
Executive Summary

GLC 2015 Mid-Year update and outlook

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As we move towards the second half of the year, we find capital markets to be on edge.

- Investors are fixated on when the U.S. Federal Reserve (Fed) will finally increase interest rates.
- As expected, the 50% drop in oil prices has weighed on Canada's economic growth in the first quarter. Canadian equities have been in a trading range since highs reached last September, managing to stay in positive territory so far this year.
- US equities, for the most part, have traded sideways and are up marginally for the year.
- Notwithstanding the ongoing Greek saga, aggressive policy action by the European Central Bank (ECB) has helped push equities in the region higher.
- Despite slowing economic growth, Chinese equities have gained 29.6% so far this year as retail investor activity increases on the back of promises of more stimulus.
- Bond markets have experienced increased volatility. With deflation fears abating and global growth expectations improving, investors have been abandoning the 'safety play' of government bonds. Yields have been on the move in 2015.

Going forward into the second half of 2015, we see the following key questions facing capital markets.

1. *When will the Fed raise rates?*

[GLC] We think most likely in September.

2. *Can equity markets withstand higher interest rates?*

[GLC] Yes, to a point.

3. *Will the US economy move back towards 3% trend growth?*

[GLC] Yes, we think it will.

4. *Have we seen the lows in crude oil prices?*

[GLC] A range of US\$65 to US \$75 seems reasonable for the next 6-12 months.

5. *What are the opportunities outside of North America?*

[GLC] We prefer developed markets over emerging markets.

6. *Is the bull market in bonds over?*

[GLC] The secular downward trend in bond yields has, in all likelihood, come to an end.

All data within is as of June 26, 2015 unless otherwise stated.

GLC'S OUTLOOK



- **We believe investors should moderate their expectations for returns in both equities and bonds over the next 12 months compared to what we have experienced over the past several years.**

- **A diversified portfolio should remain tilted in favour of equities over bonds within specific risk tolerances. Stocks in both Canada and the US are expensive, but bonds appear even more expensive.**

- **Fixed income exposure should be biased to the shorter end of the curve and exposure to higher quality investment grade corporate bonds. We remain cautious on the high yield bond market.**

- **We favour developed markets over emerging markets, as emerging markets continue to struggle versus global equities.**

- **Within developed markets we believe that US and European equities are likely to outperform Canadian equities for the balance of the year**
 -  US equities are on pace to post a fourth straight year of gains, but with only modest price upside from now into year-end. With some help from the currency and a 2% dividend yield, high single digit returns are likely achievable.
 -  Canadian equities face a resource headwind, and high valuations in non-resource sectors pose a challenge as well. 2015 will likely result in low to mid single digit total returns for the broader Canadian index.
 -  Fundamentals for European equities are improving.
 -  Some exposure to Japan is warranted as the government is maintaining an accommodative stance and a positive technical backdrop shows the Nikkei poised for further gains.

- **Barring an unexpected spike in oil prices sharply raising the Canadian dollar, US dollar denominated investments should continue to provide a modest tailwind for Canadian investors, while euro denominated investments will likely need to overcome a modest currency headwind.**

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