



Investment navigator

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Market returns May 31st, 2018 YTD

S&P / TSX Index	16,061.50	-0.91%
Dow Jones Ind. Avg.	24,415.84	- 1.23%
S&P 500	2,705.27	1.18%
NASDAQ	7,442.12	7.80%

Other key rates May 31st, 2018 YTD

US\$ / C\$ Exchange Rate	\$0.77
C\$ / US\$ Exchange Rate	\$1.30
Bank of Canada Rate	1.25%
Canadian Prime Rate	3.45%
U.S. Fed Rate	1.75%
U.S. Prime Rate	4.75%
Gold (/oz)	\$ 1,293.53
Crude (/bbl)	\$ 66.36

MARKET COMMENT

Recent economic data for the first quarter of 2018 suggests the global economy cooled off from its red-hot pace of the second half of last year. However, economic activity remains well above its trend (or potential) growth rate, resulting in diminished excess capacity across most economies. This is reflected in declining unemployment rates and rising capacity utilization rates. As a result, inflation readings have ticked higher as tighter labor and goods markets result in stronger wage gains and quicker price increases. In response, central bankers, including those in Canada and the United States, have become more confident in tightening monetary policy. Strong growth, diminished excess capacity, and rising inflation and interest rates are all consistent with an economy in the later stages of its business cycle. Officially, this is the second-longest U.S. recovery in the post-war period at 8 years and 10 months so far. However, most reliable recession risk indicators (such as yield curve slope, real interest rates, output gap, unemployment rate, credit spreads, etc.) continue to suggest the odds of a recession materializing in the next twelve months remain modest. Thus, notwithstanding a typical increase in market volatility at this point in the cycle, we remain constructive on equities relative to fixed income with a bias toward economically-sensitive segments across asset classes.



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We are fortunate to work with a wonderful group of clients. If you have a family member or friend that you feel could benefit from our services, we would love to hear from you or them. Thank you for the opportunity to work with you.

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Email Addresses: Should you like to be added to our email newsletter list, please send an email to kelly.hansen@scotiawealth.com. Being part of our email list ensures that you receive the monthly newsletter as well as periodic market updates.



Heightened emerging market and European risks underscore importance of diversification. The beginning of July coincides with the onset of the 'dog days of summer'. The expression was used by the ancient Romans to describe hot and humid days associated with heat radiating from the Dog Star, which appeared to rise and set alongside the sun during July. While recent geopolitical developments in Italy and Spain could make investors sweat a little more during the next few months, we believe the risk of the Eurozone being fractured by populism is low, difficult to time and best managed through diversification. We continue to believe that equities will outperform fixed income securities as central bank policy changes in developed markets are commensurate with moderate and gradual increases in inflation. The recent volatility in emerging markets, such as Argentina and Turkey, reinforces our comfort in obtaining exposure through well-capitalized multinationals that are domiciled in advanced economies. Heightened political risk and policy uncertainty will likely effect an increase in volatility, which underscores the importance of maintaining exposure to fixed income securities to mitigate risk. Medium to longer-dated sovereign interest rates in Canada and the U.S. are expected to increase less than short-term interest rates, which are much more strongly influenced by central bank policy decisions. Accordingly, we believe that investments in fixed income should be laddered with a bias to the shorter term time horizon.

As mentioned, we recommend a cautious overweight to equities relative to fixed income, preferring companies with identifiable competitive advantages and that are likely to benefit from long-term growth themes. With the global quarterly earnings season nearly complete, the three major equity regions (Canada, the U.S., and international) we follow continue to deliver robust profit results. Despite the impressive numbers, the May risk-off narrative stemming from European geopolitical concerns is driving investor flows out of international equities and toward the perceived safety of U.S. securities. We are mindful of the risk that rising commodity prices and wages pose to corporate profit margins and remain on the lookout for early signs of a business cycle downturn. In the interim, however, we retain our cautious preference for equities relative to fixed income.

OPEC and allies mull raising supply caps; trade uncertainty continues to weigh on Canadian dollar. According to various media reports, Saudi Arabia, the de facto leader of the Organization for Petroleum Exporting Countries (OPEC), and Russia are considering raising supply caps central to an agreement OPEC and its allies reached in late 2016. Commentary from Saudi and Russian officials suggests this could occur as soon as the third quarter or 2018. A potential supply cap increase likely is intended to temper a rally in the price of crude that began last June and reduce the risk of demand destruction. Weakness in the price of crude oil over the last week likely has contributed to the recent decline in the Canadian dollar (CAD), compounding trade-related concerns. Those include Canada's exemption from U.S. tariffs on imports of steel and aluminium (which are set to expire June 1st), a U.S. investigation of the national security threat posed by auto imports (which could lead to new tariffs), and ongoing NAFTA negotiations.

The U.S. dollar (USD) has been one of the best performing currencies in recent weeks. The run-up has been supported by the incessant rise in the 2-year U.S. Treasury yield, which crossed the psychologically significant 2.50% level for the first time in almost 10 years, and other major central banks' tempered monetary policy tightening expectations. While technical levels appear to be supportive, a portion of the USD's recent strength may be attributable to weakness in other major currencies given fundamental risks facing the USD (including large deficit spending and rising debt levels). The Canadian dollar (CAD) has mostly trended lower against the USD of late. However, Bank of Canada (BoC) Governor Stephen Poloz and Senior Deputy Governor Carolyn Wilkins testified before the Canadian House of Commons and Senate last week and reiterated the bank's expectation for slightly higher than potential growth over the next three years and above-2% inflation this year. The BoC is encouraged by the progress of inflation and continues to see the need for higher interest rates over time, while maintaining some monetary policy stimulus to keep inflation on target. Scotiabank FX remains constructive over the short to medium-term, and expects to see CAD appreciate toward its fair value estimate of ~US\$0.80.

The Bank of Canada is expected to keep rates unchanged for the time being. Despite the low probability of a 25 basis points (bps) hike (~15%, according to Bloomberg calculations), recent economic data are reasonably consistent with BoC forecasts. GDP growth continues to track the BoC's expectations, inflation remains near the bank's 2% target and full-time employment and wage growth remain strong. The one-year market-implied policy rate, as calculated by Bloomberg, suggests the bank will tighten an additional ~60 bps over the next 12 months. In our view, progress on trade negotiations and constructive economic data should allow the BoC to raise its policy interest rate over time, consistent with the bank's guidance.

Risk-off market sentiment re-emerged in the wake of new European political concerns. Global financial markets have been in turmoil over the last two weeks following renewed concerns about Italian and Spanish leadership. In Spain, the current government could lose a confidence vote following a number of corruption scandals. In Italy, a proposed

coalition government led by the anti-Euro and anti-immigrant parties, Five Star Movement and the League, was spurned by President Sergio Mattarella. The Italian president chose a former International Monetary Fund official and pro-Euro candidate, Carlo Cottarelli, which incensed leaders of the would-be coalition. The country could now be headed for a new election that has the potential to increase the power of anti-Euro parties. That possibility and the potential for credit-negative fiscal policy have pushed yields on Italian and Spanish debt to highs not seen since the Greek debt crisis. As they assess the chances of an Italian credit rating downgrade or possible contagion, investors are likely to place a premium on safe-haven assets.

I am here to help, as are Chris and Trevor – please feel free to call us should you wish to discuss your portfolio. Being in touch helps with understanding current market events.

TRADE BARRIERS – THE MATH

U.S. President Donald Trump took aim again at Canada on Friday, slamming America's neighbour as being "highly restrictive on trade," just a day after the president slapped hefty tariffs against Canadian-made steel and aluminum.

According to the most recent statistics from the Office of the U.S. Trade Representative's website, the U.S. goods and services trade with Canada totalled an estimated US\$673.9 billion in 2017. The U.S. exported \$341.2 billion to Canada, while importing US\$332.8 billion. The U.S. goods and services trade surplus with Canada was US\$8.4 billion in 2017, according to the website.

BANK OF CANADA KEEPS INTEREST RATE AT 1.25%, BUT ECONOMISTS PREDICT HIKE IN JULY

The Bank of Canada (BoC) said on Wednesday it will maintain its benchmark rate at 1.25 per cent, but the tone of the central bank's statement suggests a hike is likely in July. After lifting rates from 1 per cent to 1.25 per cent in January, the bank has held back through three consecutive rate announcements in March, April and May. But BoC watchers believe central bank governor Stephen Poloz is likely gearing up for another hike at the bank's next monetary policy rendezvous on July 11. The tone of the statement was more hawkish than expected, with the concluding paragraph dropping two strong hints that a July hike is on the table," BMO Capital Markets economist Benjamin Reitzes wrote in a note to clients shortly after the announcement. CIBC's Royce Mendes and TD's Brian DePratto also said the central bank's wording suggests a July rate hike. However, economists disagreed on how many more interest rate increases might be in the cards this year. BMO is forecasting hikes in July and October, while CIBC and TD expect a July increase to the last one for 2018. All of Canada's big banks expect the BoC to keep moving rates by a quarter of a percentage point at a time. The central bank noted that the Canadian economy was a little stronger than expected in the first three months of the year, thanks in part to exports of goods that have been more robust than forecast. Data on imports of machinery and equipment have also suggested a continued recovery in investment. However, the BoC also noted that housing resale activity has remained soft as the market adjusts to new mortgage rules and higher interest rates. On the other hand, solid labour income growth supports the expectation that activity will pick up, the bank added. The BoC said global economic activity remains broadly on track but added that ongoing uncertainty about trade policies is dampening global business investment, while stresses are developing in some emerging market economies.

Canadian Income Plus Portfolio as of May 31st, 2018

Investment Objective

The ScotiaMcLeod Canadian Income Plus Guided Portfolio is a lower risk portfolio of stocks and income trusts designed for conservative investors whose primary objective is regular income with modest capital appreciation. The portfolio comprises shares or trust units of conservative entities that are well-established, financially strong, and have an excellent record of earnings and dividend growth. Diversification is achieved by making 10 to 15 investments over a minimum of four sectors.

Company Name	Sector	Price 05/31/2018	Yield
Nutrien Ltd.	Materials	\$ 65.61	3.16%
Bank of Montreal	Financial	\$ 100.44	3.82%
Bank of Nova Scotia	Financial	\$ 78.24	4.21%
Brookfield Property Partners LP	Financial	\$ 25.65	6.32%
Brookfield Renewable Partners LP	Utilities	\$ 40.01	6.30%
Canadian Natural Resources Inc.	Energy	\$ 44.89	2.99%
Cenovus Energy	Energy	\$ 13.68	1.48%
Enbridge	Energy	\$ 40.29	6.66%
Manulife Financial Corp	Financial	\$ 24.46	3.60%
Pembina Pipeline	Energy	\$ 45.10	5.06%
Power Corp of Canada	Financial	\$ 30.21	5.06%
PrairieSky Royalty	Energy	\$ 26.73	2.92%
Rogers Communications Inc.	Telecom.	\$ 60.85	3.16%
Royal Bank of Canada	Financial	\$ 98.00	3.84%
Suncor	Energy	\$ 51.64	2.76%

Changes for the month of May:

No Changes

Dow Jones Top 30 as of May 31st, 2018**Investment Objective**

The Dow Jones Top 30 is designed for growth-oriented investors seeking consistent long-term rates of return from a portfolio of high quality American companies. Diversification is achieved by investing in companies broadly distributed across the major sectors – interest sensitive, consumer, industrial, and commodities.

Dow Jones Top 30	Sector	Price 05/31/2018	Yield
3M	Industrial	\$ 197.23	2.76%
American Express	Financial	\$ 98.30	1.42%
Apple	Technology	\$ 186.87	1.56%
Boeing	Industrial	\$ 352.16	1.94%
Caterpillar	Industrial	\$ 151.91	2.05%
Chevron	Energy	\$ 124.30	3.60%
Cisco Systems	Technology	\$ 42.71	3.09%
Coca-Cola	Consumer Goods	\$ 43.00	3.63%
Disney	Consumer Dis.	\$ 99.47	1.69%
DowDuPont	Industrial	\$ 64.11	2.37%
ExxonMobil	Energy	\$ 81.24	4.04%
General Electric	Industrial	\$ 14.08	3.41%
Goldman Sachs	Financial	\$ 225.88	1.42%
Home Depot	Consumer Goods	\$ 186.55	2.21%
IBM	Technology	\$ 141.31	4.44%
Intel	Technology	\$ 55.20	2.17%
Johnson & Johnson	Health Care	\$ 119.62	3.01%
JPMorgan Chase	Financial	\$ 107.01	2.09%
McDonalds	Consumer Dis.	\$ 160.01	2.52%
Merck	Health Care	\$ 59.53	3.23%
Microsoft	Technology	\$ 98.84	1.70%
NIKE B	Consumer Goods	\$ 71.80	1.11%
Pfizer	Health Care	\$ 35.93	3.79%
Procter & Gamble	Consumer Goods	\$ 73.17	3.92%
Travelers	Financial	\$ 128.52	2.40%
United Technologies	Technology	\$ 124.82	2.24%
UnitedHealth Group	Health Care	\$ 241.51	1.24%
Verizon Comm.	Telecomm.	\$ 47.67	4.95%
Visa A	Financial	\$ 130.72	0.64%
Wal Mart	Consumer Goods	\$ 82.54	2.52%

Changes for the month of May:

No Changes

Best GIC Rates as of May 31st, 2018

1 yr	2.38%
2 yr	2.84%
3 yr	3.28%
4 yr	3.08%
5 yr	3.25%

Rate Reset Preferred Shares

The following are samples of reset preferred shares that are available. Preferred shares are not covered by CDIC insurance and carry company-specific risk.

Pembina Pipeline Corp. 5.00% Series 5 fixed-reset preferred shares, reset date June 1st, 2019, current price \$24.15, current yield 5.17%.

Canadian corporations can pay in US dollars for preferred shares. For tax purposes, the dividend tax credit can be applied.

Enbridge Inc. U\$ 4.95% Series L fixed-reset rate preferred shares, reset date September 1st, 2022, current price \$22.43, current yield 5.52%.

Floating Rate Preferred Shares

The following is an example of a floating rate preferred rate. Preferred shares are not CDIC insured and carry company specific risk.

Fairfax Financial Holdings Ltd. Series D floating rate preferred shares 90 day T-Bill plus 3.15%, current price \$20.90, current yield 4.03%.

Perpetual Preferred Shares

The following are samples of preferred shares that are available. Preferred shares are not covered by CDIC insurance and carry company-specific risk.

Power Financial Corp 5.50% Series D perpetual preferred shares, first call anytime, current price \$24.80, current yield 5.54%.

Westcoast Energy Inc. 5.50% series 7 perpetual preferred shares, first call anytime, current price \$24.90, current yield 5.52%.

Enbridge Inc. 5.50% series A perpetual preferred shares, callable May 28, 2018, current price \$24.08, current yield 5.70%

* All rates, yields, and prices are as of May 31st, 2018, and are subject to change.