Insights & Strategies

PRIVATE CLIENT SOLUTIONS

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Quarterly Edition

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Positioning for Fed Rate Hikes

Within the annals of financial history March 18, 2015 could prove to be an important day. On this day, the US Federal Reserve (Fed) announced that it was removing the word "patient" with respect to keeping interest rates at historic lows, setting the stage for the first interest rate hike in over a decade. Whether the first Fed hike comes in June (our expectation) or later this year (consensus) remains to be seen, but rest assured it is coming, and it could have significant ramifications for the capital markets in the coming months. In this month's publication we examine the investment implications of a likely Fed rate hike across the bond, currency and equity markets.

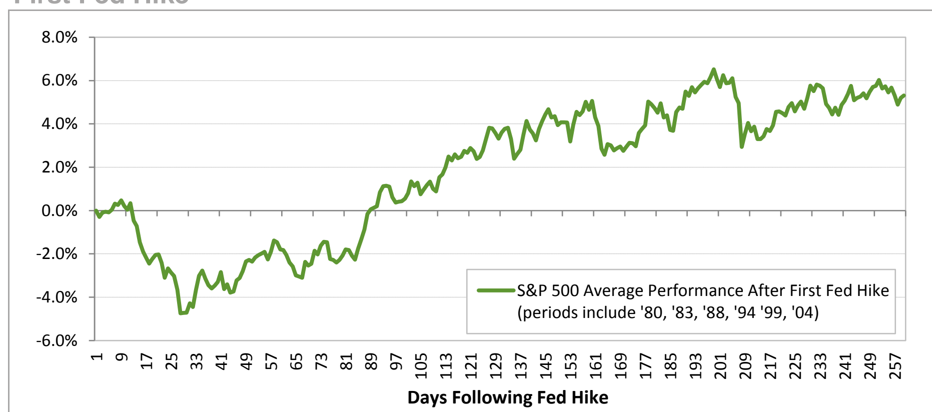
"Zero is no longer the appropriate interest rate for the US economy."

- James Bullard, President of the Federal Reserve St. Louis

Equities

To help inform our outlook and provide an empirical framework around Fed rate hikes, we examined previous tightening cycles in an effort to isolate certain tendencies. The first observation made is a kneejerk reaction often seen in equity markets with the S&P 500 Index (S&P 500) quickly selling off following the first Fed hike of a cycle. Since 1980 there have been six interest rate tightening cycles with the S&P 500 down in four of the six cycles in the month following the first hike. On average, the S&P 500 has declined roughly 5% shortly after the first rate hike. However, after some consolidation, the S&P 500 then reverses and goes on to gain roughly 5% in the 12 months after. Moreover, 12 months after the first hike, the S&P 500 has posted a positive return in five (83%) of the six tightening cycles. History clearly shows that stocks do well in the initial part of the tightening rate cycle.

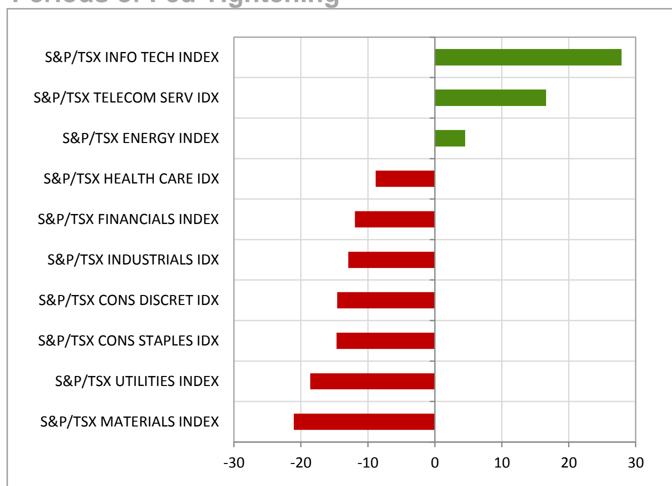
The S&P 500 Initially Declines Then Gains 5% on Average Following First Fed Hike



Source: Bloomberg, Raymond James Ltd.

The second observation from our analysis is the performance differential between the S&P 500 and S&P/TSX Composite Index (S&P/TSX). Here, the results were a bit mixed, but overall we found that the S&P 500 has modestly outperformed the S&P/TSX in the subsequent 12 months. Excluding the 1999 rate hike, when Nortel Networks Corp. hit a peak of $125 and represented more than 30% of the S&P/TSX, the S&P 500 has outperformed the S&P/TSX in three of the five instances by an average of 0.2%. Admittedly the outperformance by the S&P 500 is really nothing more than a rounding error, but given the continued weakness in commodities and our economy, we believe that the S&P 500 will continue to outperform the S&P/TSX over the next 12 months, with history supporting this view.

Canadian Sector Relative Performance During Periods of Fed Tightening



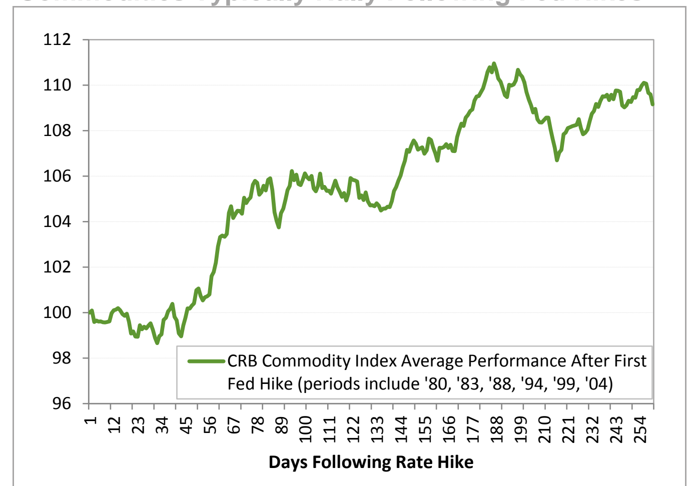
Source: Bloomberg, Raymond James Ltd.
Note: Sector returns are relative to the S&P/TSX for '94, '99, '00 Fed hikes.

Finally, from a sector perspective we examined historical returns following Fed rate hikes to determine which sectors outperformed and which ones lagged. We calculated sector returns relative to the S&P/TSX for the 1994, 1999 and 2000 Fed hikes and found, that on average, the information technology, telecom, and energy sectors outperformed the broader Canadian equity market. This supports our current overweight recommendation for the information technology sector, and to a lesser degree, supports our market weight recommendation in the telecom, and energy sectors. Looking at what sectors typically underperform during Fed tightening, we found that the materials, utilities and consumer sectors typically deliver the weakest returns. This dovetails nicely with our underweight recommendation for the materials and utilities sectors; however it conflicts with our current bullish stance on the consumer discretionary sector. Our expectation is that oil prices will remain under pressure in the H1/15, which should support stronger consumer spending. Therefore we are maintaining our overweight in the consumer discretionary sector, despite the historical tendency for the sector to underperform during Fed rate hikes.

Currencies and Commodities

Fed tightening has historically been bullish for the US dollar. This makes intuitive sense as rising bond yields would generate increased attention and fund flows from investors, both domestically and internationally, which in turn drives the US dollar higher. Of the last six tightening cycles since 1980, the US dollar has appreciated in four of the six cycles, with the trade-weighted US dollar up over 1% on average the following 12 months. While a stronger US dollar is generally negative for commodities, we found that commodities, in particular oil, typically rallies following Fed hikes. This makes sense since a stronger economy is consistent with increased demand for commodities and in turn higher prices. On average, broad commodities (Thomson Reuters Continuous Commodity Index) gain 9% in the 12 months following the first Fed hike. In comparison, oil has risen at a much higher rate of 32%. Will this playout again? We're less confident in this occurring as major consumers of commodities, such as China, continue to show weakening economic trends. We believe oil will firm up in the H2/15 as US production begins to decline. However, we remain cautious on the overall commodity complex, despite what historical trends suggests.

Commodities Typically Rally Following Fed Hikes



Source: Bloomberg, Raymond James Ltd.

Bonds

Finally, turning to the bond markets, there are three key takeaways from our analysis. The first is no surprise; bonds typically sell off with yields rising. For example, the 10-year Treasury yield increases by 1% on average over the 12 month period following the first rate hike. Second, the yield curve (the difference between the 90-day Treasury bill and 10-year Treasury bond) typically flattens, with yields on shorter term maturities rising faster than longer term maturities. We found that the US yield curve flattened in five of the last six tightening cycles by an average of 130 bps. Given these findings we recommend investors have a more neutral duration position (i.e., a mix of short and longer dated bonds) with a maximum bond duration of 5 to 7 years. For example, our Moderate Fixed Income Guided Portfolio currently has a duration of 5.6 years. Third, spreads on corporate bonds typically tighten during the beginning of the rate cycle by roughly 40 bps. The reason for this is that the US economy is improving, hence the reason for Fed tightening, which results in stronger corporate earnings and cash flow to support the underlying bonds. This finding supports our continued preference for high-quality corporates over government bonds.

Conclusion

In summary, we see the potential for increased volatility and a pullback in the equity markets around the first Fed hike; however, this could result in a buying opportunity as stocks typically rise in the 12 months following the first Fed hike. From a sector perspective, information technology generally benefits the most, while the materials and utilities sectors generally underperform which aligns with our current sector recommendations. We expect corporate bonds to benefit from the inevitable rate hike supporting our call to overweight this area, while we remain cautious on commodities, despite the tendency for them to do well during tightening cycles.

Ryan Lewenza, CFA, CMT
Private Client Strategist

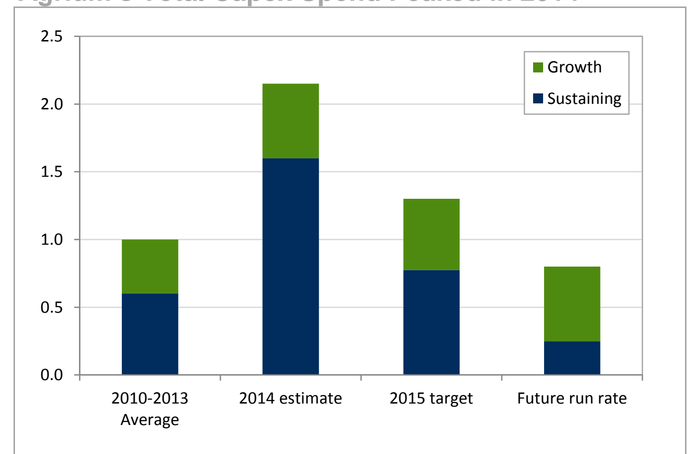
Cross Border Shopping From Home

A strong US economy can benefit export economies, particularly in a period when the US dollar is strengthening against all its major trading partners. According to economists, the U.S. economy is anticipated to register the strongest growth rate among the G10 with 3.0% GDP growth in 2015. Canadian investors can potentially benefit from this strength by investing in companies that derive a significant portion of their revenue in the US. Below we highlight five Canadian firms that have exposure to the region.

Agrium Inc. (AGU-T)

Agrium Inc., a global provider of crop inputs, is poised to benefit from increased demand from Asia and Latin America as well as improved ag sentiment in North America. The company offers a diversified way to play the fertilizer space, participating in potash, nitrogen and phosphates, as well as having a significant retail and distribution presence. In addition to the supportive operating environment, Agrium has exited a period of heavy capital investment expenditures, setting it up to generate excess cash flow for the foreseeable future. Capex is anticipated to have peaked at US$2.2 bln in 2014, however, management forecasts a future capital expenditure run rate of just US$800 mln, resulting in significant free cash flow growth and increased return of capital to shareholders. Within five years management anticipates the company can potentially achieve greater than US$10/share per year in available free cash flow. Given Agrium's improved financial outlook, the company recently increased its targeted dividend payout ratio to 40-50% of normalized free cash flow and introduced a share repurchase program for 5% of outstanding shares.

Agrium's Total Capex Spend Peaked in 2014



Source: Bloomberg, Raymond James Ltd. April 6, 2015.

Cott Corp (BCB-T)

Cott Corp. is a beverage manufacturer and distributor focused on the private label space. While the carbonated soft drink market (CSD) has experienced a steady volume decline over the past 10 years due to a shift in customer preference, Cott has actively looked for ways to mitigate this risk. Most recently the company acquired DS Services, a water delivery and office coffee service provider for US$1.25 bln. Following the acquisition, Cott's CSD segment is estimated to have contributed just 19% of 2014 revenue. Further, the acquisition improves the company's overall growth prospects and margin profile. Looking forward, Cott management believes they can generate sustainable free cash flow of about US$120 mln, or US$1.22 per share, giving it the financial flexibility to pay down debt.

Gildan Activewear Inc. (GIL-T)

Gildan Activewear Inc., a major supplier of branded apparel including T-shirts, fleece, socks and underwear, enters 2015 positioned to benefit from:

- its low-cost manufacturing base,
- significant manufacturing capacity additions that may allow it to capture additional market share,
- a drop in capital expenditures that will result in margin expansion, and
- weaker cotton prices that may provide a positive tailwind later this year as higher priced hedges roll off.

In terms of valuation, Gildan trades at a slight discount to the consumer staples sector while offering superior long-term growth prospects.

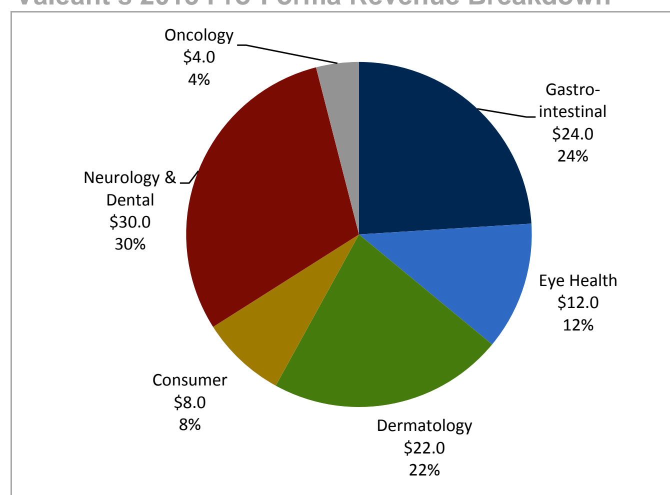
Progressive Waste Solutions Ltd. (BIN-T)

Progressive Waste Solutions Ltd. is a waste collection, recycling and disposal services to commercial, industrial, municipal and residential customers in 13 US states and six Canadian provinces. Through a number of initiatives and improved operating environment, Progressive Waste is anticipated to experience margin expansion over the coming years. These include the divesture of a lower margin business in New York, fuel cost savings, an improved pricing environment and management's cost savings initiatives. All told, Progressive's management outlines a long-term EBITDA margin expansion opportunity of approximately 300 bps.

Valeant Pharmaceutical International Inc. (VRX-T)

Valeant Pharmaceutical is Canada's largest pharmaceutical company focusing on late-stage, lower-risk development projects. The company has primarily grown through acquisition, closing 19 deals over the last five years, building a diversified portfolio where no one product makes up more than 4% of revenue. Management has exercised discipline in acquiring firms by targeting those that will generate a minimum 20% internal rate of return and a payback in less than 6 years. The accretive nature of the acquisitions has helped drive strong financial results. According to Bloomberg, earnings will grow 26% in 2015 and 40% in 2016; however, shares trade at just 14.1x estimated 2016 EPS.

Valeant's 2015 Pro-Forma Revenue Breakdown



Source: Bloomberg, Raymond James Ltd. April 6, 2015.

Jason Castelli,CFA
Portfolio Manager, Research & Strategy

Cross-Border Shopping List

Company name	Sym	Sector	% Rev US	Price	Est. Nxt P/E	Est. Nxt EV/EBITDA	Est. 1-Year Rev Gr	Est. 1-Year EPS Gr	Cons. Price Target	% Upside
Agrium Inc	AGU	Materials	60%	$131.54	11.8x	8.5x	2.6%	83.0%	$150.59	14.5%
Cott Corp	BCB	Cons Stap	67%	$ 12.19	49.9x	7.9x	53.62%	136.8%	$12.77	4.8%
Gildan Activewear	GIL	Cons Disc	88%	$39.09	16.6x	15.1x	15.1%	-14.3%	$42.83	9.6%
Progressive Waste Solutions	BIN	Industrials	46%	$37.96	20.2x	9.5x	-2.9%	8.9%	$41.01	8.0%
Valeant Pharmaceuticals	VRX	Health Care	54%	$246.63	14.1x	16.4x	13.9%	40.1%	$274.49	11.3%
Average			**62%**							**10.8%**

Source: Bloomberg, Raymond James Ltd, As at April 6, 2015.

Time to Look at Active Management for Fixed Income Exposure

In the fixed income space, passively managed products carry significant risks due to a couple shortfalls of the commonly used, cap-weighted indexing methodology. The first is cap-weighted indices can result in significant issuer/sector concentration risk. The second is the fact that passive fixed income ETFs are duration agnostic.

- **Sector/Issuer Concentration**

With cap-weighted fixed income indices - the sectors/issuers with the largest outstanding debt receive the highest weighting in the index. In other words, the more debt a sector, country or company issues, the higher the weighting it receives in the index regardless of fundamental factors such as quality and liquidity. For example, energy represents a 15% weight in the Barclays Capital US High Yield Very Liquid Index (tracked by ZHY-T) despite fundamental issues facing the energy sector and concerns over defaults. This is especially concerning in times of turmoil as the largest issuers may be the most susceptible to rating downgrades.

BMO HY US Corp Bond ETF (ZHY-T)

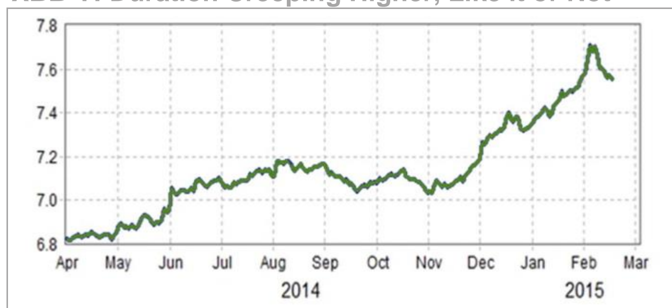
Sector	Weight
Communications	19.7%
Energy	14.9%
Consumer Non-Cyclical	14.0%

Source: SPDR ETFs, April 2, 2015.

- **Duration Agnostic**

Over the long term, duration is the largest contributor to fixed income performance and brings to light the concern of duration agnostic products when yields are expected to move higher. Most passive bond ETFs are duration agnostic which occurs because the modified duration cannot be controlled or shifted by a portfolio manager. It is the residual effect of debt included in the index/universe that an ETF tracks, and as new issues come to market, the duration will shift accordingly.

XBB-T: Duration Creeping Higher, Like it or Not



Source: RogersCasey Canada.

For example, within Canadian fixed income there are significant changes happening in the FTSE TMX Canada Universe Bond Index (proxy for the Canadian fixed income universe) which the iShares Canadian Bond ETF (XBB-T) tracks. As seen in the chart, the modified duration of the index has been moving higher over the past year as issuers are taking advantage of the low rate environment to issue longer-term debt. As a result, the modified duration of the index now sits above 7.5 years. This means that for every 100 bps change in the interest rate, we can expect an inverse price change of 7.5%.

Enter Active Management

On the flipside, active managers are less subject to these shortcomings. An active manager has the ability to diversify away the sector/issuer concentration, or increase it. Additionally they have the ability to shorten or lengthen duration relative to a benchmark depending on their views.

Recent discussions with PMs and fixed income traders have highlighted growing concerns on the quality of issuers and liquidity in the credit space. Granted that cap-weighted bond ETFs buy/replicate anything that enters its index, we feel these risks are being exaggerated by the construction of the indices. Additionally, when rates rise, having an active manager that makes duration shifts helps protect the downside. Therefore, we feel that active management will play a more important role over the next 24 months and investors can benefit from managers who can take advantage of the most attractive opportunities, and more importantly avoid others.

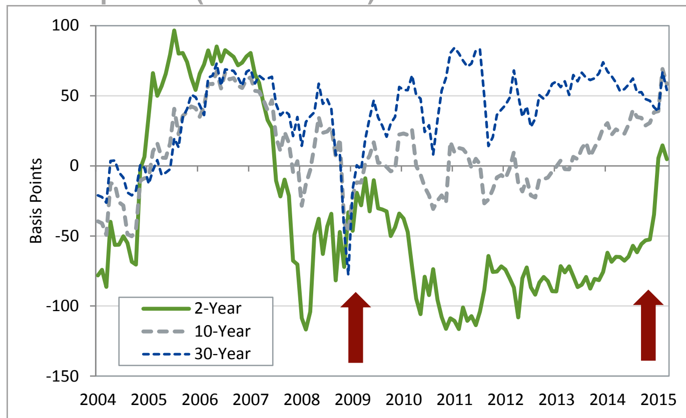
Focus list member, **Lysander Corporate Value Bond** is a credit-focused mandate and a nice complement to core fixed income holdings. Management's flexible mandate addresses both issues mentioned in passive bond ETFs by offering investors objective credit research on issue quality, as well as zero restrictions on duration relative to its benchmark. The fund is sub-advised by Canso Investment Counsel (Canso), a boutique specialty manager where individual credit and security selection is the primary focus of the investment process. The fund holds investment grade and high yield debt, tilting the fund exposure accordingly depending on risk in the market (currently conservatively positioned with 53% IG debt). While the retail mutual fund is relatively new, the team forged a strong track record on the institutional pool, Canso Corporate Value, which abided by the same investment strategy since 2002. Over the past decade, Canso Corp. Value has produced a 9.27% annualized return, outperforming the FTSE TMX Canada All Corporate Bond index by 321 bps.

Andrew Clee
Mutual Funds & ETFs

Divergent Policies in Action

The differentials between Canadian and US sovereign yields are now displaying higher American yields across the curve, which we perceive to be largely driven by the difference in central bank stance and overall economic outlook of the respective countries. Currently, the Fed is looking to raise rates this year, whereas the Bank of Canada (BoC) surprised the markets in January with a rate cut. There were added worries of an additional rate cut here in Canada, but this risk has subsided somewhat. On March 26th, Governor Poloz provided further guidance, reiterating that he was “comfortable with the amount of insurance we had already taken out” and that the January rate cut bought the BoC some time to evaluate the negative effects of lower oil prices. It can be interpreted that Governor Poloz is taking a bit of a “wait-and-see” approach, while looking for more data to guide his next decision. Here we explore some of the underlying drivers guiding the USD/CAD yield spread, and what it could mean for fixed income investors looking to invest in government securities.

Yield Spreads (US – Canada)



Source: Bloomberg, Raymond James Ltd.

When it comes to interest rate tightening, we can identify a few key reasons why Canada will lag our friends to the south:

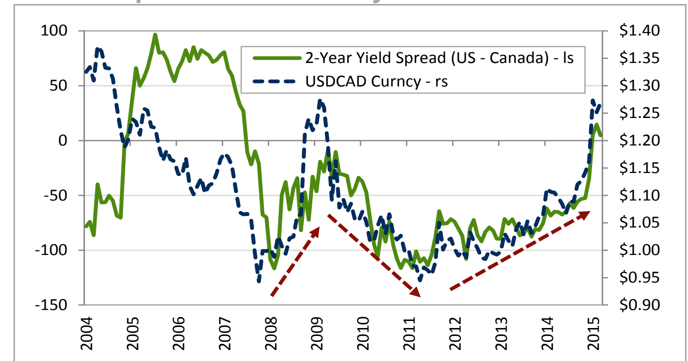
Household Debt: Canadians carry a significantly higher level of household debt, with longer duration, than those in the US. Hiking interest rates too quickly could increase the burden on Canadian consumers unjustly and put them, and the economy, in a more difficult situation than we are experiencing currently.

Weaker Currency: Exports account for a substantial amount of our GDP, at approximately 30% vs the US’s ~13.5%. Deflating the Canadian dollar works to support the nation’s exporters by making us a more attractive trade partner. However, this dependency on the global economy makes Canada more susceptible to a slowdown in international growth.

Oil: Alluded to earlier, the sharp drop in crude oil prices were not anticipated and are having a significant effect in Canada, especially in Alberta. The speed at which oil’s price fell had many central banks scrambling to anticipate what it could mean for their nations. Some, like Canada, acted quickly with policy announcements to support their economies.

The short and long ends of the yield curve are driven by separate factors. Current interest rates influence shorter maturity bonds, whereas inflation expectations impact bonds with maturities further out on the curve. In 2010, Canada instituted a series of rate hikes, taking the benchmark rate from 0.25% to 1.00%. The move caused short end yields in Canada to move higher relative to the US, illustrated by an increasing spread between their government 2-year bond yields (chart left, a value above zero means that the US treasury is yielding higher). However, longer maturity bonds took their cue from inflation expectations and continued to display higher yields in the US post-crisis.

2-Year Spread and Currency Moves in Tandem



Source: Bloomberg, Raymond James Ltd.

Given these factors, the US will (almost certainly) raise rates before Canada, increasing the spread differential. For investors who currently hold US dollars, this is positive, since you can invest in US government bonds at higher rates than here at home.

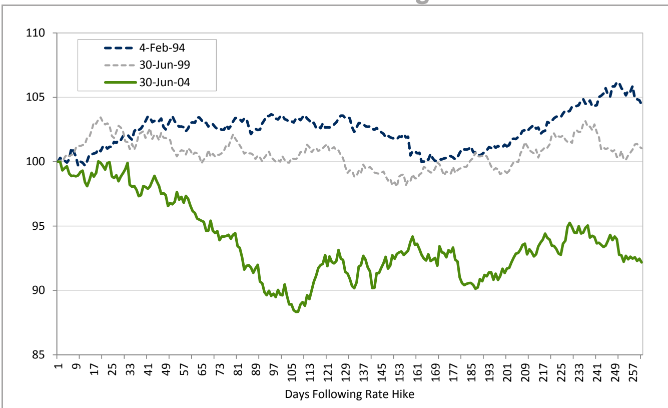
However, the story is different if you have Canadian dollars and would need to convert. Though the yield curve in the US is higher, the appreciation of the US dollar versus the loonie has made this investment less attractive. In fact, the 2-year yield spread and USD/CAD foreign exchange rate have moved essentially in unison since the crisis (see chart). Given this relationship, we suggest that holders of Canadian dollars stick with investments denominated in that currency, rather than try to pick up yield by conversion.

Fixed Income

Looking at the Past for Cues on the Future

The FX markets are vulnerable to a variety of factors when it comes to currency pair movement. The two most influential factors at the moment (when looking at USD/CAD) are oil and central bank rate decisions. The current global economic backdrop includes several central banks in stimulus mode. Then there is the Fed. The Fed led the charge during the financial crisis by launching three rounds of Quantitative Easing (QE) which helped turn markets around in the US and boosted the economy back near pre-crisis levels. Former Fed Chair Bernanke and the Fed managed to pull out of QE with no major implications to the markets. Now it's up to current Fed Chair Janet Yellen to implement the first rate hike in 11 years. The natural concern for the Fed is equity market reaction (selloff) and currency appreciation (weight on exports) that is typically expected after a decision to lift rates. At this point we thought it would be worth looking at market conditions around previous rate hikes from the Fed and the USD/CAD reaction to help determine what we should expect.

USD/CAD Performance Following Three Rate Hikes



Source: Bloomberg, Raymond James Ltd.

February 4, 1994

Starting with the 1994 Fed hike, the backdrop was one of strong equity gains and rising inflation trends. The S&P 500 was just coming off a solid year of equity gains, with the index up roughly 10% in 1993 and headline CPI running in the 4-5% range. According to the February 1994 communique, "The information reviewed at this meeting indicated that economic activity recorded a strong advance during the closing months of 1993." Additionally, "Increases in broad indexes of consumer and producer prices had been somewhat larger in recent months than earlier in 1993, and prices of a number of commodities had turned up." These conditions led to the Fed hiking rates by 25 bps to 3.25%. It continued to tighten through 1995 with the Fed Funds rate peaking at 6%. Reviewing price action for USD/CAD over this period, we saw the pair go from $1.3168 one month prior to the hike to $1.3571 one month after the Fed hike. On the day of the hike, the USD sizably rallied by nearly two cents.

June 30, 1999

In June 1999, the Fed hiked rates by 25 bps on concerns of an overheated economy and stock market, with the S&P 500 trading at a historic high P/E ratio of 30x. The equity markets reacted by sending the S&P 500 lower by 3.2% over the course of the month following the rate hike. The Fed Funds rate closed the year at 5.5% following two hikes in August and November. Reviewing price action for USD/CAD, we saw the pair go from $1.4725 one month prior to the hike to $1.5066 one month following the Fed hike. On the day of the hike, USD/CAD worked between $1.4625 and $1.4816 and closed at $1.4631.

June 30, 2004

In June 2004, housing bubble concerns were catching momentum prompting the Fed to raise rates. Rates continued to tighten until the end of July 2006. In addition to the housing issue, notable market conditions included an oil bull market, rising inflation and the P/E of the S&P 500 neared 20 times. Following the rate hike announcement, stocks sold off until August before starting a rally to all-time highs. Reviewing price action for USD/CAD, we saw an opposite reaction to the hikes highlighted above, where the pair went from $1.3624 prior to the hike to $1.3314 one month after the Fed hike. On the day of the hike, USD/CAD worked between $1.3319 and $1.3501 and closed at $1.3328.

Conclusion

Based on the analysis above, we feel the USD/CAD reaction to a rate hike will follow the February 4, 1994 and June 30, 1999 rate hikes where the USD strengthened versus the CAD. The conditions surrounding the June 30, 2004 rate hike was one of a bull market in oil prices where WTI prices moved 65+% higher between April and October 2004, supporting the CAD versus the USD (the loonie outperformed the greenback by 6.68% in 2004). While our strategist sees the potential for higher WTI prices in H2/15, he doesn't envision a significant run-up like that seen in 2004, hence why we use the 1994 and 1999 experience as our playbook for this expected rate hike. The Fed has indicated that "forward guidance" will be provided ahead of rate hike decisions and will likely be a catalyst for broad-based USD appreciation. We expect additional upside for the USD once a rate hike is officially announced.

Jeff Fitzgerald
Foreign Exchange

Quarterly Chart Package

Long-Term Market Returns

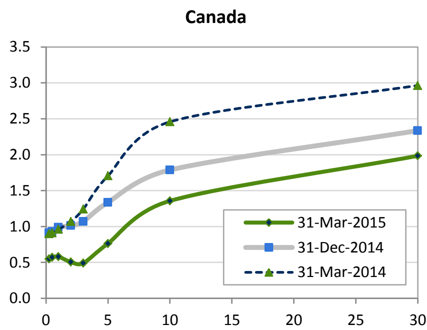
	Currency	Level	1 Mo	3 Mo	6 Mo	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	10 Yr
Canada											
S&P/TSX Comp	CAD	14,902	-2.2%	1.8%	-0.4%	4.0%	8.1%	6.3%	1.4%	4.4%	4.5%
S&P/TSX Comp TR	CAD	45,743	-1.9%	2.6%	1.1%	6.9%	11.4%	9.6%	4.4%	7.4%	7.4%
S&P/TSX 60 Comp	CAD	869	-2.4%	1.7%	0.6%	5.9%	9.0%	7.1%	1.8%	4.2%	5.0%
S&P/TSX Small Cap	CAD	573	-4.2%	-1.0%	-10.3%	-12.3%	-1.0%	-4.0%	-7.5%	-0.8%	-1.1%
United States											
S&P 500 Comp	USD	2,068	-1.7%	0.4%	4.8%	10.4%	14.8%	13.7%	11.8%	12.1%	5.8%
S&P 500 Comp TR	USD	3,805	-1.6%	1.0%	5.9%	12.7%	17.2%	16.1%	14.2%	14.5%	8.0%
Dow Jones Ind Avg	USD	17,776	-2.0%	-0.3%	4.3%	8.0%	10.4%	10.4%	9.6%	10.4%	5.4%
NASDAQ Comp	USD	4,901	-1.3%	3.5%	9.1%	16.7%	22.5%	16.6%	15.2%	15.4%	9.4%
S&P 600 Small Cap	USD	720	1.4%	3.6%	13.4%	7.3%	16.4%	15.8%	12.7%	14.9%	8.4%
International											
DJ Euro Stoxx 50	EUR	3,697	2.7%	17.5%	14.6%	16.9%	18.7%	14.3%	6.2%	4.8%	1.9%
FTSE 100 (UK)	GBP	6,773	-2.5%	3.2%	2.3%	2.6%	2.8%	5.5%	3.5%	3.6%	3.3%
CAC 40 (France)	EUR	5,034	1.7%	17.8%	14.0%	14.6%	16.1%	13.7%	6.0%	4.8%	2.2%
DAX (Germany)	EUR	11,966	5.0%	22.0%	26.3%	25.2%	23.9%	19.9%	14.2%	14.2%	10.7%
IBEX 35 (Spain)	EUR	11,521	3.1%	12.1%	6.4%	11.4%	20.6%	12.9%	2.2%	1.2%	2.2%
CSI 300 (China)	CNY	4,051	13.4%	14.6%	65.3%	88.8%	27.4%	18.2%	5.9%	3.9%	15.7%
HANG SENG (Hong Kong)	HKD	24,901	0.3%	5.5%	8.6%	12.4%	5.7%	6.6%	1.4%	3.2%	6.3%
NIKKEI 225 (Japan)	JPY	19,207	2.2%	10.1%	18.8%	29.5%	24.5%	24.0%	18.5%	11.6%	5.1%
TOPIX (Tokyo)	JPY	1,543	1.3%	9.6%	16.3%	28.3%	22.1%	21.8%	15.4%	9.5%	2.7%
KOSPI (S. Korea)	KRW	2,041	2.8%	6.5%	1.0%	2.8%	0.9%	0.4%	-0.8%	3.8%	7.8%
S&P/ASX 200 (Australia)	AUD	5,892	-0.6%	8.9%	11.3%	9.2%	8.9%	10.8%	5.0%	3.9%	3.7%
BOVESPA (Brazil)	BRL	51,150	-0.8%	2.3%	-5.5%	1.5%	-4.7%	-7.4%	-7.1%	-6.2%	6.8%
BOLSA (Mexico)	MXN	43,725	-1.1%	1.3%	-2.8%	8.1%	-0.4%	3.4%	4.0%	5.6%	13.2%
Other											
MSCI World	USD	1,741	-1.8%	1.8%	2.5%	4.0%	10.2%	9.9%	6.9%	7.7%	4.2%
MSCI EAFE	USD	1,849	-2.0%	4.2%	0.2%	-3.5%	5.1%	6.0%	2.1%	3.1%	2.1%
MSCI Emerging Markets	USD	975	-1.6%	1.9%	-3.1%	-2.0%	-3.0%	-2.2%	-4.5%	-0.7%	5.9%
MSCI Far East	USD	3,074	0.8%	8.3%	6.3%	9.7%	7.0%	7.1%	4.5%	4.0%	2.4%
MSCI Europe	USD	1,654	-3.0%	2.9%	-1.9%	-7.4%	5.9%	6.2%	1.8%	3.3%	1.9%
C$ Indices											
S&P 500 Comp	CAD		-0.4%	9.6%	18.8%	26.8%	28.2%	23.1%	19.5%	17.2%	6.3%
S&P 500 Comp TR	CAD		-0.2%	10.2%	20.0%	29.4%	30.9%	25.8%	22.1%	19.7%	8.5%
Dow Jones Ind Avg	CAD		-0.6%	8.9%	18.2%	24.0%	23.3%	19.6%	17.2%	15.4%	5.9%
MSCI World	CAD		-0.5%	11.2%	16.1%	19.4%	23.0%	19.0%	14.3%	12.6%	4.7%
MSCI EAFE	CAD		-0.6%	13.7%	13.5%	10.8%	17.4%	14.8%	9.2%	7.8%	2.6%
MSCI Emerging Markets	CAD		-0.2%	11.2%	9.8%	12.5%	8.4%	5.9%	2.1%	3.8%	6.4%
MSCI Far East	CAD		2.2%	18.2%	20.4%	25.9%	19.4%	16.0%	11.8%	8.8%	2.9%
MSCI Europe	CAD		-1.7%	12.3%	11.2%	6.3%	18.2%	15.0%	8.8%	8.0%	2.3%
Canadian Dollar	USD/CAD	$1.27	1.4%	9.2%	13.3%	14.8%	11.7%	8.3%	6.9%	4.6%	0.5%

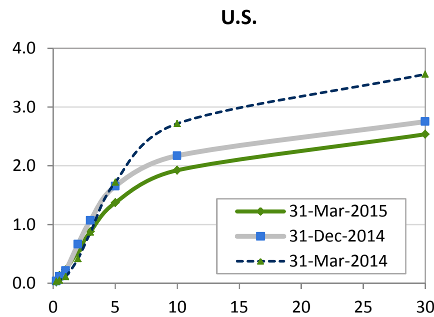
Source: Bloomberg, Raymond James Ltd. All return numbers greater than one year are annualized. Performance as at March 31, 2015.

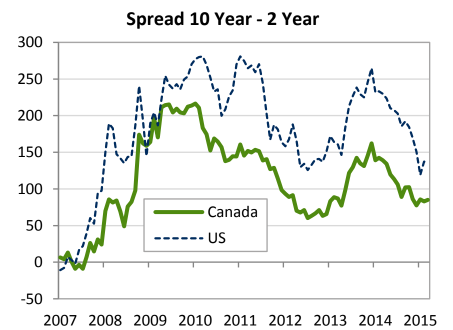
	Level	1 Mo	3 Mo	6 Mo	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	10 Yr
S&P/TSX GICS Sectors										
Consumer Discretionary	1,986	-1.1%	5.6%	19.7%	28.6%	29.0%	25.0%	16.8%	15.9%	6.9%
Consumer Staples	3,881	-0.6%	3.1%	23.4%	41.6%	32.2%	27.5%	22.7%	20.3%	8.3%
Energy	2,637	-0.9%	-2.0%	-18.2%	-16.8%	-2.0%	-1.1%	-6.1%	-1.0%	1.7%
Financials	2,269	-1.5%	-1.1%	-0.1%	6.5%	11.9%	9.9%	5.9%	6.2%	4.7%
Health Care	2,939	4.2%	45.1%	67.3%	67.7%	62.6%	51.6%	41.3%	52.5%	18.9%
Industrials	2,441	-1.2%	1.2%	0.3%	19.2%	20.0%	21.5%	14.9%	15.3%	10.1%
Information Technology	209	-3.4%	8.5%	25.2%	37.8%	30.0%	21.2%	-2.6%	-5.4%	-0.6%
Materials	2,035	-10.3%	2.8%	-5.0%	-10.1%	-12.6%	-14.1%	-15.7%	-7.6%	3.0%
Telecom Services	1,263	-3.4%	-1.0%	8.5%	6.3%	3.5%	8.7%	9.9%	10.8%	5.9%
Utilities	2,011	-1.6%	2.4%	6.5%	6.0%	2.4%	1.1%	1.2%	3.0%	3.8%
S&P 500 GICS Sectors										
Consumer Discretionary	598	-0.6%	4.4%	13.0%	16.5%	19.3%	18.8%	18.0%	18.2%	8.6%
Consumer Staples	501	-2.4%	0.4%	7.8%	13.4%	10.5%	12.6%	12.9%	11.7%	7.8%
Energy	566	-2.0%	-3.6%	-14.4%	-13.3%	-1.6%	1.7%	-1.0%	5.6%	5.3%
Financials	325	-0.8%	-2.5%	4.1%	7.9%	15.1%	15.1%	10.2%	8.6%	-1.6%
Health Care	841	0.8%	6.2%	13.6%	24.2%	25.5%	24.5%	21.7%	17.7%	9.3%
Industrials	480	-2.7%	-1.4%	4.7%	6.4%	15.1%	14.0%	10.2%	11.9%	5.4%
Information Technology	693	-3.4%	0.2%	5.0%	16.2%	19.8%	11.8%	13.5%	13.0%	8.6%
Materials	307	-5.0%	0.4%	-1.9%	2.7%	11.3%	9.4%	5.3%	8.4%	5.2%
Telecom Services	153	-3.8%	0.2%	-5.1%	-0.9%	-1.6%	5.4%	3.5%	7.2%	2.6%
Utilities	226	-1.3%	-6.0%	5.5%	7.1%	6.6%	8.2%	8.7%	8.4%	4.3%
Commodities										
Energy										
Crude Oil - WTI (US$/bbl)	$47.60	-4.3%	-10.6%	-47.8%	-53.1%	-30.0%	-22.7%	-18.3%	-10.7%	-1.5%
Brent Crude (US$/bbl)	$55.11	-11.9%	-3.9%	-41.8%	-48.9%	-29.2%	-23.5%	-17.2%	-7.8%	0.2%
Natural Gas (US$/MMBtu)	$2.64	-3.4%	-8.6%	-35.9%	-39.6%	-19.0%	7.5%	-11.9%	-7.4%	-10.1%
Heating Oil (US$/gal)	$1.72	-25.3%	-7.0%	-35.1%	-41.4%	-23.2%	-18.5%	-13.6%	-4.5%	0.4%
Gasoline (US$/gal)	$1.78	0.7%	24.0%	-31.2%	-38.9%	-24.3%	-19.3%	-13.0%	-5.1%	NA
Coal (US$/ton)	$49.30	-3.8%	-3.5%	-11.3%	-19.6%	-9.6%	-6.2%	-10.8%	-2.3%	-2.0%
Metals										
Gold (US$/oz.)	$1,184	-2.4%	-0.1%	-2.0%	-7.8%	-14.0%	-10.8%	-4.7%	1.2%	10.7%
Silver (US$/oz.)	$16.66	0.4%	6.1%	-1.8%	-15.7%	-23.5%	-19.8%	-18.4%	-0.9%	8.9%
Aluminum AA (US$/lb.)	$0.81	-1.7%	-3.6%	-8.9%	0.0%	-3.2%	-5.7%	-9.4%	-5.1%	-1.0%
Copper (US$/lb.)	$2.70	2.5%	-4.1%	-9.4%	-9.1%	-10.5%	-10.6%	-10.5%	-5.0%	6.3%
Nickel (US$/lb.)	$5.53	-12.1%	-18.2%	-24.0%	-22.0%	-13.7%	-11.4%	-17.0%	-13.1%	-2.5%
Zinc (US$/lb.)	$0.93	0.8%	-4.5%	-9.0%	4.9%	4.7%	1.3%	-3.1%	-2.6%	4.2%
Soft										
Wheat (US$/bushel)	$5.12	-1.1%	-13.2%	7.1%	-26.6%	-13.7%	-8.2%	-9.5%	2.6%	4.5%
Corn (US$/bushel)	$3.76	-2.1%	-5.2%	17.3%	-25.0%	-26.4%	-16.4%	-14.2%	1.7%	5.9%
Sugar (US$/lb.)	$0.12	-14.4%	-17.8%	-22.9%	-32.9%	-17.8%	-21.6%	-18.6%	-6.4%	3.2%
Currencies										
Canadian Dollar (CAD/USD)	$0.79	-1.4%	-8.4%	-11.7%	-12.9%	-10.4%	-7.7%	-6.5%	-4.4%	-0.5%
Canadian Dollar (USD/CAD)	$1.27	1.4%	9.2%	13.3%	14.8%	11.7%	8.3%	6.9%	4.6%	0.5%
Euro (EUR/USD)	$1.07	-4.2%	-11.3%	-15.0%	-22.1%	-8.5%	-7.0%	-6.7%	-4.5%	-1.9%
Yen (USD/YEN)	120.13	0.4%	0.3%	9.6%	16.4%	12.9%	13.2%	9.6%	5.1%	1.2%
Pound Sterling (GBP/USD)	$1.48	-4.0%	-4.9%	-8.6%	-11.1%	-1.3%	-2.5%	-1.9%	-0.5%	-2.4%
U.S. Dollar Index	98.36	3.2%	9.0%	14.5%	22.8%	8.9%	7.6%	6.7%	3.9%	1.6%

Source: Bloomberg, Raymond James Ltd. All return numbers greater than one year are annualized. Performance as at March 31, 2015.

Yield Curve

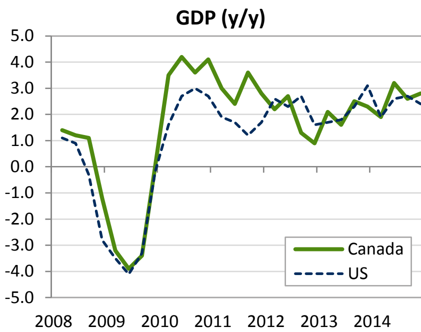


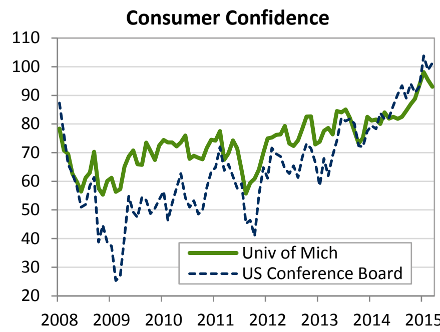


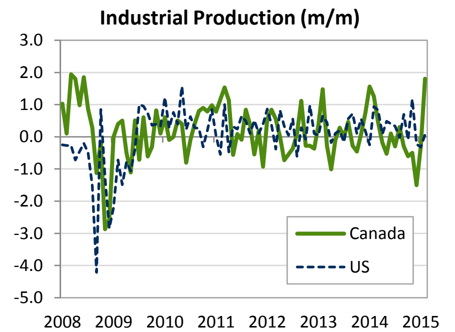


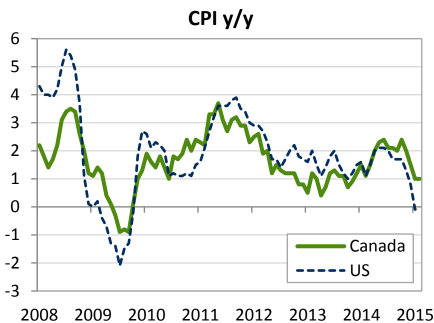
Source: Bloomberg, Raymond James Ltd. Performance as at March 31, 2015.

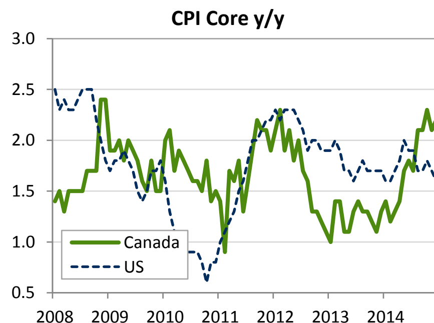
Economic Data

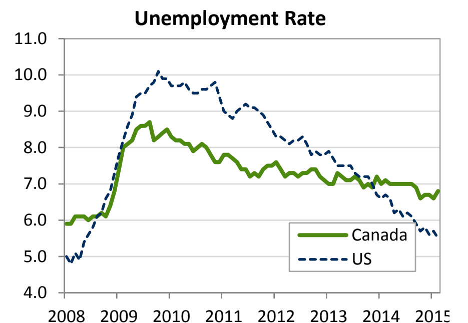


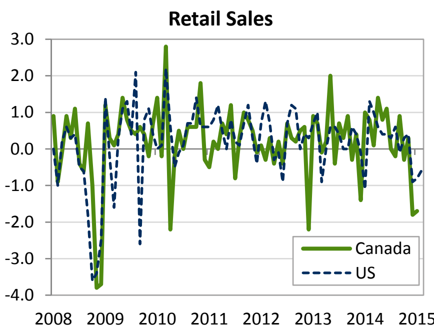


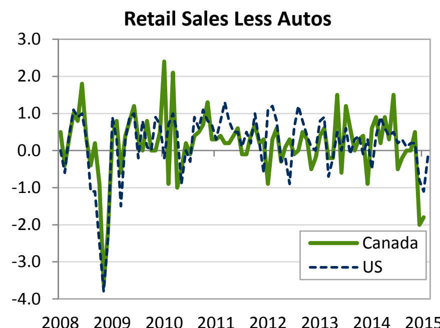


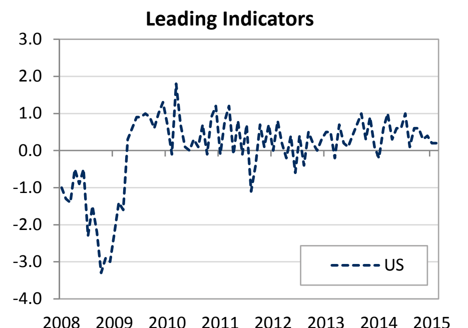








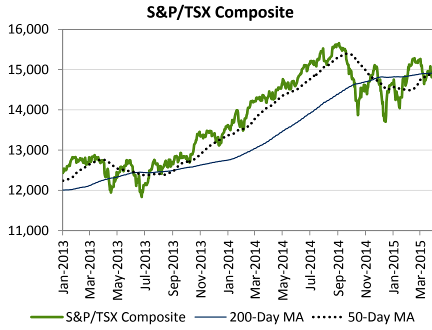


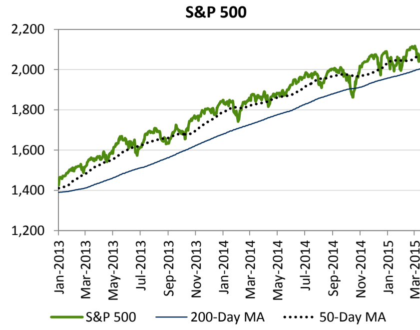


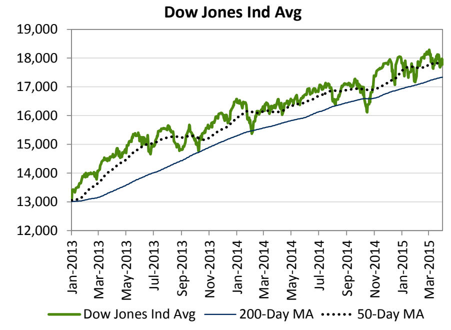
Source: Bloomberg, Raymond James Ltd. Performance as at March 31, 2015.

Charts of Interest

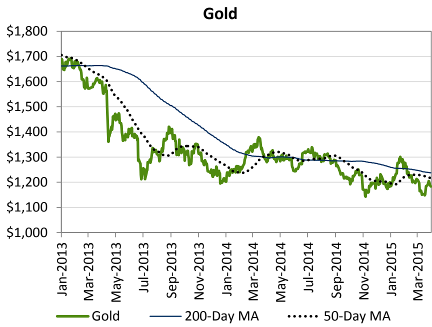
Markets

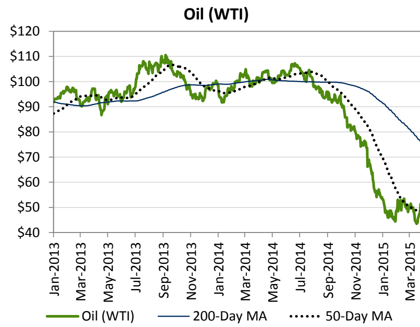


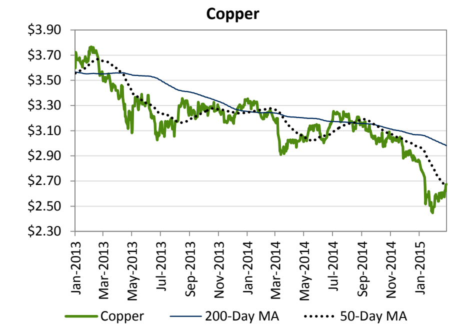




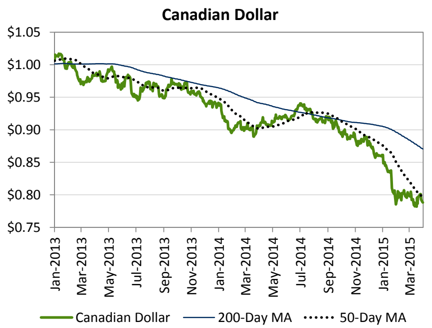
Commodities

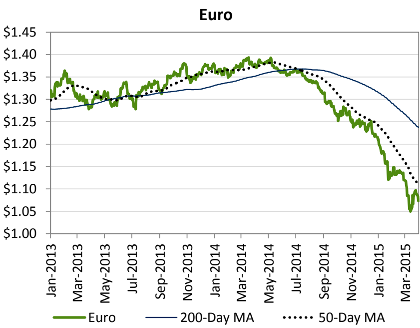


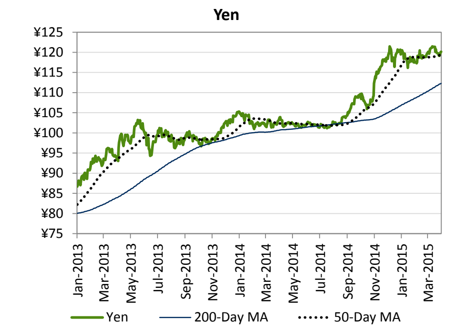




Currencies







Source: Bloomberg, Raymond James Ltd. Performance as at March 31, 2015.

Asset Class Weightings

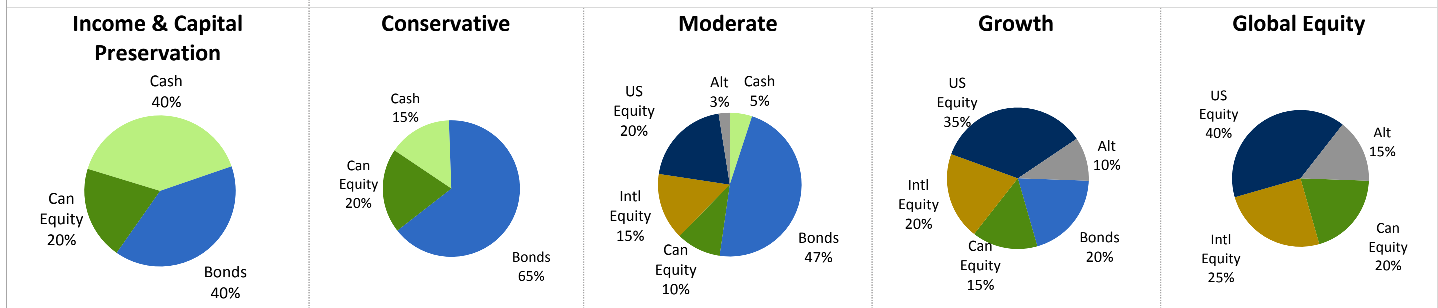
Profile	Cash	Bond	Can. Equity	Intl. Equity	US Equity	Alternative
Income & Capital Preservation	40%	40%	20%	0%	0%	0%
Conservative	15%	65%	20%	0%	0%	0%
Moderate	5%	47%	10%	15%	20%	3%
Growth	0%	20%	15%	20%	35%	10%
Global Equity	0%	0%	20%	25%	40%	15%

General Asset Class Ranges

	Cash	Bonds	Equities	Alternative
Income & Capital Preservation	40 – 75	15 – 40	0 – 20	0
Conservative	15 – 30	60 – 65	10 – 20	0
Moderate	5 – 10	45 – 65	25 – 45	0 – 5
Growth	0 – 5	15 – 40	50 – 70	10 – 15
Global Equity	0	0	80 – 85	15 – 20

Profile Descriptions

	Description
Income & Capital Preservation	Virtually any loss is unacceptable. Investors' primary objective is to achieve a return that keeps pace with inflation. Fixed income and cash make up the largest portion of holdings.
Conservative	Losses can be tolerated, but erosion of regular income payments cannot. Stability of coupon or dividend is the primary concern as many investors will employ this income for cost-of-living expenses. Bonds tend to make up the largest proportion of holdings.
Moderate	Some higher risk positions tolerated but these are typically offset with blue-chip dividend paying equities or low-risk bonds.
Growth	Willingness to take speculative bond and equity positions though growth portfolios are typically biased towards equities. Strong earnings growth or high yields usually take preference over valuations. Some defensive constraints may be employed, but even these may be removed for highly risk-tolerant investors.
Global Equity	A willingness to ignore 'home-country bias' and allocate holdings internationally. International equities typically receive weightings equivalent to or greater than domestic securities. These investors recognize that Canada represents only ~3% of global equity markets and are willing to source investment opportunities outside our borders.



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