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Winter 2018 Market Update

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We hope this letter finds you well. As we enter 2018, We would like to take the opportunity to provide you with an overview of financial market results from the past 12 months, and to offer insights into some of the investment themes that may influence your investment portfolio over the coming year.

Most global equity markets registered healthy results in the fourth quarter of 2017, capping off a strong showing for the year as they responded to encouraging economic data, low interest rates, tepid inflation and expanding corporate activity. The MSCI World Index, which measures equity results in 23 developed markets around the world, added 5.6% in U.S. dollar terms for the quarter, and an impressive 23.1% for the year. The S&P 500 Index, a broad measure of U.S. stocks, was up about 6.6% for the quarter, and finished with a solid increase of 21.8% for the year. Overseas equities also performed well, and were generally up for the quarter and 12-month periods. Emerging markets strongly outperformed through 2017, with the MSCI Emerging Markets Index adding 37.8% for the 12 months in U.S. dollars.

When looking at the results for markets outside of Canada, however, the value of the Canadian dollar was an important consideration in 2017. The loonie rose sharply in value relative to the U.S. dollar during the summer months and finished the year 7.0% stronger, having the effect of reducing gains for Canadian investors in assets priced in U.S. currency. The MSCI World Index, for example, returned 15.0% for the year when expressed in Canadian dollars, the S&P 500's gain was 13.8% and the MSCI Emerging Markets Index was up 28.7%.

After a particularly strong showing in 2016, Canada's S&P/TSX Composite Index lagged for much of 2017, weighed down by low energy prices and underrepresentation in areas that outperformed, such as technology and health care. However, the Canadian equity benchmark staged a rebound in the final quarter of the year, buoyed by solid results in the financial services sector and a recovery in prices for oil and other commodities. The index finished with a gain of nearly 4.5% for the quarter and 9.1% for the year.

In the fourth quarter, central banks around the world continued to weigh options for scaling back monetary policies designed to stimulate the economy. The U.S. Federal Reserve Board announced a quarter-point increase in its benchmark interest rate in mid-December to a range of 1.25 to 1.5%, citing a strong labour market and healthy economic activity. After making two increases earlier in 2017, the Bank of Canada, however, opted to keep its overnight lending rate unchanged at 1.0%, while central banks in Europe and Japan also kept monetary policy accommodative.

In this environment, government bond yields in many regions rose modestly in the fourth quarter, reflecting the expectation of higher global interest rates. The yield for 10-year U.S. Treasury bonds was up for the quarter, and finished the year little changed at about 2.4%. Canadian 10-year government bond yields declined through the quarter, but finished the year higher at about 2.0%. The FTSE TMX Universe Bond Index, which measures Canadian government and corporate bond results, returned 2.0% for the three-month period and was up 2.5% for 2017.

Many of the conditions that have supported market advances over the past year remain in place, including accommodative business conditions here and around the world, positive economic growth and relatively low inflation. However, investing is never without risk. I believe that a diversified portfolio tailored to your individual investment objectives will allow you to participate in the potential for further gains while helping to protect your investments in the event of market disruptions.

We would like to close by wishing you a very happy, healthy New Year and to thank you for the continued opportunity to work with you as your financial advisor. If you have any questions about your portfolio, or would like to discuss any changes, we are more than happy to help.

Sincerely,

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