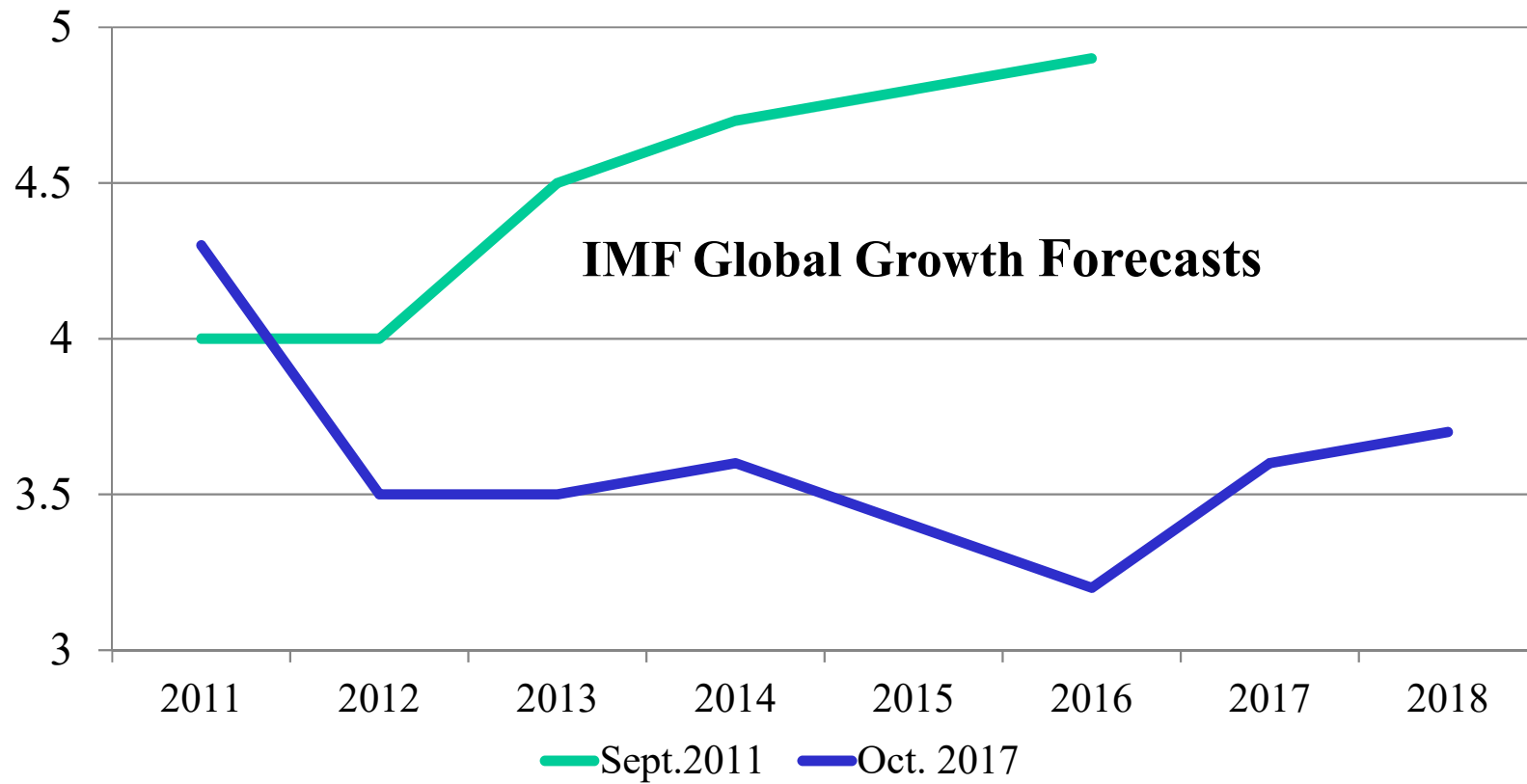
DATA AS OF END-2016. SOURCE: S&P DOW JONES INDICES

An Impressive Bull Market

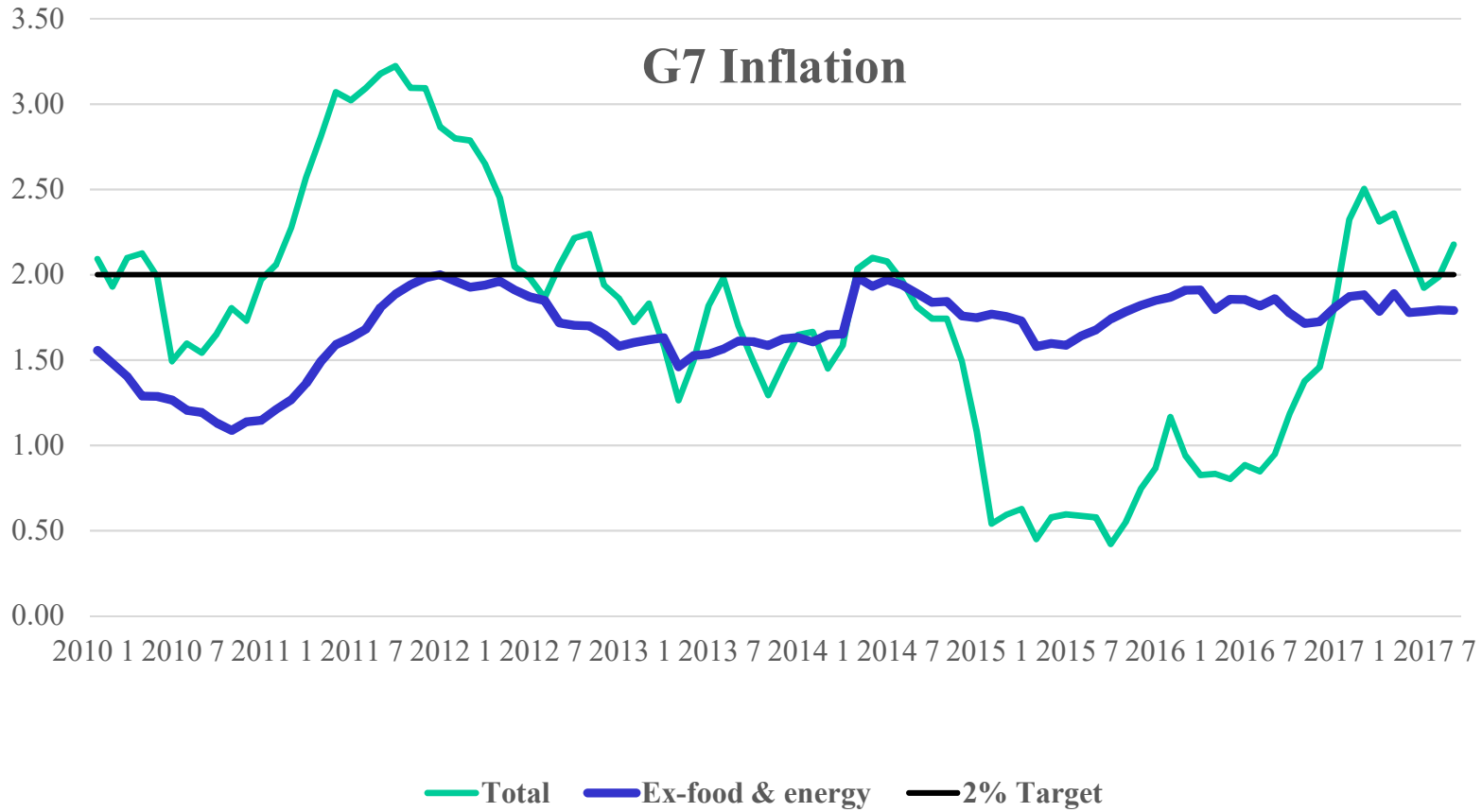
Developed country equity index



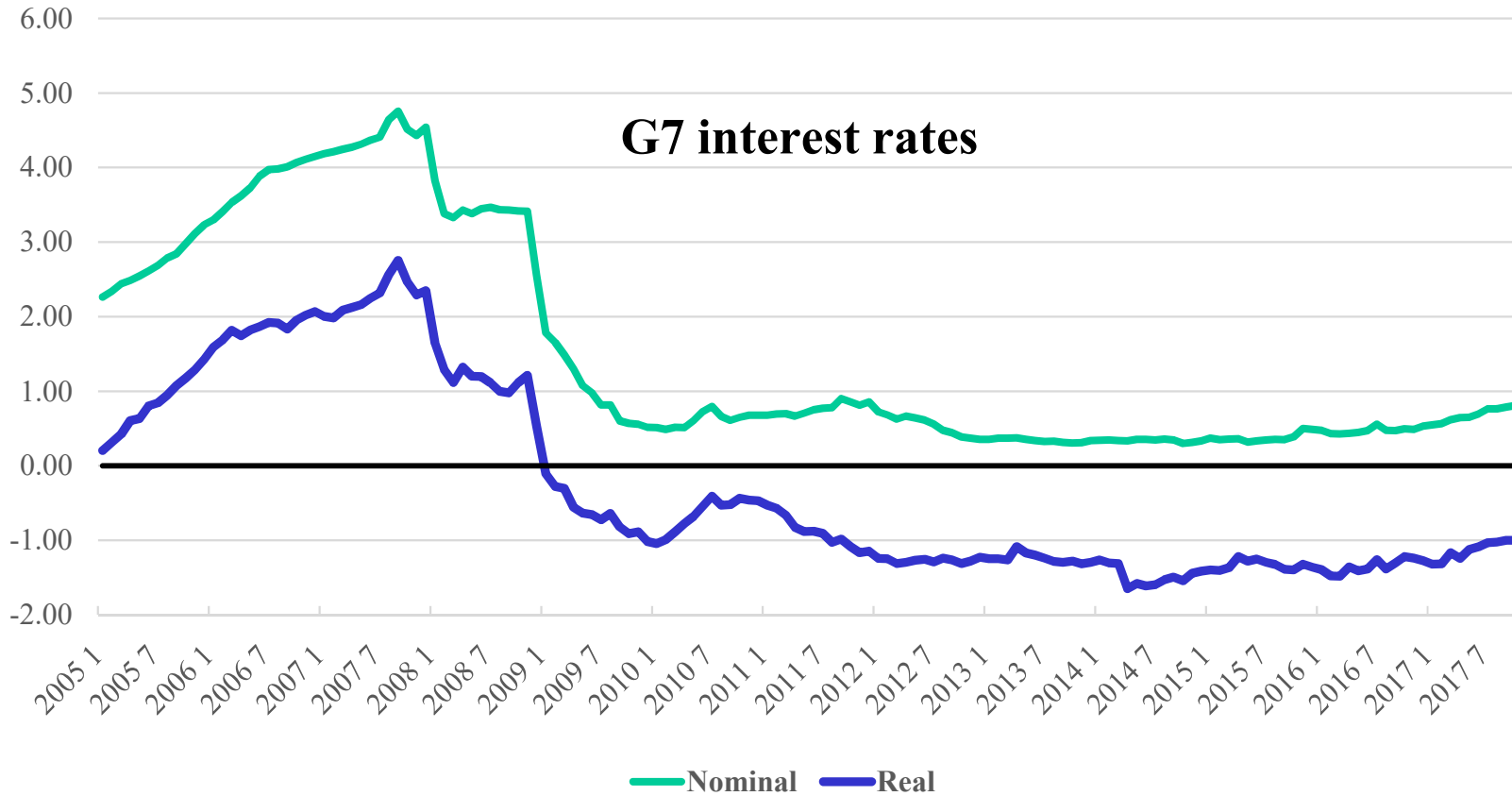
Despite a Disappointing Economic Recovery



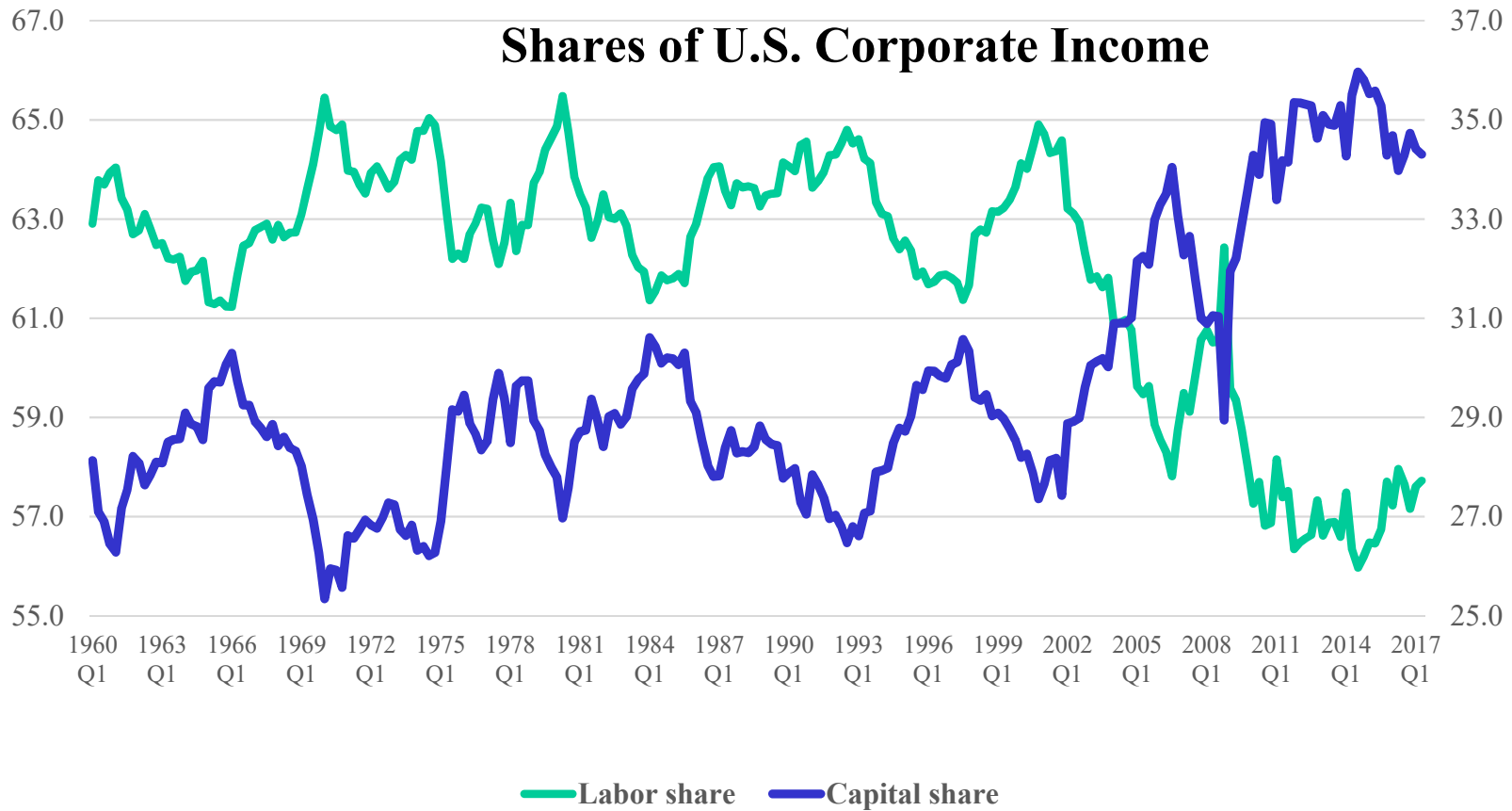
Modest Growth Kept Inflation Down



Along With Amazingly Low Interest Rates

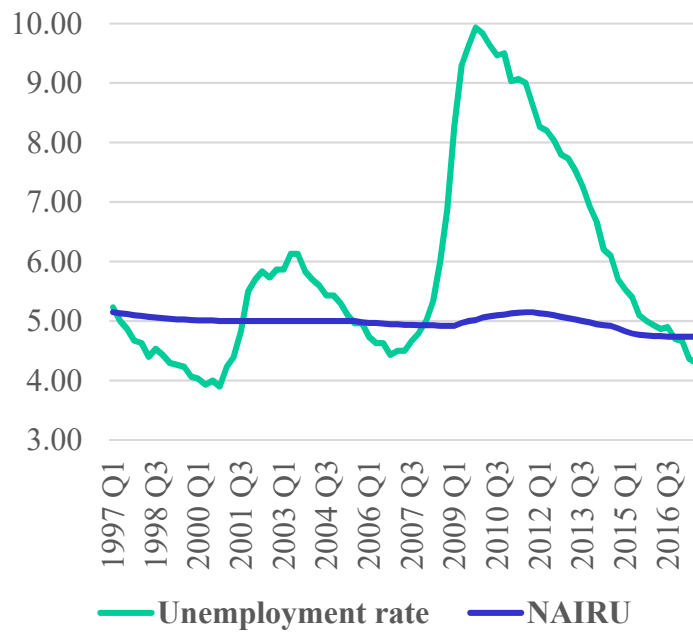


Earnings Benefited At The Expense Of Labor

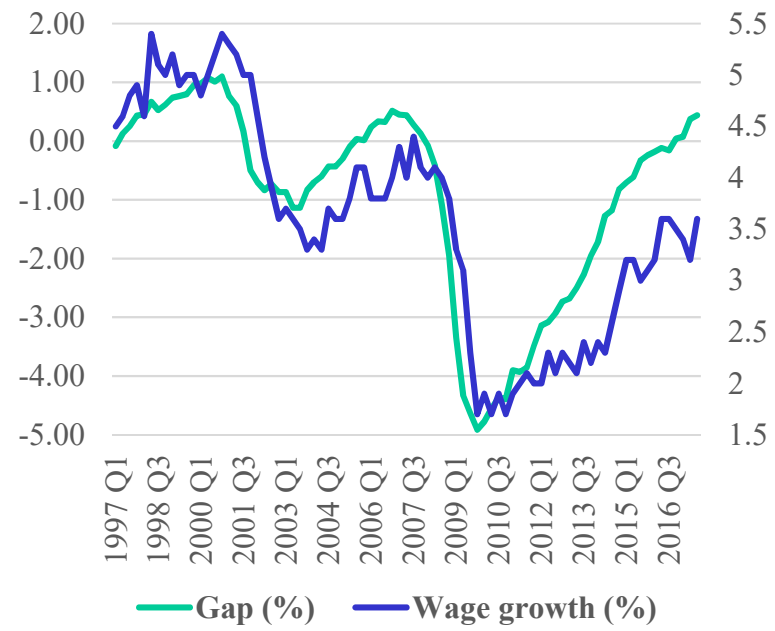


The U.S. Labor Market Is Tight

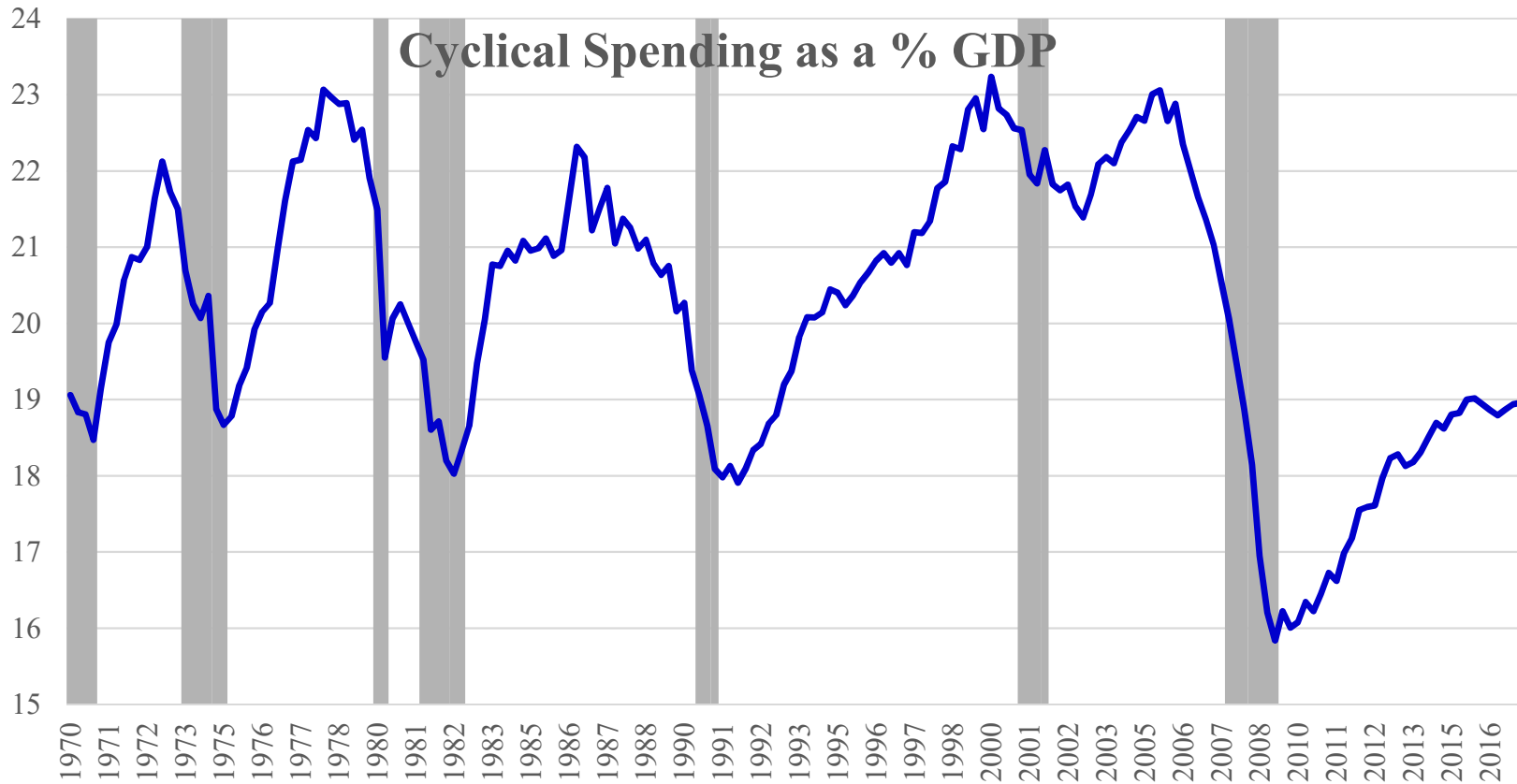
Unemployment vs. Full Employment Level



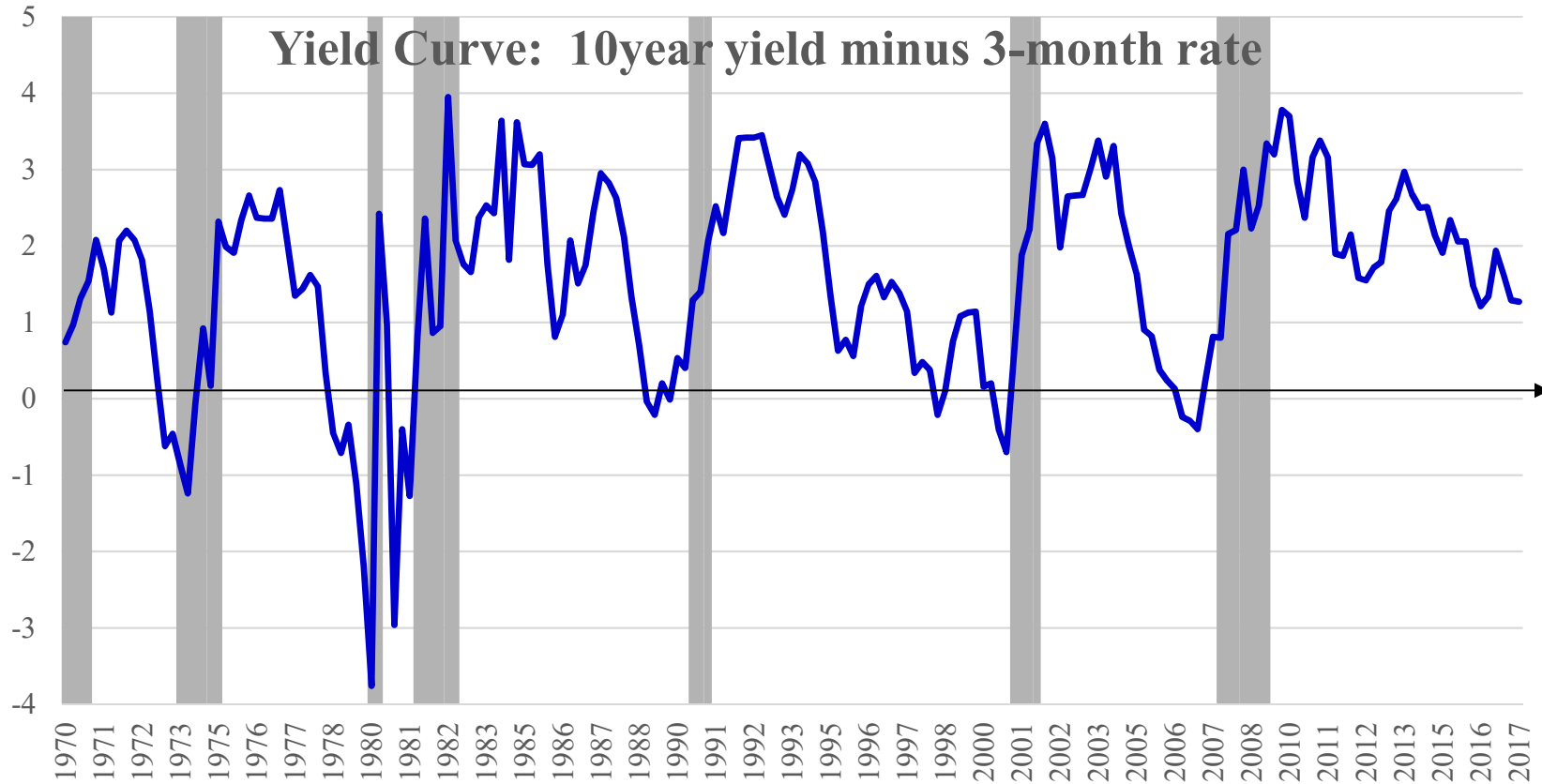
Unemployment Gap vs. Wage Growth



No U.S. Recession Signal Here...



...Or Here

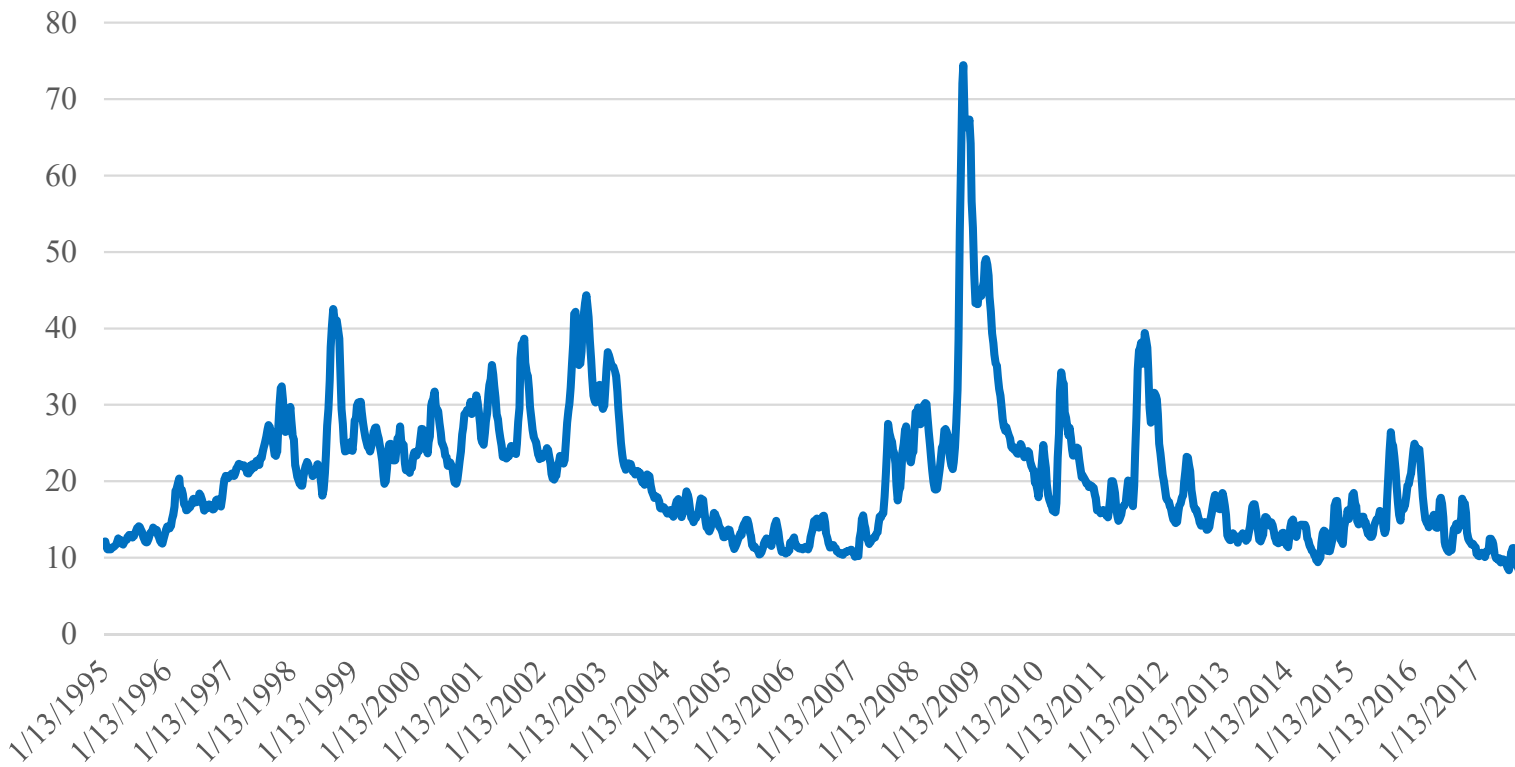


Beware the 2019 Trump Recession

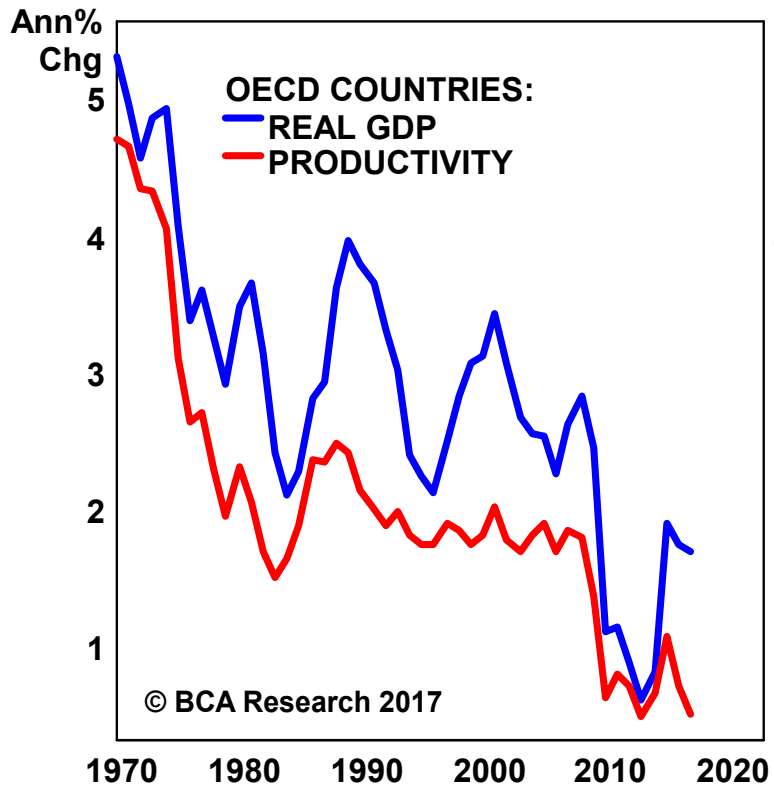
- **The economic cycle is getting mature**
- **The U.S. needs tax reform but not net tax cuts**
- **An overheated economy will force the Fed to get tough**
- **Trump's trade policies are another threat**
- **The U.S. economy will do fine in 2018, but 2019 is at risk**

Investors Are Amazingly Complacent

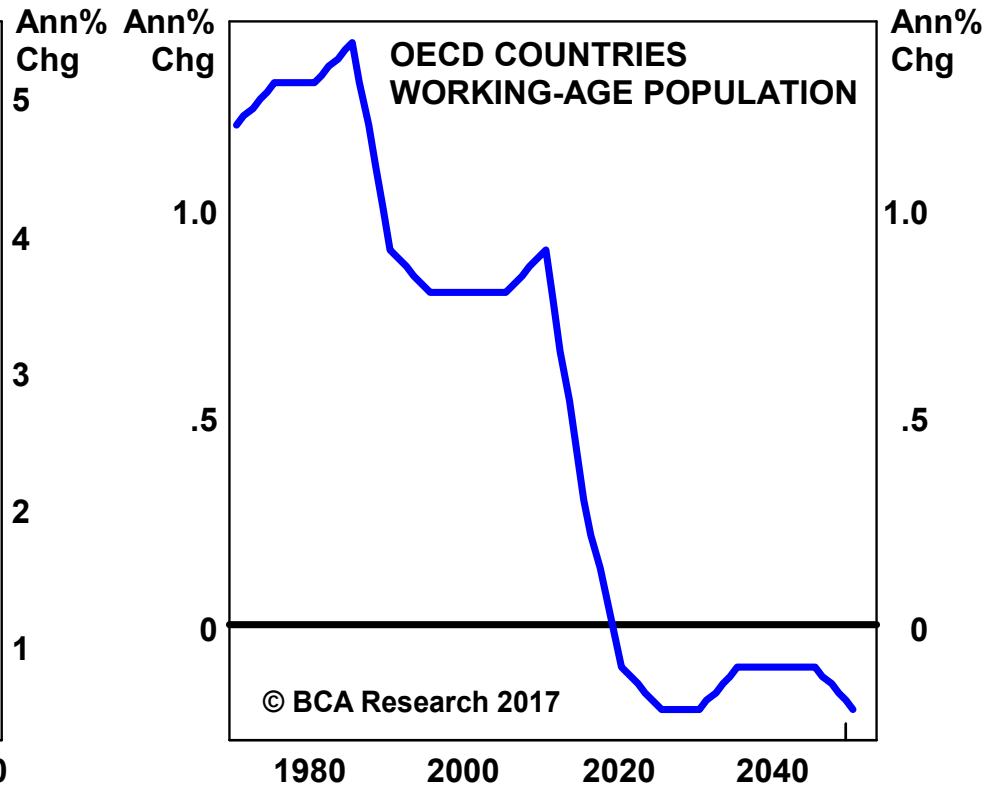
Equity Option Volatility Index



Secular Stagnation Ahead?

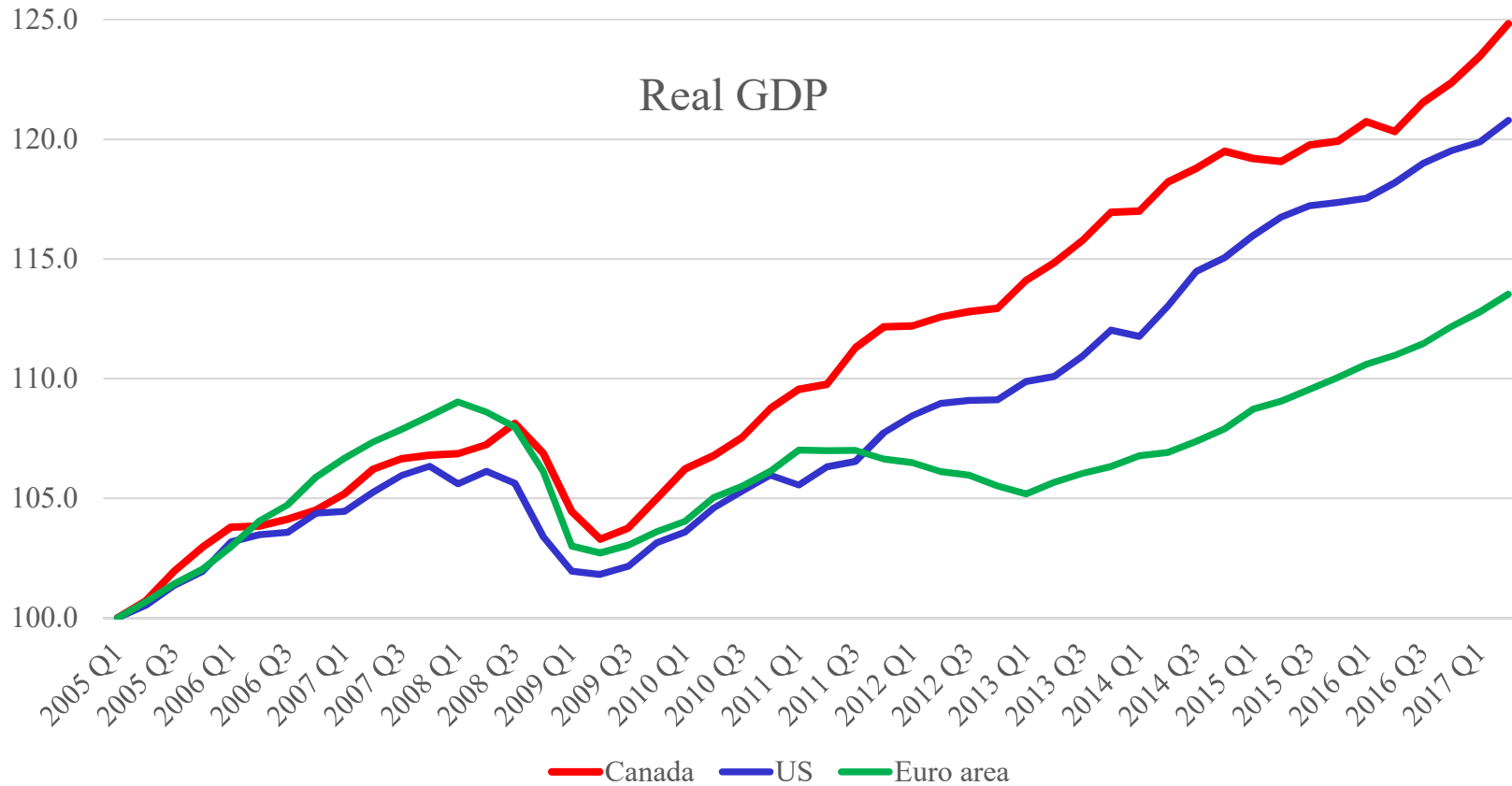


NOTE: SHOWN AS A 5-YEAR MOVING AVERAGE;
 SOURCE: OECD.

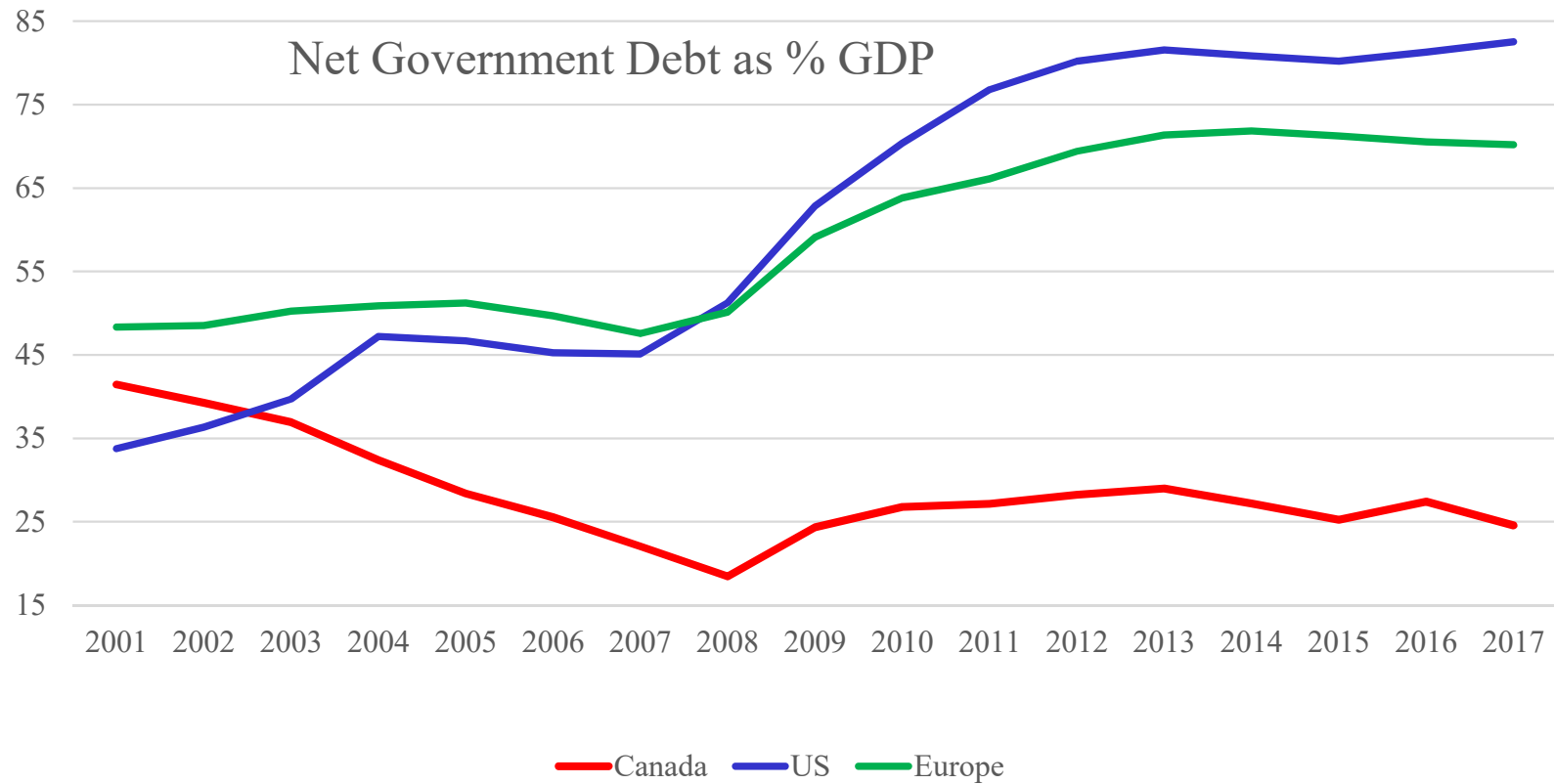


NOTE: INCLUDES OECD PROJECTIONS; SHOWN AS A
 5-YEAR MOVING AVERAGE; SOURCE: OECD.

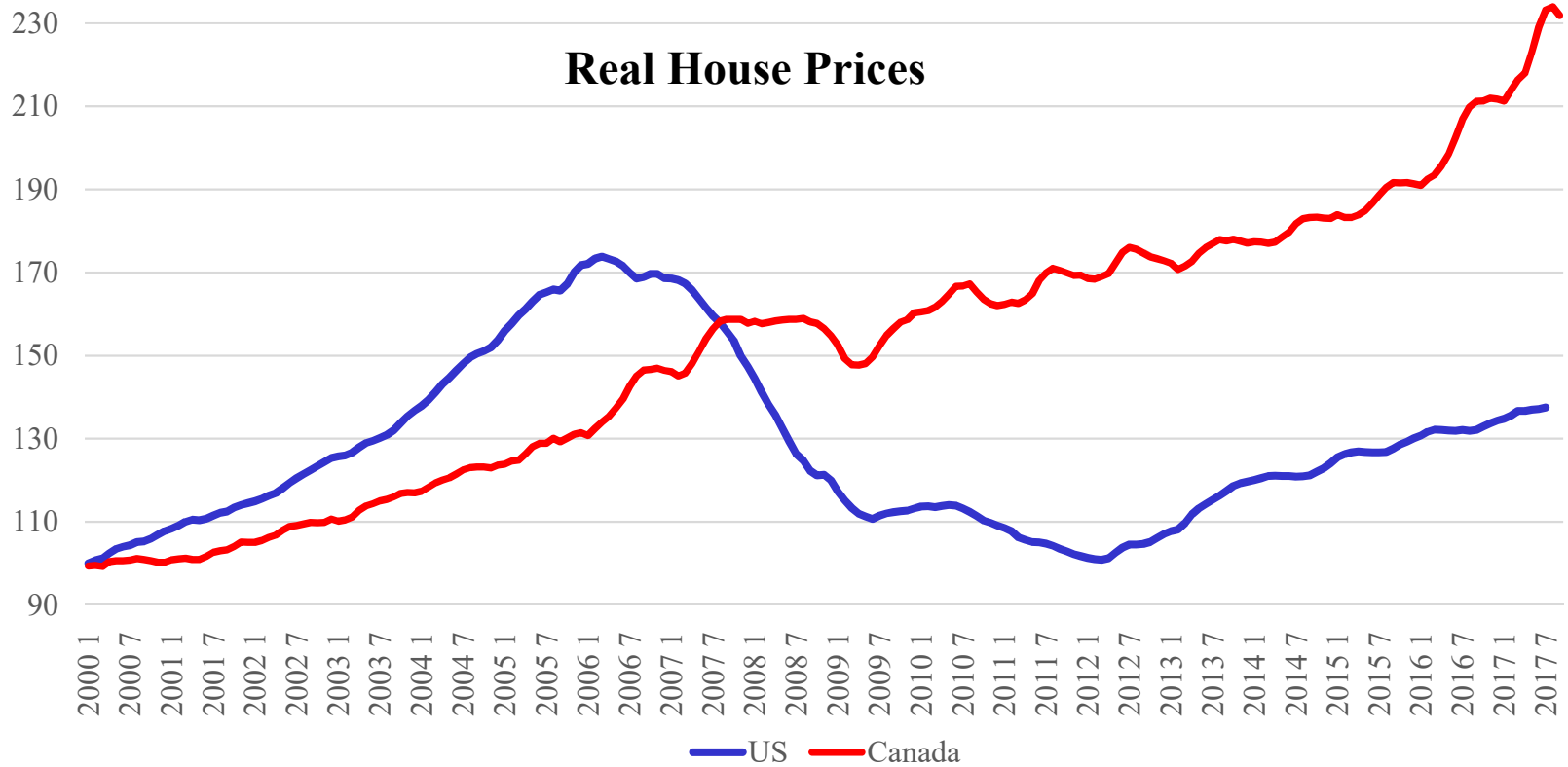
Canada's Economy Has Performed Well



Canada Has Low Government Debt

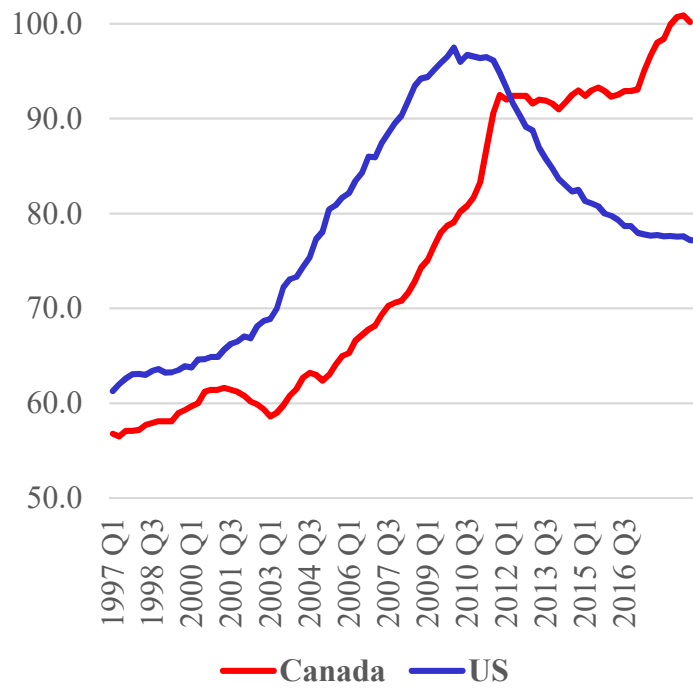


But High House Prices Remain A Problem

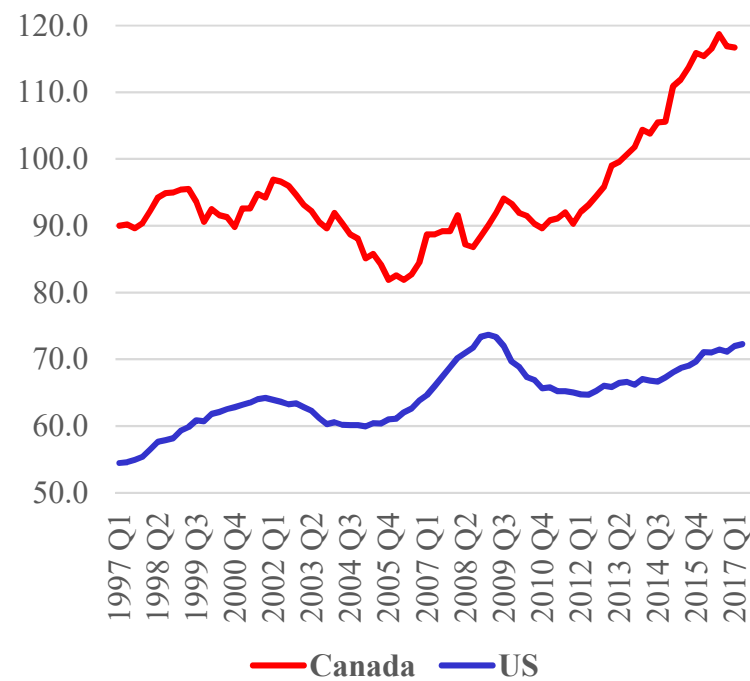


And Private Debt Is Worryingly High

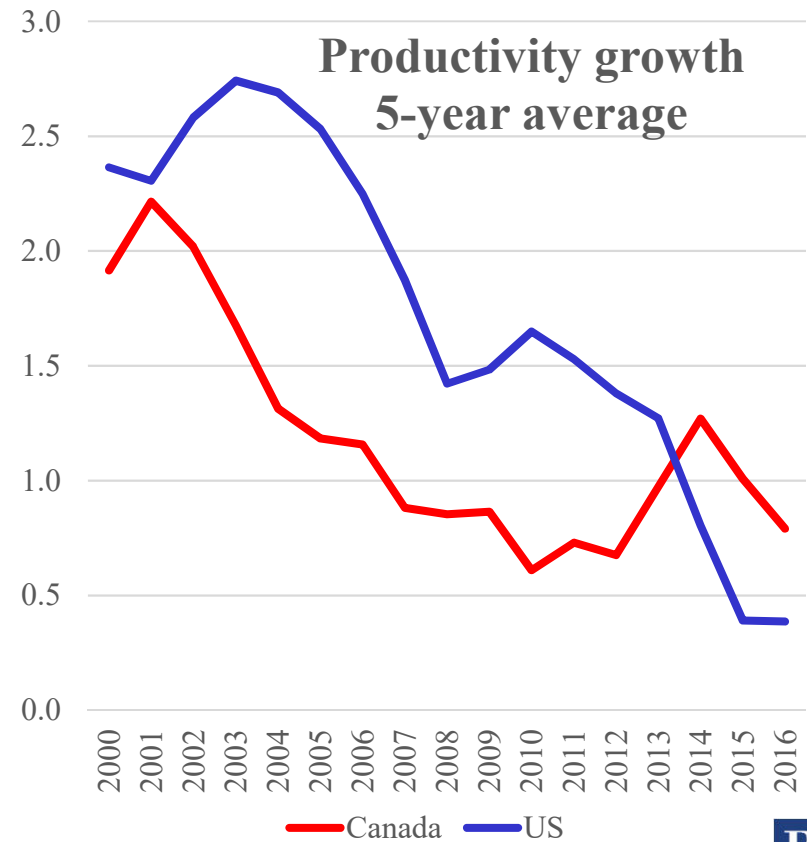
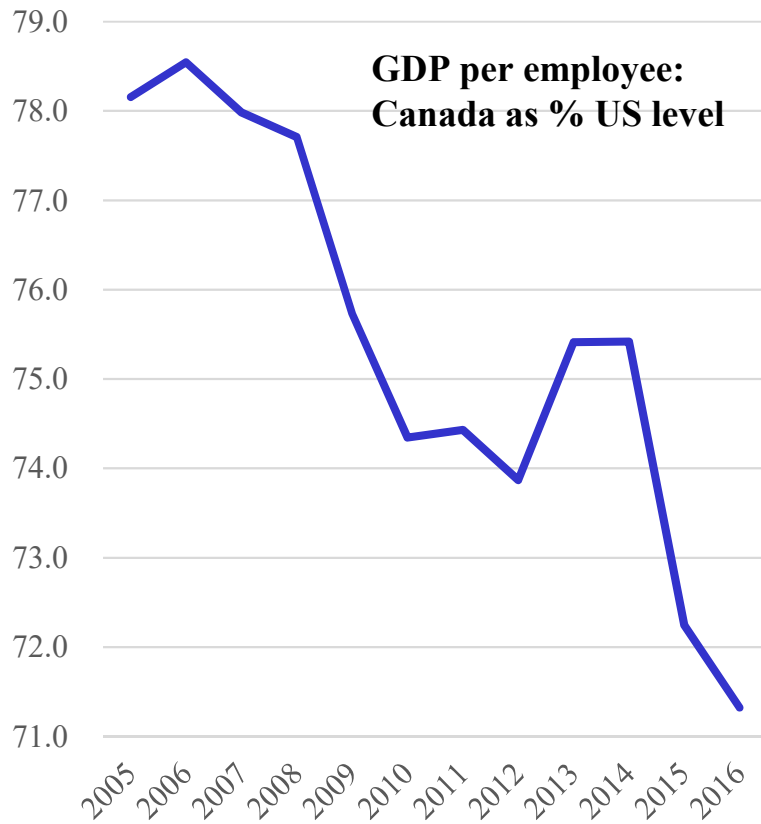
Household Debt as % GDP



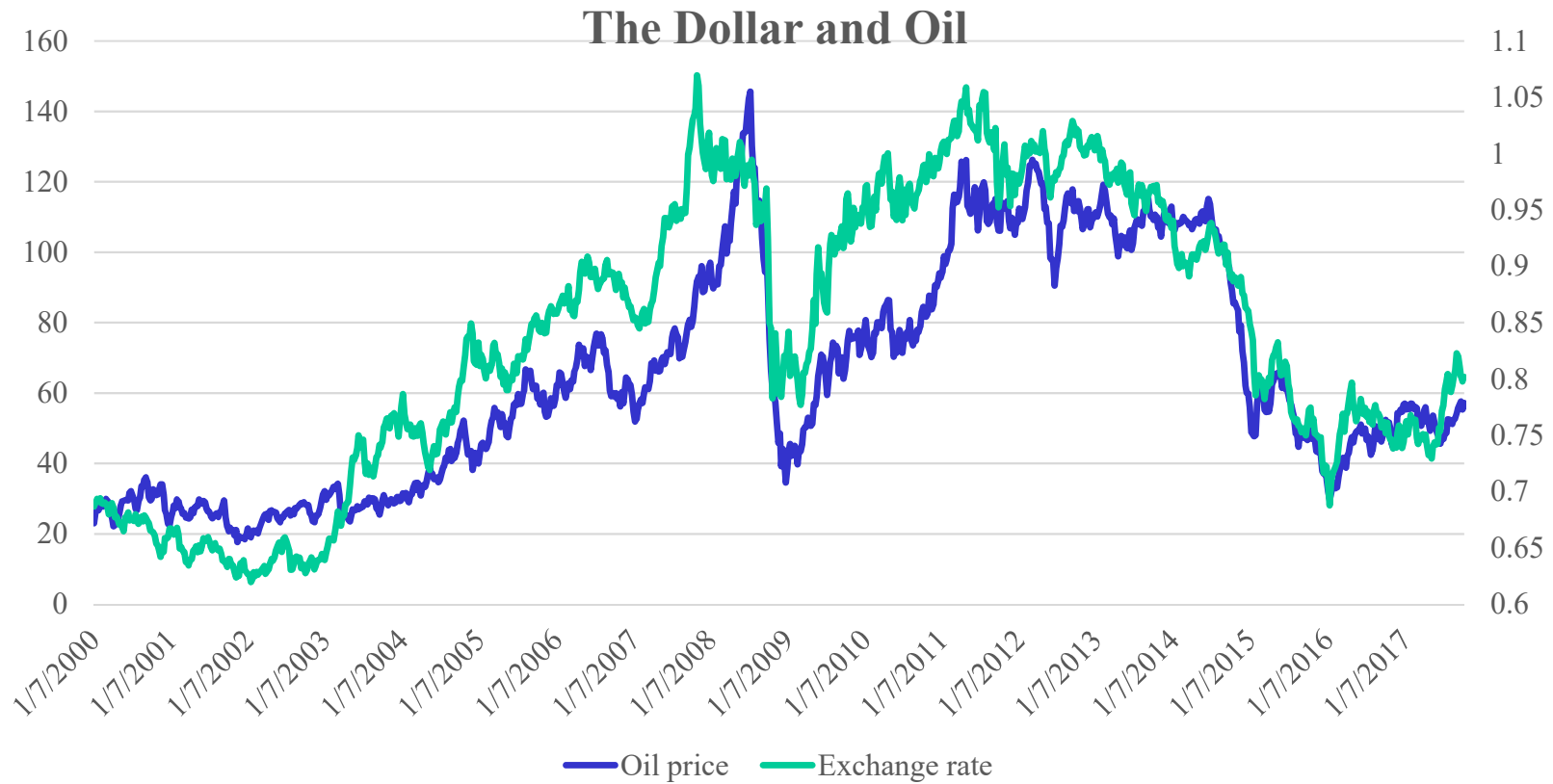
Business Debt as % GDP



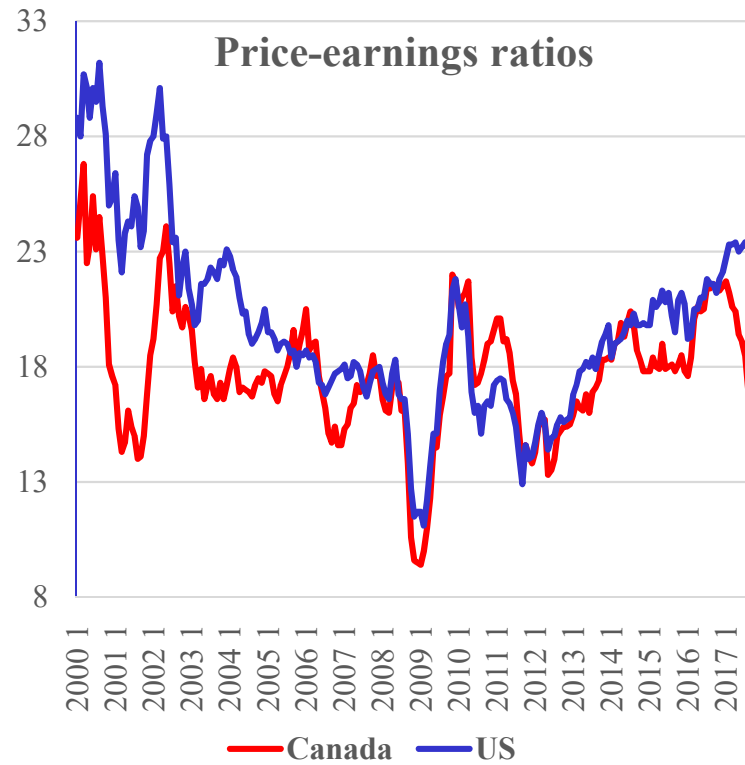
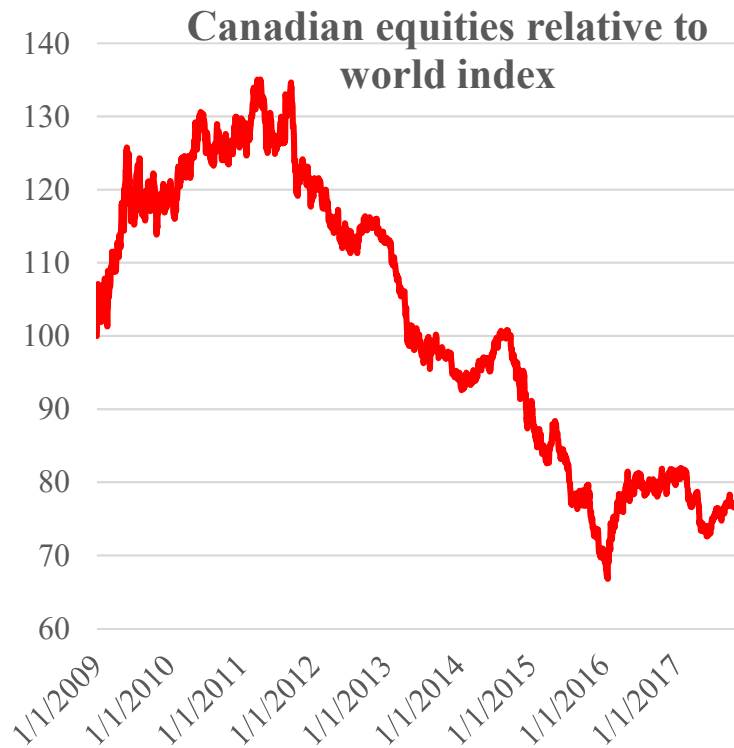
And Productivity Is Poor



Where Next For The Loonie?



Not A Great Equity Market



The Past Is Not A Guide To The Future

	COMPOUND % RETURNS (\$Can.)		PORTFOLIO WEIGHT
	THE PAST 1982-2017	THE FUTURE 2018-2028	
CANADA EQUITIES	9.4	5.0	30
U.S. EQUITIES	11.4	3.0	20
OTHER DEVELOPED EQUITIES	9.4	5.0	10
EM EQUITIES	12.9	7.5	5
10-YEAR GOVT. BONDS	8.2	2.1	35
TOTAL PORTFOLIO*	9.3	3.7	100
INFLATION	2.5	2.0	
TOTAL PORTFOLIO REAL RETURN	6.7	1.7	

*BASED ON WEIGHTS IN FINAL COLUMN

The Long-Run Relative Performance of Gold

