

Economic Outlook

SPRING
2019



Henny Penny

In the old European folktale Henny Penny, more commonly known in North America as Chicken Little, the eponymous lead character gets hit on the head by an acorn dropping from a tree, leading her to the alarmed conclusion that the sky is falling. Henny Penny then sets out to warn everybody, ultimately amassing an ardent following of farmyard fowl, including Cocky Locky, Ducky Lucky, Turkey Lurkey and Goosey Loosey, who against their better judgement seek refuge from the prophesied end of the world in the den of a wily and very hungry fox.

There are two morals to this story.

First, one indicator considered in isolation and without proper context does not tell the full story. It is always better to look beyond a narrow subset of data to arrive at well-founded conclusions about what is actually taking place.

Second, one should beware of placing undue weight on extremely low-probability events, even if others are stoking fears of these occurring.

By our very nature, humans are less “risk averse” than they are “loss averse,” meaning that they have a natural tendency to protect against losses rather than seek equivalent gains. Given even odds, the average person would rather not lose \$5 than win \$5, even though they have the same expected outcome. In fact, research into decision-making has suggested that the psychological impact of losses can be twice as large as that of gains.

Given this cognitive bias, people tend to place additional emphasis on downside risks, focusing on potential negative outcomes and preparing for the worst, no matter how unreasonably low the likelihood of the outcome. In general, the distribution of potential results shows that the vast majority fall in the middle of the range, rather than the extremes of the tails. Planning for an extreme outcome usually means people act against their best interests — especially over longer time

horizons — in the name of avoiding potential losses. And, as Henny Penny found, this is often to their detriment.

The sky is falling!

This cautionary tale serves as an allegory for financial markets, particularly for what has been playing out over the last six months.

Equity markets fell aggressively in the latter months of 2018, with December marking the worst final month of a calendar year since the Great Depression. This poor performance and concurrent rise in volatility led many analysts and pundits to argue it was a sign that the near-decade long economic expansion — and with it, the bull market — was in its death throes. This in turn weighed upon investor sentiment and further spurred selling of equities in a negative cycle, as investors looked to save themselves from the sky falling on top of them.

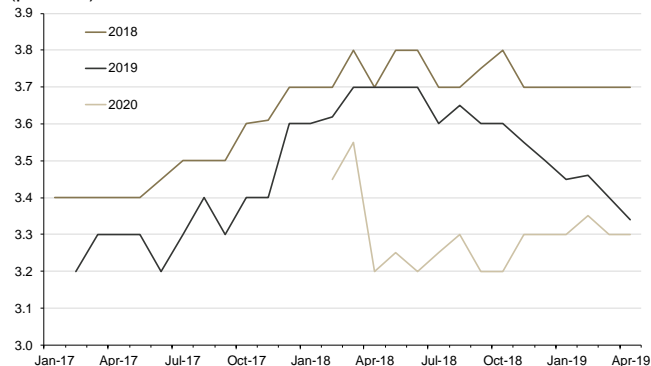
Equity markets, however, do not typically have a good track record when it comes to predicting economic downturns — as Nobel-winning economist Paul Samuelson noted in 1966, “the stock market has forecast nine of the last five recessions.”

However, looking beyond what was happening with stocks suggested that the four horsemen of the financial market apocalypse had not actually left their stable.

While growth momentum moderated and the pace of expansion fell short of the elevated forecasts laid out at the onset of last year, the global economy absolutely has not collapsed, despite the pricing that occurred over the last few months of 2018. The moderation coming from elevated levels still implied growth; expectations were readjusted to be back in line with the more trend-like rates that had been forecast two years ago.

CHART 1: DOWN BUT NOT OUT

Consensus* World GDP Growth Forecasts (percent)



*Based on Bloomberg median private sector forecast
Source: Bloomberg, Guardian Capital

Nevertheless, slower growth is still growth and, by its literal definition, a recession cannot occur during growth. And, absent a recession, a full-on fundamental bear market is not a high probability event.

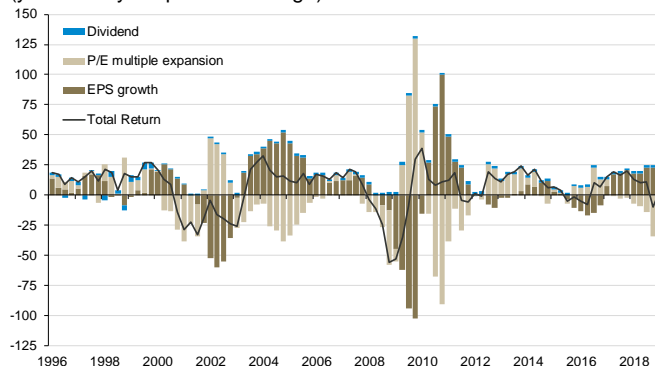
Perhaps just an intermittent storm?

Despite the more volatile performance of the stock market, corporate fundamentals largely remained constant.

Looking at the drivers of the stock market returns showed that earnings per share growth actually held steady at near-cycle best rates through the end of 2018. Instead, the sole driver of the weakness in global equity performance was a collapse in the price-to-earnings multiple that serves as a proxy for investor sentiment.

CHART 2: MULTIPLE COMPRESSED

MSCI World Index Total Return Decomposition (year-over-year percent change)

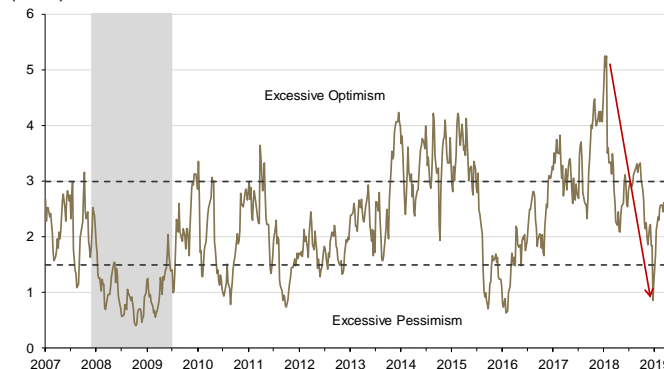


Source: Bloomberg, Guardian Capital

To reinforce this point, the jump in volatility was very much emotion-driven, as explicit measures of investor sentiment, such as the Investors Intelligence bull-bear ratio — a gauge of relative optimism among the investor community — swung to decidedly pessimistic extremes from the opposite end of the spectrum earlier in the year.

CHART 3: FROM ONE EXTREME TO THE OTHER

Investors Intelligence Bull-Bear Ratio (ratio)



Shaded region represents period of US recession
Source: Wall Street Journal, Bloomberg, Guardian Capital

When investors are excessively optimistic, markets become priced for perfection. In this environment, sometimes “good” is not “good enough”, which can result in a sharp repricing of assets, which is exactly what played out at the beginning of last year.

The turning of this tide for the worse during 2018 clearly had a negative impact on markets. However, the thing about pessimism and lowered expectations is

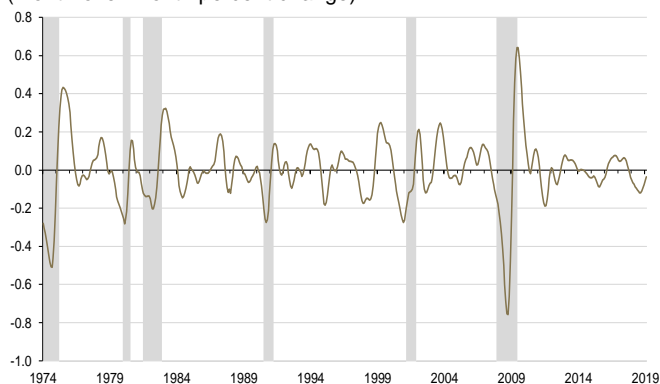
that suddenly “bad” is often not “as bad as feared”. And, given the fear was of a complete cratering of economic activity, the bar to surpass at the beginning of 2019 was actually quite low.

The dataflow has proven cooperative, supporting the view that activity has stabilized and increasingly appears to have reached a near-term bottom.

For example, the composite leading indicator — a forward-looking gauge of economic activity based on a broad swath of data — for the 33 countries that are members of the Organisation for Economic Co-operation and Development (OECD) and six other major economies (Brazil, Russia, India, China, Indonesia and South Africa) remains below trend. However, it did steady in February and the trajectory has now turned for the better, suggesting that the worst is behind us.

CHART 4: BOUNCING OFF THE BOTTOM

OECD+ Composite Leading Indicator
(month-over-month percent change)

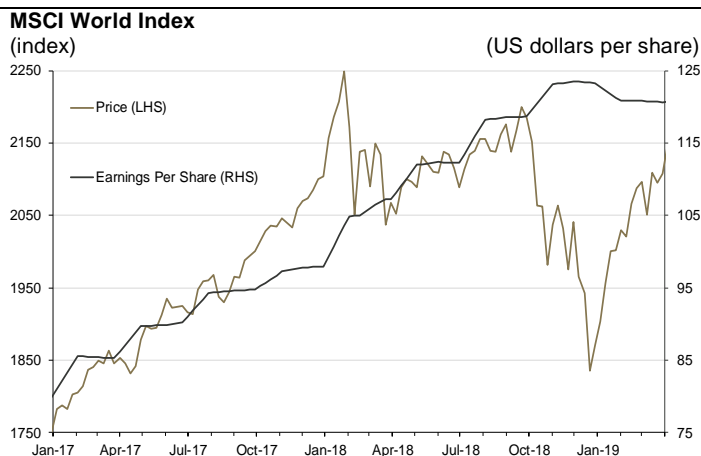


Shaded regions represent periods of US recession
Source: OECD, Guardian Capital

Sentiment-driven downswings can be sharp, although they are typically short-lived as the decoupling of markets from their fundamentals is temporary. Indications that actual conditions were no longer deteriorating — and by not as much as feared — proved sufficient to bring about a significant reversal.

The historically poor end to 2018 gave way to an equally historical good rebound in Q1, where the MSCI World Index turned in its best quarter since 2010 as asset prices closed the gap with earnings.

CHART 5: CLOSING THE GAP



Source: Bloomberg, Guardian Capital

Last year’s showers give way to this year’s flowers

Any investors who saw the tumult in the marketplace at the end of last year and culled exposure to risk assets as a result now find themselves on the outside looking in. These assets have rebounded strongly and equities are once again nearing their all-time highs.

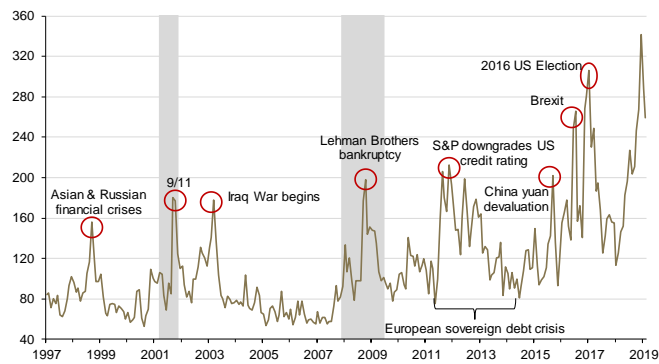
Of course, as is normal when such outsized gains are experienced, the question is, has the market has got ahead of itself? While certainly a possibility, especially as there are plenty of risks in play that could yet cause a change in course, there is good reason to be cautiously optimistic about the prospects for the positive performance continuing.

To begin with, the last few months have shown the major risks that were on clouding the horizon last year have now starting to ebb.

Global politics remains a key source of instability and uncertainty, although the degree of its influence has moderated in recent months.

CHART 6: UNCERTAINTY IS NOT THE BEST POLICY

Global Policy Uncertainty Index
(index)



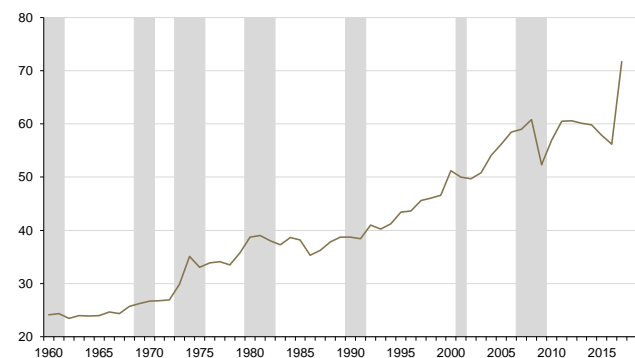
Shaded regions represent periods of US recession
Source: Bloomberg, Guardian Capital

A primary reason behind this change is that trade tensions between the US and China have eased significantly. For example, the threatened tariff increases on \$200 billion worth of Chinese-exported goods slated for March 1st have been deemed “no longer appropriate” by the US Trade Representative’s Office, given the progress in negotiations.

Any progress on the trade front is a welcome development given the rising importance that the flow of goods and services plays in the global economy. According to the World Bank, imports and exports accounted for a cumulative record 70% of world gross domestic product, more than 10 percentage points higher than the share for consumer spending.

CHART 7: TRADE FLOWING

Imports & Exports of Goods & Services as a Percent of Global GDP
(percent)

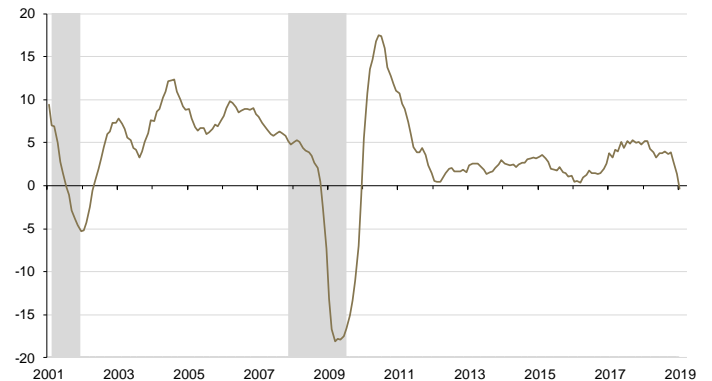


Shaded regions represent periods of US recession
Source: World Bank, Guardian Capital

Also, it would come at just the right time as the impact of the barriers to trade put in place over the past year are becoming more evident. While the front-loading of imports by American companies ahead of the then-expected tariff increases in January underpinned a pickup in trade activity through the fall, the hangover is increasingly setting in. Growth in global shipments of goods has effectively ground to a halt at the start of 2019.

CHART 8: TRADE HIT A BARRIER

CPB World Trade Volume Index
(year-over-year percent change)

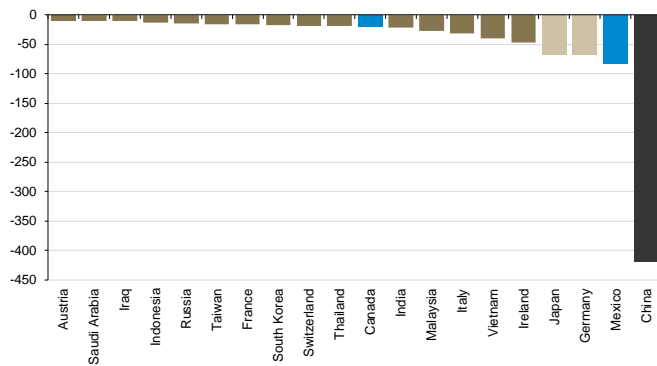


Shaded regions represent periods of US recession
Source: Bloomberg, Guardian Capital

Of course, winning one battle does not mean that the trade war is over. With China, Mexico and Canada (the latter two having reached agreement with the US on an updated North American Free Trade Agreement, though the deal is yet to be ratified) out of the firing line, the US President has shifted his trade deficit focus to the next biggest “offenders” — Japan and Germany — with the threat of auto import tariffs.

CHART 9: WHO IS NEXT IN THE CROSS-HAIRS?

US Goods Trade Deficit by Country, 2018
(billions of US dollars)

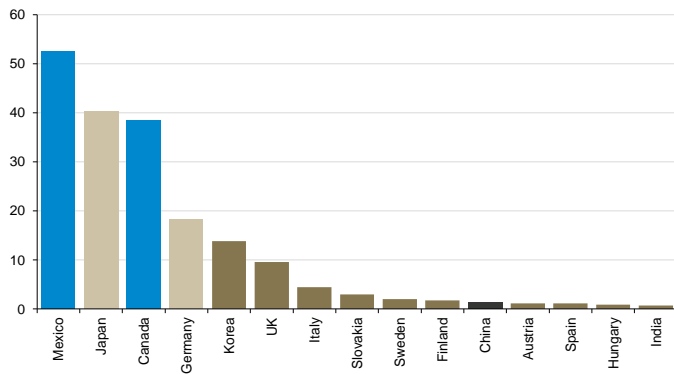


Source: US Census Bureau, Guardian Capital

The US is the largest export destination for European- and Japanese-produced cars, with data from the US International Trade Administration showing imports of \$43 billion (of which approximately half was from Germany) and \$40 billion, respectively, from these regions in 2018.

CHART 10: HITTING THE BRAKES

US Imports of New Passenger Vehicles By Country, 2018
(billions of US dollars)



Source: US Trade Information Administration, Guardian Capital

Any tariffs on autos shipped stateside would carry major implications for these economies and potentially take the trade war in a new direction. Indeed, the European Union (EU) has announced retaliatory actions should the US elect to levy import duties.

Following the February 17th release of the (non-public) analysis of the potential national security reasons for tariffs under Section 232 of the Trade Expansion Act of 1962, the President has 90 days —

or until May 18th — to decide whether to implement new auto tariffs. If the decision is taken to follow through with new customs duties, these must be in place within 15 days. However, they may be deferred for a period of 180 days should the US opt to open trade negotiations.

In summary, while some aspects of trade policy are seemingly moving in the right direction, this story is far from over and will likely continue to grab headlines for the foreseeable future.

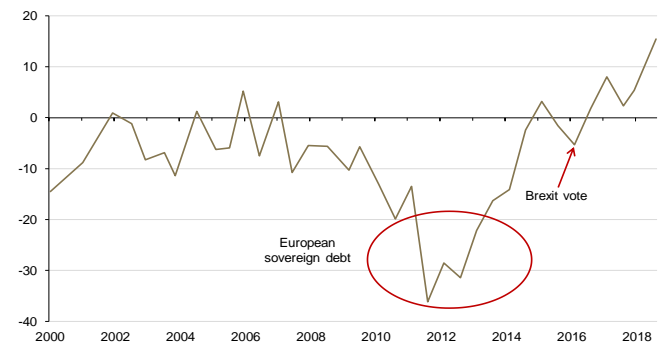
Should I stay or should I go?

On the subject of putting off till tomorrow what you can do today, the final deadline for the UK to reach a resolution to Brexit has been pushed back once again now to October 31, 2019, which marks the beginning of the next five-year session of the European Parliament. This was after British Parliament failed to reach majority backing for any course of action ahead of the previous final deadline on March 29th.

The delay buys time for the beleaguered Prime Minister Theresa May and House of Commons to reach a compromise. There is, however, no clear cut resolution in sight and public opinion has turned drastically against the option of leaving the EU. According to the latest European Commission Public Opinion survey, the British on balance now hold the most positive views on the EU in the poll's history.

CHART 11: HAVING SECOND THOUGHTS

UK Residents' Net Balance of Opinions on the European Union
(percent; >0 denotes net positive opinions)



Source: European Commission, Guardian Capital

As for known next steps, the British Government has until May 22nd to pass the current withdrawal agreement, which has been rejected three times already, if it is to avoid participating in the upcoming European Parliamentary elections. Should no deal be reached and the UK refuses to participate in the European elections, it will be forced out under a “no-deal”/hard Brexit provision on June 1st. This appears to be an unlikely outcome, as Britain is already making preparations for the vote to go ahead.

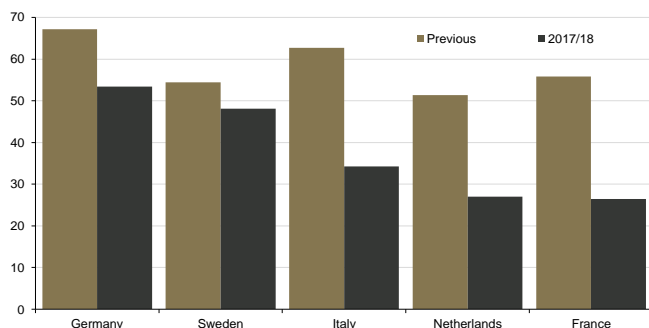
As a result, there is currently no clarity on whether the UK will actually break from the European Union and what form it would take — it should be remembered that it has been granted the option of unilaterally rescinding its Article 50 notice that set the exit process in motion. The worst case scenario, however, appears to have been avoided for now.

Fragmented fiscal factions

Turning to the European Parliamentary elections, the vote for the governing body of the 28 nations — the 27 member states, excluding the UK — that comprise the European Union is scheduled to be held between May 23–26, 2019. The results are expected to echo what has played out at the national level, with the mainstream parties losing ground to alternative, populist groups.

CHART 12: HOLLOWING OUT OF POLITICAL CENTRE

Votes for the Two Traditional Parties in the Last Two Elections (percent of total)



General elections in France (presidential), Netherland & Germany were held in 2017; Sweden & Italy in 2018
Source: The Economist Intelligence Unit, Guardian Capital

While the rise of fringe political groups is unsettling, the fact remains that the broad divergence of policy views among these parties is likely to prevent them from joining forces and being able to exert any significant influence over the policy agenda. The net result is that political gridlock is likely to continue in Europe, which may not be the best option for achieving a more unified policy-setting approach, but at the same time should prevent the applectart from being upset.

Generally speaking, there has been a significant global shift towards populism and nationalist politics that has caused the previous general stability of the old order to be replaced with increased uncertainty. The rising factions within the major Developed Markets (DM) are creating a dearth of leadership on the global stage with no democratic power in a position either willing or able to fill the void.

Rate reset

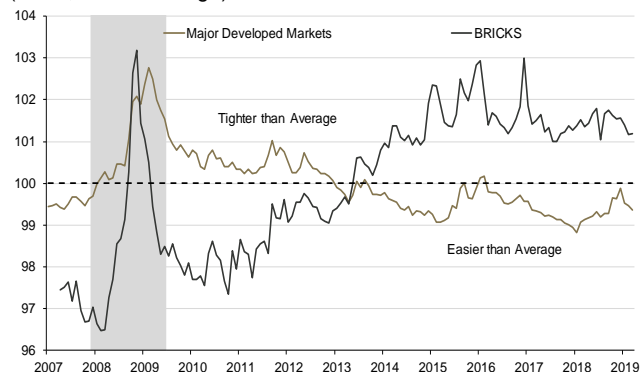
The other shift in the risk profile, and perhaps the most important factor for markets, has been the behaviour of interest rates.

Global interest rates have been largely edging higher since their lows in the aftermath of the Brexit vote in June 2016, moving steadily up through 2018 spurred on by the increasingly hawkish tone from global central bankers.

The early jump in rates last year and concurrent firming of the US dollar and prevailing financial conditions brought vulnerabilities to light in those Emerging Market (EM) economies, notably Argentina and Turkey, most exposed to changes in the external conditions through their reliance on foreign funding. This also had the effect of spurring on concerns that the stress could spread more widely through the region.

CHART 13: TIGHTENING THE CREDIT VALVE

GDP-Weighted Financial Conditions Index
(index; 100 = average)

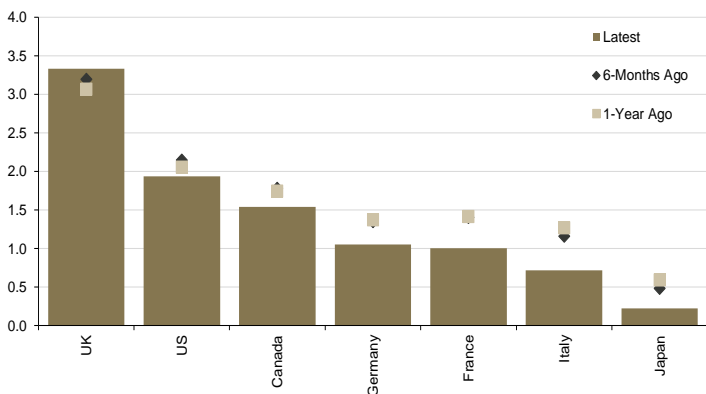


Shaded region represents period of US recession
Source: Bloomberg, International Monetary Fund, Guardian Capital

Despite concerns of economies overheating at the beginning of the year, inflationary pressures remained benign. The drop in commodity prices over the second half of 2018, in conjunction with concerns over the health of the global economy, fuelled expectations of inflation starting to drift lower. Although market-based inflation forecasts have come off the end-of-year lows, they remain muted across most major markets.

CHART 14: INFLATED EXPECTATIONS

10-Year Break-Even Inflation Rates
(percent)

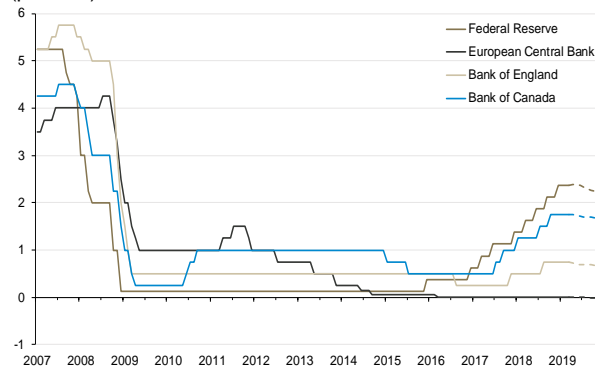


Source: Bloomberg, Guardian Capital

The addition of financial market volatility into the mix has led to a repricing of expectations for monetary policy. As a result, anticipation of further rate hikes by the Fed, Bank of England and Bank of Canada, and the move by the European Central Bank to hike rates, has been replaced with expectations that global central banks would soon embark on full-scale policy easing initiatives.

CHART 15: RATE RESET

Central Bank Policy Rates
(percent)



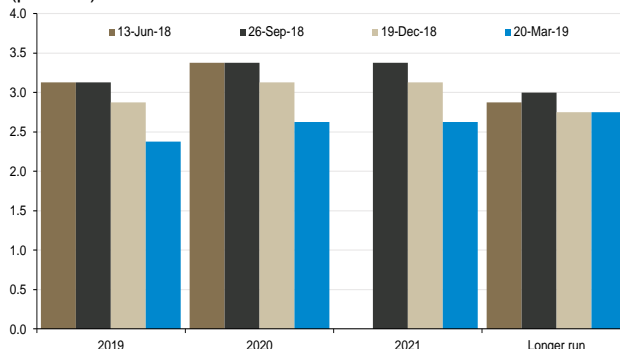
Dashed lines are overnight index swap forward rates as at March 31, 2019
Source: Bloomberg, Guardian Capital

Central banks took notice of the signals being sent by the marketplace and major monetary policymakers have materially shifted their approach to bring about a dramatic drop in global interest rates.

In particular, the dovish tilt adopted by the Fed last November was intensified by the removal of all projected rate hikes for this year at the March meeting of the Federal Open Market Committee. The committee also trimmed the projected path thereafter and announced it would no longer allow maturing securities to roll off its balance sheet after the fall. Both of these actions have been key in spurring on the global bond rally that brought yields down to lows at levels last seen two years ago.

CHART 16: CHARTING A NEW PATH

FOMC Median Projected Fed Funds Rate Target At Year-End
(percent)



Source: Federal Reserve Board, Guardian Capital

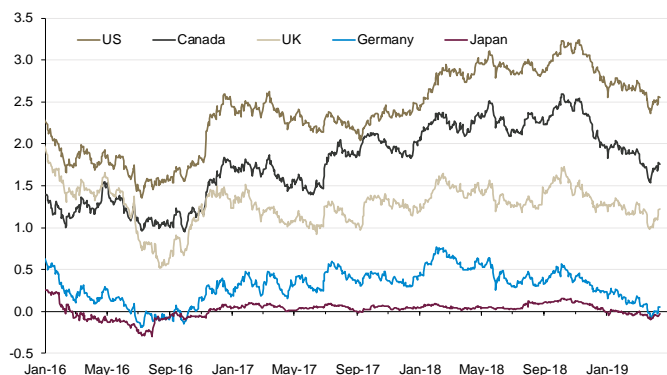
While muted inflation and persisting uncertainty give cause for central banks to hit pause, the current global macroeconomic environment does not warrant

reopening the monetary policy stimulus tap, especially since that reservoir is already low, which limits options for policymakers looking to buoy the market when an actual recession occurs.

Accordingly, markets seem way ahead of themselves in calling for outright rate cuts and interest rates overshot to the downside on the assumption that central banks were seeing something that they were missing. Even with that said, room for significant upward adjustment remains fairly limited given that policymakers appear committed to erring on the side of caution and keeping rates lower for longer periods than previously thought.

CHART 17: SHIFTING INTO A LOWER GEAR

10-Year Government Bond Yield (percent)



Source: Bloomberg, Guardian Capital

In other words, there is a renewed low-interest rate environment and financial conditions have eased materially in recent months. With that, concerns that liquidity was drying up and credit was being increasingly constrained have ebbed, while financing strains have been alleviated due to lower debt carrying costs. Also, as the much needed rebalancing within EM economies was forced through last year, the key funding issues of 2018 are unlikely to be front and centre in the near-term.

Growth green shoots

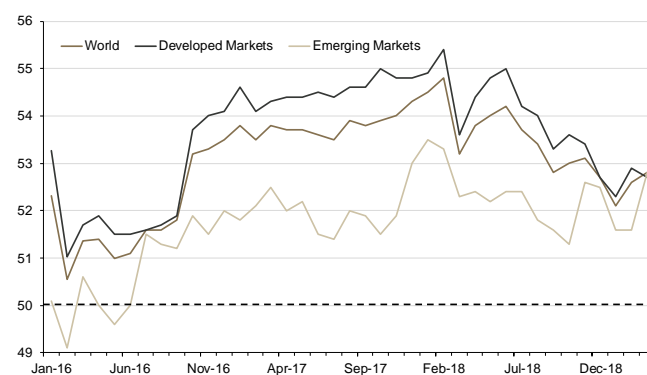
Putting it all together, calls for an imminent global recession appear to be misplaced and thankfully these

have receded in recent months. The sharp pullback in activity globally through the second half of last year has given way to signs of stability in growth at fairly decent levels, albeit with more modest momentum than at this time last year.

Composite purchasing managers' indexes — which incorporate data on both goods-producing and service-providing sectors with a track record as a leading indicator for the wider economy — have rebounded from their recent global lows, suggesting there is greater scope for expansion.

CHART 18: FINDING SUPPORT

Composite* Purchasing Managers' Index (index; >50 denotes expansion)



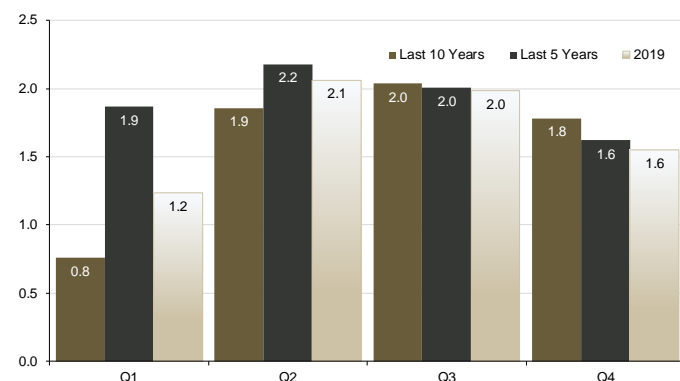
*Composite of manufacturing and nonmanufacturing purchasing managers' indexes Source: Bloomberg, Guardian Capital

While an increasingly positive dataflow is a welcome development, there is one issue to flag with the potential to obscure the green shoots now coming up in the higher frequency data.

Over the last 10 years of this full economic cycle, the first quarter of the year has been by far the weakest quarter for the major DM economies. A notable rebound has subsequently been experienced in Q2 and that upward trajectory is sustained through the third quarter. The current projection is that this pattern will once again be repeated.

CHART 19: DÉJÀ VU ALL OVER AGAIN

G7 Economies' Real GDP Growth By Quarter
(annualized quarter-over-quarter percent change)



Quarterly data for 2019 data are based on Bloomberg consensus forecasts
Source: Bloomberg, International Monetary Fund, Guardian Capital

This quarterly pattern creates certain issues for getting a clean read on the actual underlying trends in the data and what they are saying about the general health of the economy.

National statistics organizations go through the process of seasonally-adjusting the data, so that each successive period may be directly compared on an apples-to-apples basis. These adjustments are designed to offset normal seasonal patterns in spending — for example, Q4 spending typically rises in response to the holiday season demand and falls in Q1 — to permit analysis of the underlying trends.

The fact that there is a persistent pattern points to issues which, after fully adjusting for the seasonal swings in the data, can relate to changes in spending behaviour, such as consumers bringing forward their holiday spending into Q3. This phenomenon is referred to as “residual seasonality.”

Another issue is that a series of idiosyncratic and transitory events have occurred in the first three calendar months of the year in recent history. For example, there was abnormally severe winter weather in North America (accounting for nearly 60% of G7 output) in the first three months of 2011 and 2014 that suppressed Q1 activity figures in those years and was also at play this year; the start of 2014 also saw the rollout of new US government health care policies under the Affordable Care Act that greatly distorted

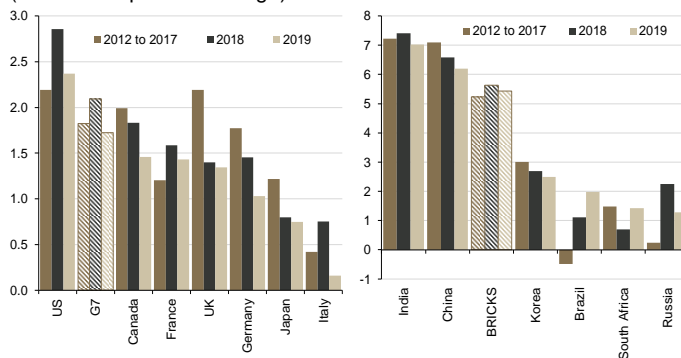
consumer spending on healthcare (accounting for nearly 10% of US consumer spending); a port strike occurred in the early months of 2016 that disrupted trade flows and general activity; and the record long US government shutdown happened earlier this year, disrupting a broad range of economic activity.

In other words, any indication in the data of a larger-than-expected slowdown to start the year is not necessarily a true sign of the underlying trend in the economy — nor would an expected acceleration over the next few months be considered one either. Instead, the truth of the matter is more likely to fall somewhere in between these two explanations.

Interpreted this way, as surprising as it may seem given the behaviour of the marketplace and what the near-term growth data may suggest, performance of the major economies has remained solid with decent momentum. Some moderation relative to 2018 is expected, but given that several of the risks which clouded the outlook last year are fading, combined with eased financial conditions, strongly suggests the pace of growth should generally hold in line with prior conditions of the previous half-decade.

CHART 20: THE SONG REMAINS THE SAME

Real GDP Growth
(annualized percent change)



2019 estimate based on Bloomberg consensus forecasts
Source: Bloomberg, International Monetary Fund, Guardian Capital

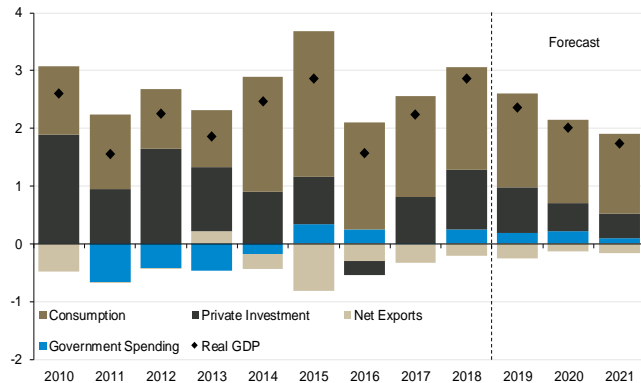
Regional Rounds

Of course, not all countries experience the same pace of growth. The bulk of the anticipated overall moderation in global growth will be concentrated among the DM, while the comparatively higher levels of slack in EM economies, that are indicative of the region being at a relatively earlier stage of the business cycle, allow for stronger underlying momentum.

Among the DM, the US is expected to continue to be the growth leader even as the world's largest economy decelerates from the tax cut-induced bounce it recorded in 2018. The US economy is still expected to expand at above-trend rates as the historically strong job market and low interest rates underpin household spending and rebound in real estate activity in the consumer-centric economy.

CHART 21: CONSUMER DRIVEN US GROWTH

Contribution to US Real GDP Growth (percent)



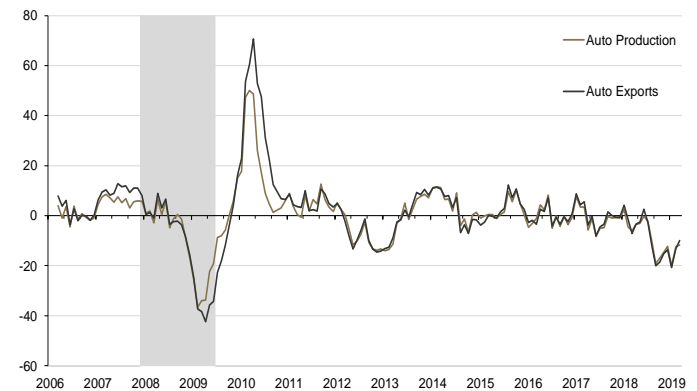
Forecasts are Bloomberg consensus forecasts
Source: Bloomberg, Guardian Capital

Europe as a whole has continued to struggle with political uncertainty, both at the European Union level and nationally, with Italy's populist coalition government still making waves, ongoing political protests in France and Brexit discord in the UK. The continent is also experiencing weakened global trade that is exacerbating the already less-than-optimal structural issues constraining growth in the region.

As well, the threat of auto tariffs is further compounding the issues facing the European auto sector. This is particularly the case in Germany, which faces issues in ramping up production to back to normal following large-scale shutdowns in the fall for a shift in emissions testing technology.

CHART 22: GERMAN AUTOS STUCK IN REVERSE

German Auto Production & Exports (year-over-year percent change of three-month moving average)



Shaded region represents period of US recession
Source: Bloomberg, Guardian Capital

All of that said, there are also positive developments. The anticipated improvement in China should be felt throughout the region, given its increasing dependence on trade with the Middle Kingdom.

As well, while not the co-ordinated push that would have been the most desirable, increased public sector spending is expected to occur in Germany, France, Italy and Spain. On the monetary side, the European Central Bank (ECB) pushed back its planned start of policy normalization, with rate hikes now off the table until "at least through the end of 2019." The ECB also announced a new series of long-term lending initiatives that should boost liquidity and lower funding costs for businesses and households.

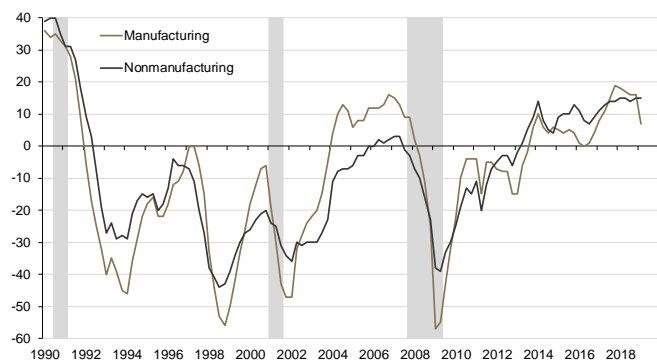
For its part, Japan is experiencing continued stimulus from its central bank though it is having limited success in igniting price pressures as inflation remains stubbornly low. The risks from rising trade tensions have created added uncertainty for Japanese businesses, particularly in the important

manufacturing sector, and offset by the ongoing fiscal stimulus and structural improvements tied to reforms of corporate governance and the labour market.

CHART 23: SENTIMENT SPLITTING

Japan Tankan Business Conditions

(percent; >0 denotes net balance of opinion is positive)



Shaded regions represent periods of US recession
Source: Bloomberg, Guardian Capital

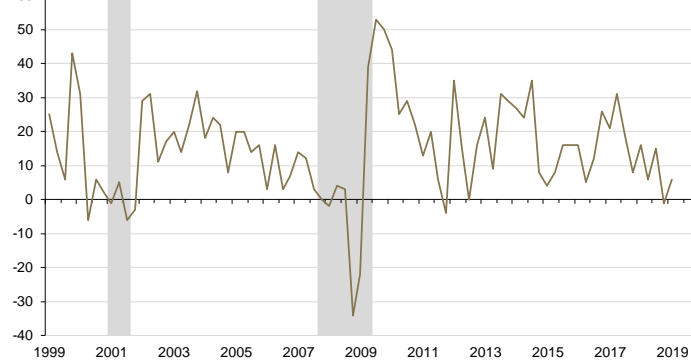
Growth in Japan is expected to be moderate — though still slightly above trend for what is perhaps the most demographically challenged country out there — but is very much front-loaded ahead of the planned October increase in the value-added tax. Efforts are being made to mitigate the adverse impact of the increase through the introduction of other fiscal stimulus measures.

Finally, the data indicate that the Canadian economy stagnated through the second half of last year and will likely take a hit from the mandated production cuts in Alberta’s oil patch. More positively, businesses appear to think that the worst is behind them. The latest Business Outlook Survey from the Bank of Canada showed domestic businesses anticipating improvements in sales growth that should support continued increases in head count and investment.

CHART 24: TURNING THE CORNER

Bank of Canada Business Outlook Survey Future Sales Growth

(percent; >0 denotes net balance of opinion is for faster growth)



Shaded regions represent period of US recession
Source: Bank of Canada, Guardian Capital

Businesses playing a larger role in driving growth in the Great White North may serve to mitigate the impact of less growth support from the indebted household sector. At the same time, the Bank of Canada’s move to the sidelines should serve to lessen pressures on consumers and the downbeat housing market.

In the EM, China is the key. The world’s second largest economy, continues to experience a secular downshift in its growth from the unsustainably high rates that prevailed over the prior decade. However, concerns about experiencing a hard landing have generally abated.

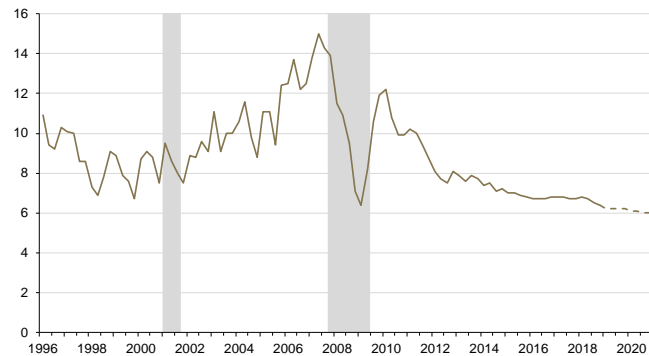
An important reason for this change of heart is that policymakers in Beijing have turned on the stimulus spigot. Monetary authorities have reversed course in their efforts to tighten financial conditions and rein in escalating debt burdens with multiple cuts of the required reserve ratio and large-scale injections of liquidity into the domestic financial system. Beyond that, the Chinese government announced a fiscal policy stimulus measures totalling RMB¥4 trillion (US\$600 billion), of which half is tax cuts and the other half is funding for local infrastructure projects.

These measures are designed to assist the domestic economy in reaching its stated growth target and help mitigate the impact of the ongoing trade dispute with

the US on the Chinese economy that is starting to be felt more significantly. While developments in this area remain fluid, there are signs of continued progress on reaching a trade deal that could result in an agreement sooner rather than later that would reduce a key headwind for the outlook.

CHART 25: CHINA STILL IN A BULL SHOP

China Real GDP Growth
(year-over-year percent change)



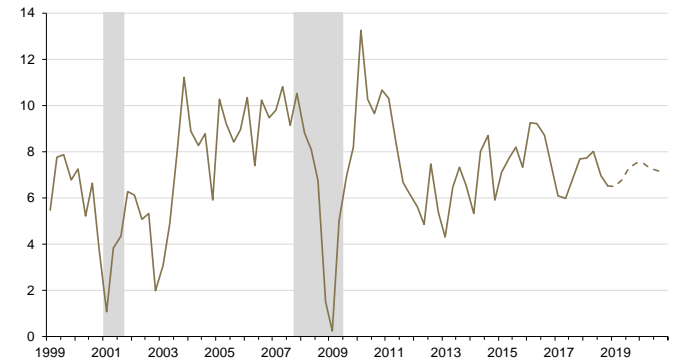
*Dashed line represents Bloomberg consensus forecast
Shaded regions represent period of US recession
Source: Bloomberg, Guardian Capital*

Elsewhere, there are other bright spots, notably Latin America and India. The former is projected to be one of the few regions to post accelerated growth over the coming year underpinned by the continuing recovery in Brazil, albeit at a pace below par for this stage of the economic cycle.

For India, expectations are for the world's second most populated country to remain atop the global growth leaderboard due to continued government stimulus and an accommodating monetary policy abetted by moderating inflationary pressures. However, there are growing concerns that Prime Minister Narendra Modi's reform-oriented policy agenda could face a weaker mandate in the upcoming elections, while the escalating tensions between India and Pakistan remain another source of geopolitical risk.

CHART 26: INDIA STILL RIDING HIGH

India Real GDP Growth
(year-over-year percent change)



*Dashed line represents Bloomberg consensus forecast
Shaded regions represent periods of US recession
Source: Bloomberg, Guardian Capital*

Inversion Immersion

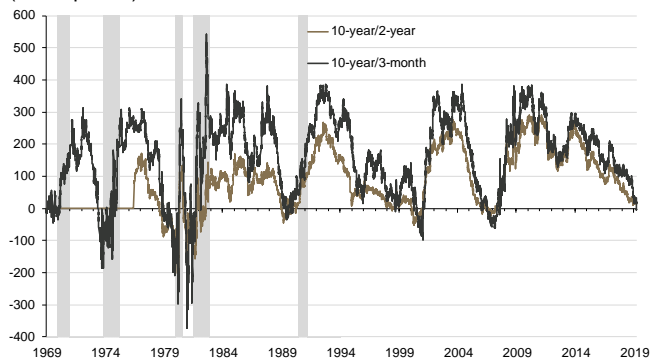
Looking ahead, the macro outlook appears fairly sanguine, but there are some negative signals that warrant attention, specifically the concerning message coming out of the bond market.

The US Treasury yield curve (the spread between long-term and short-term Treasury note yields) has flattened significantly in recent months. And the gap between the 10-year and 3-month note yields actually turned negative (inverted) on March 22nd for the first time since 2007.

This is relevant to markets as the yield curve historically has done a good job of predicting oncoming recessions, with the curve typically inverting before an economic downturn.

CHART 27: FLAT CURVE SOCIETY

US Treasury Yield Curve
(basis points)

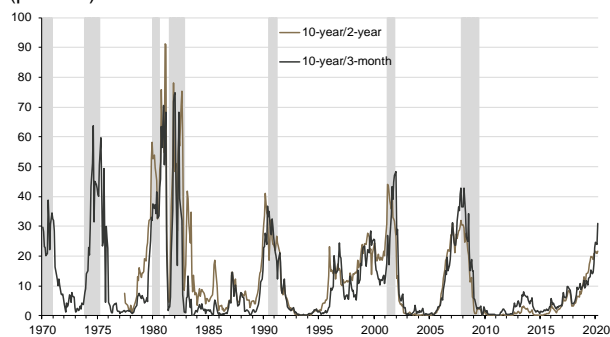


Shaded regions represent periods of US recession
Source: Bloomberg, Guardian Capital

Based on historical precedent, the 10-year/2-year yield curve's current level — which is still positive; this historically has been the first mover in terms of inversion — implies a better than 22% probability of a US recession in the next 12 months, which may not be high, but is up from 14% a year ago (and just 4% the year before) and marks the highest odds of a recession of the cycle. The 10-year/3-month yield curve, which inverted slightly, is showing a 31% probability of a recession in the coming year.

CHART 28: RISING RECESSION RISKS

Yield Curve-Implied Year-Ahead Probability of a Recession
(percent)



Shaded regions represent periods of US recession
Source: Bloomberg, Federal Reserve Bank of New York, Guardian Capital

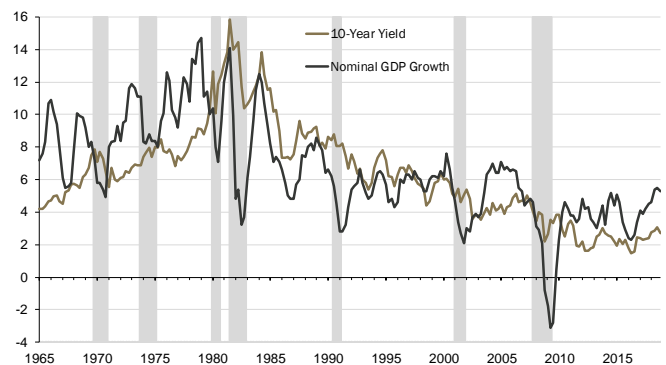
This is, no doubt, an alarming signal for investors since recessions and equity bear markets (where stock prices plunge in excess of 20%) go hand-in-hand. The question, though, is whether the yield curve is saying something different than it has in the past. Is it actually saying something about the domestic US economy or is the message instead being muddled by

a confluence of other factors that are having an impact on the bond market?

The old rule of thumb is that the 10-year government bond yield should be roughly in line with a country's nominal GDP growth rate. The US is still seeing a real growth trend in excess of 2% and inflation is running close to 2% as well, which would imply a 10-year Treasury yield closer to 4% than 2½%.

CHART 29: CONSCIOUS UNCOUPLING?

10-Year US Treasury Note Yield & US Nominal GDP Growth
(percent)



Shaded regions represent periods of US recession
Source: Bloomberg, Guardian Capital

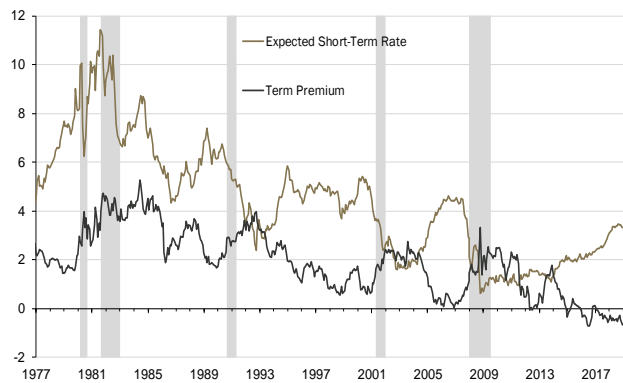
Given where front-end rates, which are more reflective of policy rates, currently sit, longer-term rates more consistent with economic performance would necessarily mean a steeper curve. That is clearly not the case here as market yields have decoupled from growth.

So, what is else is at play?

In a “normal” environment, investors would demand to be compensated to hold a longer-term bond (i.e. paid a term premium), since holding it instead of a short-term note creates more exposure to risks associated with changing interest rates, inflation and credit quality. In the current scenario, however, the term premium is negative, meaning that investors are willing to pay a premium to hold longer-duration US Treasury securities.

CHART 30: TERM PREMIUM AT A DISCOUNT

Decomposition of the 10-Year US Treasury Yield (percent)



Shaded regions represent periods of US recession
Source: Bloomberg, Guardian Capital

While this seems counter-intuitive, it makes sense in a market where US\$10 trillion worth of bonds carry negative yields (roughly 20% of the value of the Bloomberg Barclays Global Aggregate Bond Index), including sovereign debt in Germany and Japan out to 10 years. Investors are willing to pay a premium into US bond markets to actually receive some return on their investment. This is the impact of the chase for yield around the world.

CHART 31: LESS THAN ZERO

Value of Global Bonds* With Negative Yields (trillions of US dollars)



*Excludes securities with maturities of less than one year
Source: Bloomberg, Guardian Capital

That the term premium has become a term discount alone suggests that the traditional ways of viewing the bond market may no longer be valid. As such, it stands to reason that while the yield curve may be talking, it is not saying the same things that it used to.

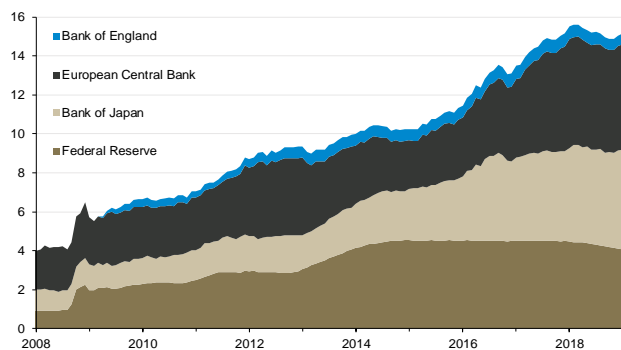
More to the point, there are other reasons why the message from the bond market is being distorted compared to previous periods, with the most notable of these being the impact of central bank intervention.

In previous periods of curve flattening, it was the market alone that was guiding longer-term interest rates. Investors would see central banks raising rates to what were viewed as prohibitive levels and begin to start pricing in a recession. This would mean rising expectations for future rate cuts and pulling down yields on longer-term bonds below short-term yields.

The longer-end of the curve, however, is being significantly affected by the central banks. Monetary authorities have amassed substantial asset holdings through their respective quantitative easing (QE) programs, with the balance sheets of the Fed, European Central Bank, Bank of England and Bank of Japan cumulatively standing at US\$15 trillion dollars — that is more than one-fifth of the global bond market being held by a small group that is economically insensitive to price.

CHART 32: UNBALANCED SHEETS

Central Bank Asset Holdings (trillions of US dollars)



Source: Bloomberg, Guardian Capital

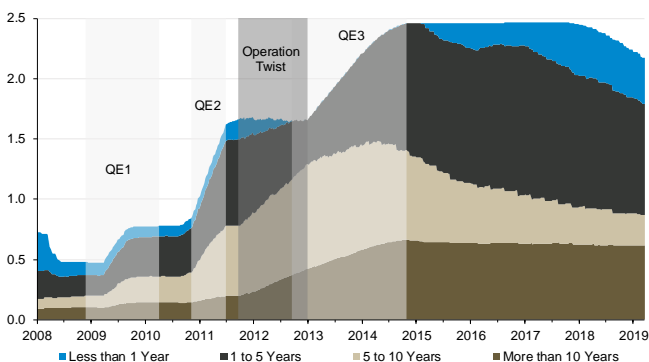
Given that it is the stock of holdings that influence market rates, not the flows (the Fed estimates its bond purchases alone pushed 10-year Treasury rates down in excess of 100 basis points), this means that longer-term rates are being artificially suppressed, which is a big factor at play in the negative term premium.

These pressures on longer-term rates are not going anywhere, anytime soon. While the Fed has seen its holdings decrease by almost US\$500 billion since it stopped reinvesting the proceeds from maturing assets at the end of 2017, it recently announced plans to end the balance sheet runoff in September. Combined with the European Central Bank maintaining the size of its holdings (though new bond buying stopped at the end of last year) and the Bank of Japan's asset purchase program continuing unabated, these elevated holdings are likely to persist for a long time to come.

Another point worth making is that the flatness of the yield curve is explicitly by design of policymakers. Not only did the Fed buy US\$2 trillion in Treasury securities, the US central bank explicitly undertook a program to flatten the yield curve amidst its QE programs. "Operation Twist" saw the Fed buy a cumulative US\$667 billion worth of bonds with maturities between six and 30 years between September 2011 and December 2012, while selling an equal amount with maturities less than three years.

CHART 33: LET'S DO THE TWIST

Federal Reserve Treasury Holdings by Maturity
(trillions of US dollars)



Source: Bloomberg, Guardian Capital

Through this program's duration, the yield curve went from 107 basis points all the way down to 42 basis points, with the 10-year yield touching a historic low in June 2012. It would stand to reason that if the Fed was concerned about the level of the yield curve, and the latest minutes from the Federal Open Market Committee meeting indicated that several participants

are, they could engage in a "reverse twist" in order to steepen the curve.

One final point to consider. A reason that the yield curve has been a good leading indicator in the past is because it speaks on credit conditions. Since financial intermediaries typically borrow short-term and lend out funds for the longer term, a flattening yield curve puts pressure on net interest margins and makes longer-term lending less profitable.

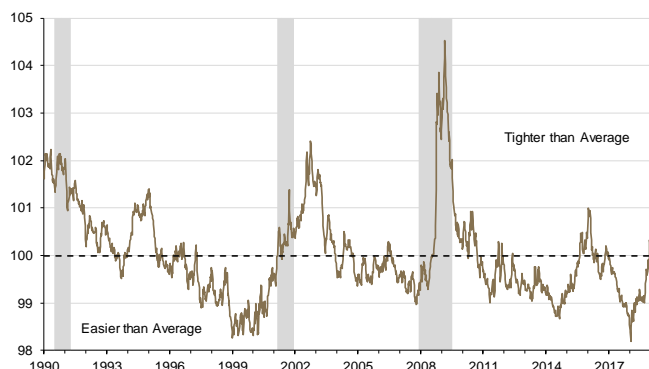
A flat curve can have the effect of putting pressure on credit availability since the spread earned on loans may provide a less adequate cushion to absorb other risks of lending.

Notably though, credit remains highly accessible and financial conditions in general, after tightening throughout 2018, have reversed course and again tilt toward the easy side of history.

Indeed, the flattening of the curve is not so much driven by short-term rates being high (as has been the case in previous periods) but longer-term rates being low. Against this, there is no indication credit is being choked off, which can have the effect of stifling demand and adversely affecting growth prospects.

CHART 34: EASY DOES IT

US Financial Conditions Index
(index; 100 = average)

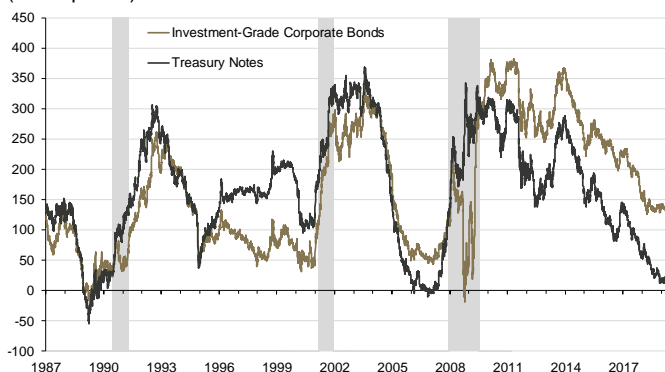


Dashed line represents series average
Shaded regions represent periods of US recession
Source: Bloomberg, Guardian Capital

Similarly, while the government bond yield curve has flattened, the corporate bond yield curve remains comparatively steep, which suggests that there is still ample incentive for lenders to extend longer-term credit to American businesses. Also, the divergence between the government and corporate curves provides a further example of central bank buying influencing the bond market. It should be noted that while other central banks have waded into the corporate bond market, the Fed has not.

CHART 35: YOU CAN GO YOUR OWN WAY

US Yield Curves
(basis points)



Shaded regions represent periods of US recession
Source: Bloomberg, Guardian Capital

Taken At Face Value

While the discussion so far has looked at the yield curve in a broader context, suggesting it may not be as reliable as it has been previously, it is still never a good idea to dismiss any indicator, especially one that has been prescient in the past.

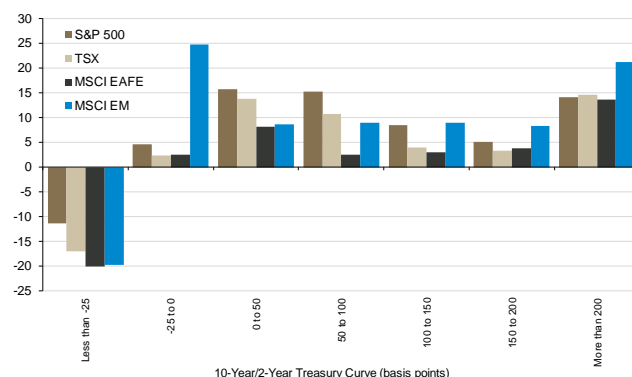
With that in mind, what would it mean if the yield curve was actually providing a true signal consistent with what it has shown in the past?

An inverted yield curve has resulted in the worst performance for equity markets over the last three decades, not just in the US but globally, with the deeper the inversion, the more negative the outcomes over the next 12 months. Interestingly, the one region that bucks this trend (at least for small inversions) is the typically higher-risk EM. This, however, is a function of the weakening in the US dollar in these

periods. The US dollar index is down on average 6.2% over the 12 months after the curve first inverts, though it strengthens by a similar magnitude when the curve inverts to the extremes which leads EM to underperform.

CHART 36: NEGATIVE CURVE, NEGATIVE RETURNS

Average 12-Month Total Return by US Treasury Yield Curve
(annualized percent change)



Based on monthly data since January 1989
Source: Bloomberg, Guardian Capital

With that said, it is important to recognize that the declines are not in a straight line from the moment a yield curve inversion first occurs. History shows an inversion of the yield curve does not signal an immediate end to either the economic cycle or the equity bull market.

Looking at the last five recessions, the spread between the 10-year and 2-year US Treasury note yields turned negative on average 20 months before the recession began (median 19 months) and 17 months on average before the S&P 500 turned in its peak (median 19 months) — and the stock market added another 24% on average before all was said and done.

TABLE 1: MIND THE (TIME) GAP

Inversion of the 10Y/2Y Treasury Curve	Recession Start	S&P 500 Peak	Lag from Inversion to Recession (Months)	Lag from Inversion to S&P 500 Peak (Months)	Price Return in S&P 500 from Inversion to Peak (%)
18-Aug-78	01-Jan-80	13-Feb-80	16.7	18.1	13.1
12-Sep-80	01-Jul-81	28-Nov-80	9.7	2.6	11.9
13-Dec-88	01-Jul-90	16-Jul-90	18.8	19.3	33.5
26-May-98	01-Mar-01	24-Mar-00	33.7	22.3	39.6
31-Jan-06	01-Dec-07	09-Oct-07	22.3	20.5	22.3
Average			20.2	16.6	24.1
Median			18.8	19.3	22.3

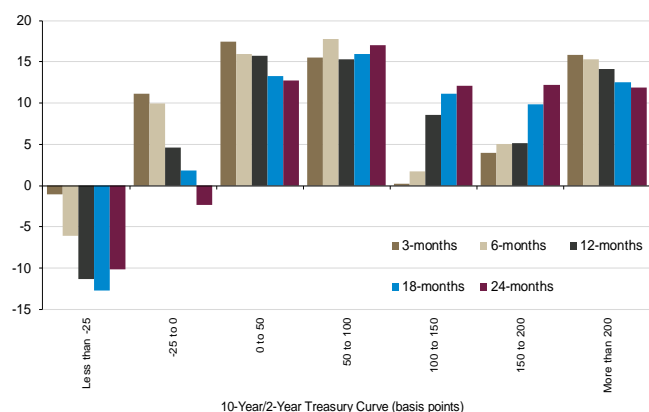
Source: Bloomberg, Guardian Capital

In other words, an inversion of the yield curve is not a signal to abandon ship and doing so at first sighting would mean leaving gains on the table — and for what it is worth, the 10-year/2-year curve has yet to invert.

This is echoed in the fact that on average the US stock market has still registered positive performance in the next 18 months after the spread between 10-year and 2-year rates initially turns negative, albeit more muted than what it normally seen amid normal positive yield curves. After that 1½ years, and as the inversion deepens, however, market performance is materially worse as the bear markets set in.

CHART 37: DEPTH CHARGE

Average S&P 500 Total Return by US Treasury Yield Curve (annualized percent change)



Based on monthly data since January 1989
Source: Bloomberg, Guardian Capital

The bottom line is that the yield curve dynamics are worthy of attention given what they have historically portended for the outlook, but if past is precedent, an

inversion in the yield curve does not warrant immediate reaction. The fact that other factors are influencing the behaviour of the bond market suggests that avoiding knee-jerk reactions to the yield curve’s message would be prudent.

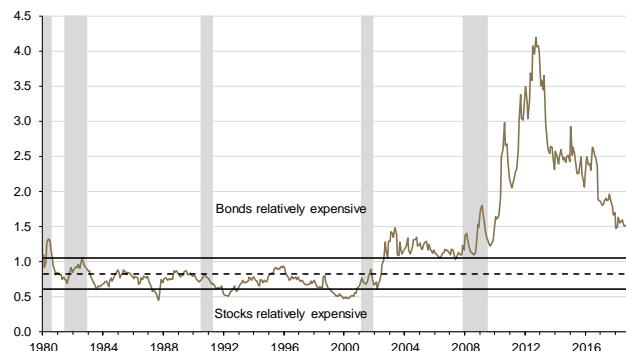
Allocating Assets

Putting this all together, what does it mean for the markets?

First and foremost, while risks loom, the baseline outlook appears to be generally positive, which should be supportive of risk assets. As well, the downdraft in interest rates in the first quarter, even as equity markets rebounded, still means that the relative values continue to tilt in favour of stocks over bonds in a balanced portfolio context.

CHART 38: IT IS ALL RELATIVE

S&P 500 Earnings Yield to US Bond Universe Index Yield (ratio)

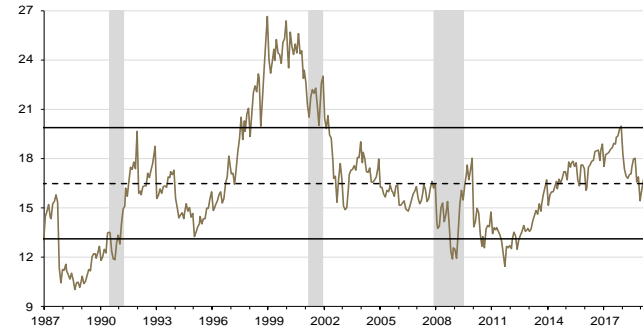


Dashed line is average from 1980 to 2007; black lines are +/-1 standard deviation; shaded regions represent periods of US recession
Source: Bloomberg, Guardian Capital

That, however, does not mean that positions should go to the extreme. The sharp turnaround in equities so far this year has purely been a function of price-to-earnings multiple expansion — reversion a chunk of the multiple compression from last year — with earnings expectations effectively holding steady.

CHART 39: VALUATION EROSION

S&P 500 Forward Price-to-Earnings Ratio (ratio)



Dashed line represents historical average; solid black lines are +/- 1 standard deviation; shaded regions represent periods of US recession
Source: Bloomberg, Guardian Capital

While there is scope for further multiple expansion-driven positive performance, stock market valuations no longer offer the same tailwind for the equities that they did in December.

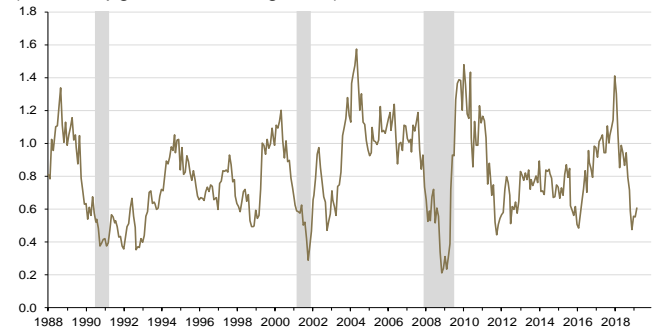
Accordingly, absent a material pickup in earnings, it is likely the case that the bulk of the gains have already been recorded, with increases over the coming months likely to be comparatively muted relative to those registered in recent months with trading less likely to be as one-directional.

Earnings growth is expected to slow markedly relative to 2018 as the one-off boost to margins from the US corporate tax cut fades, but forecasts are still for a fairly solid 5% to 10% in corporate profits over the coming year underpinned by top-line revenue gains.

Notably though, while earnings momentum slowed in tandem with the economic dataflow over the second half of 2018, just as the macro data turned for the better in the New Year, so too have the profit forecasts — the global analyst earnings revision ratio has increased now for three-months running in another signal that the market environment is improving.

CHART 40: REVISION REVISIONS

Global Analyst One-Month Earnings Per Share Revision Ratio (ratio of upgrades to downgrades)

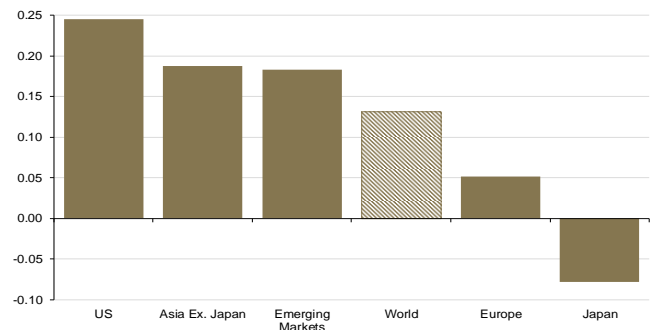


Shaded regions represent periods of US recession
Source: Bank of America Merrill Lynch, Guardian Capital

Again, there are regional differences to be found, with the improving profit trajectory most notable for the US and EM, while Europe lags and Japan has yet to see shifts in views.

CHART 41: REVISED REVISIONS

Change in One-Month Earnings Per Share Revision Ratios Since December 2018 (points)



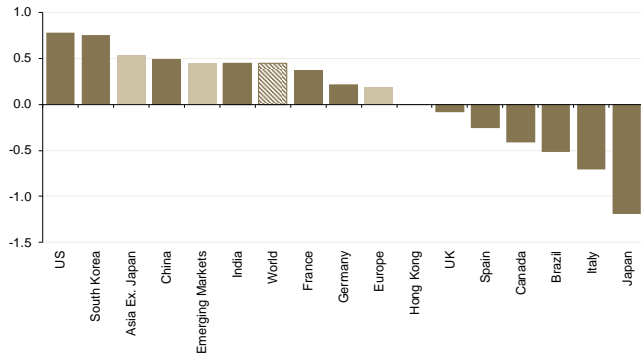
Source: Bank of America Merrill Lynch, Guardian Capital

These differences are evident in the respective valuations as well, with the regions with better relative potential trading at comparatively higher valuations. Importantly though, no regions are looking particularly expensive from this standpoint, suggesting there may be compelling reasons to look outside the world's largest equity market for potential opportunities.

CHART 42: A PREMIUM ON GROWTH POTENTIAL

MSCI Country Index Forward Price-to-Earnings Ratio Relative to 10-Year Average

(standard deviations from the average)



Source: Bloomberg, Guardian Capital

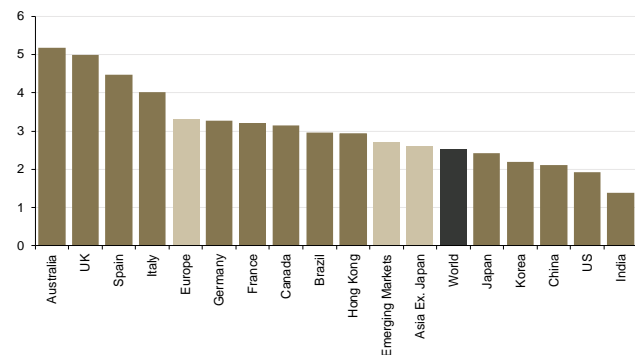
Yield hunting redux

Broadening geographic exposure is appealing from a risk management perspective since it increases the diversification of equity holdings. It also provides opportunity to add yield carry that can help to mitigate market volatility — and some of the best yield offerings can be found outside of North America.

CHART 43: BETTER YIELD ABROAD

MSCI Country Index Dividend Yield (percent)

(percent)



Source: Bloomberg, Guardian Capital

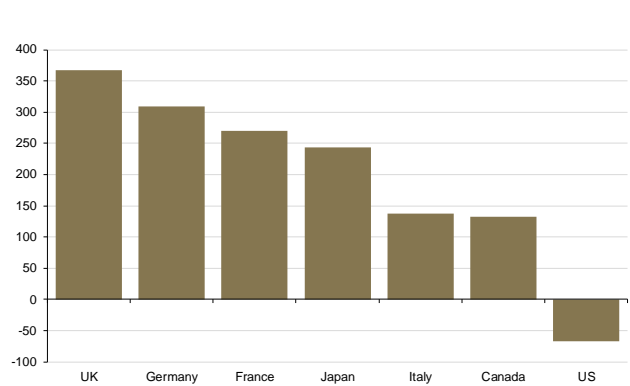
The enhanced yield opportunities in equity markets are likely to gain more attention in the renewed low interest rate environment.

Stock markets in general are able to provide a significant yield premium versus what is available in the bond market, with the US the only G7 economy

where the 10-year government bond yield actually exceeds that of the local bourse.

CHART 44: BETTER THAN BONDS

MSCI Index Dividend Yield Less 10-Year Government Bond Yield (basis points)



Source: Bloomberg, Guardian Capital

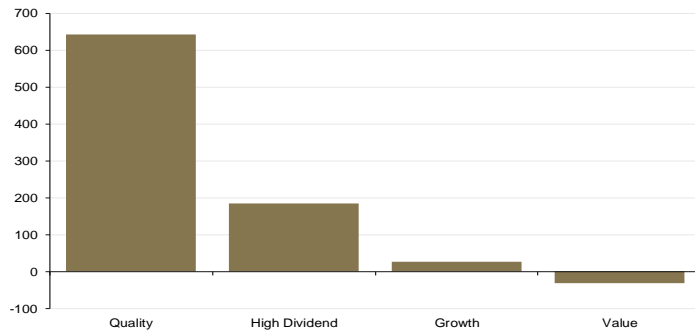
Moreover, the likelihood going forward that markets will not continue to go straight up, but instead face increased volatility against the still persistent uncertainty and now more fully-priced markets provide other compelling reasons to look at dividend stocks.

These income-generating equities historically have outperformed the broad market in periods of elevated volatility in part due to their cash flow cushion muting the downside. Typically, when volatility has been above-average over the last two decades, global equities with high dividend yields have beaten the broad index. Similarly, so-called “quality” stocks (as per MSCI, stocks that achieve high-quality scores based on high return on equity, stable year-to-year earnings growth, and low financial leverage), also provide a haven against volatility, supporting a preference for tilting exposure to these typically stronger and more stable companies with better earnings visibility.

CHART 45: SHELTER IN THE STORM

MSCI World Total Return by Style Versus Overall Index When Volatility is Elevated*

(basis point difference in average annualized rate)



*Based on monthly data since January 1990 when VIX is above average level
Source: Bloomberg, Guardian Capital

Loosening the bond

The prospect of a rise in volatility does speak to holding some high-quality fixed income securities, given that their performance is typically inversely related to that of the broad stock market in times of stress. Also, central banks' commitments to keeping policy rates at their current low levels for the foreseeable future makes it difficult to be outright bearish on the view for bonds.

At the same time, however, the outlook for the asset class is far from upbeat. Bonds have had strong performance so far this year against a broad-based drop in yields. There is, however some argument that they moved too far in pricing in rate cuts, given what appears to be a fairly sanguine general economic outlook. That would suggest that the path of least resistance for market interest rates would be higher. And, since bond prices move inversely to rates, that would prove negative for fixed income.

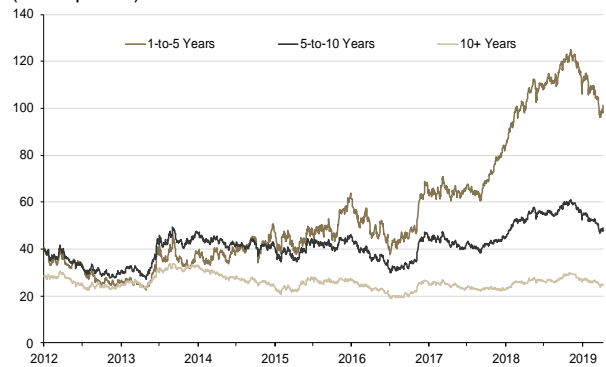
Government bonds in particular appear vulnerable to a rise in interest rates given their yields still sit near two-year lows, which means it does not take much in terms of rate increases to turn performance negative.

For example, with the 10-year US Treasury note yield stuck at 2½%, it takes just a 25 basis point rise in the yield to wipe out the 12-month total return from holding the bond — and we have seen a move of that

magnitude in just the last month.

CHART 46: LESS CUSHION FOR THE PUSHIN'

Ratio of US Bond Index Yield to Duration*



*The increase in yields required to wipe out 12-month carry on a bond
Source: Bank of America Merrill Lynch, Guardian Capital

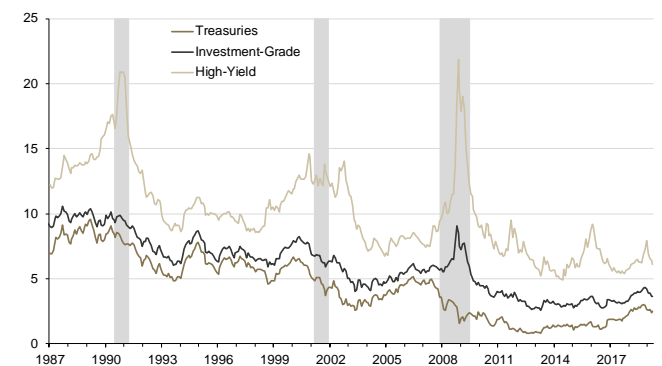
Further to this point, the flatness of the government yield curve means that the bond market offers effectively no premium for holding long duration debt that is by definition more sensitive to yield changes and more adversely affected by interest rate increases.

Given that markets seem to be underpricing the risk of rising rates, this supports the idea that there are benefits to having exposure to the shorter-term bonds.

A relatively higher yield cushion — and steeper yield curve — is one feature of corporate bonds that makes them appear to offer a better risk/reward proposition than their government counterparts.

CHART 47: CORPORATE CREDIT HAS CARRY

US Bond Index Yield (percent)

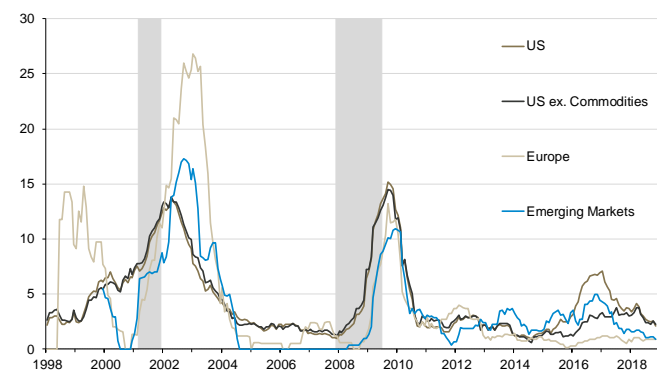


Shaded regions represent periods of US recession
Source: Bloomberg, Guardian Capital

In addition, corporate credit also benefits from an improving economic backdrop, with earnings growth supporting credit quality while the low interest rate environment means lessened pressures related to the cost of capital. The baseline outlook therefore would suggest that corporate default rates should remain benign globally and even continue trend lower over the coming year. The major ratings agencies continue to forecast that speculative-grade corporate bond default rates will decline over the coming months.

CHART 48: CREDIT STILL QUALITY

High Yield Corporate Bond Default Rate
(percent)

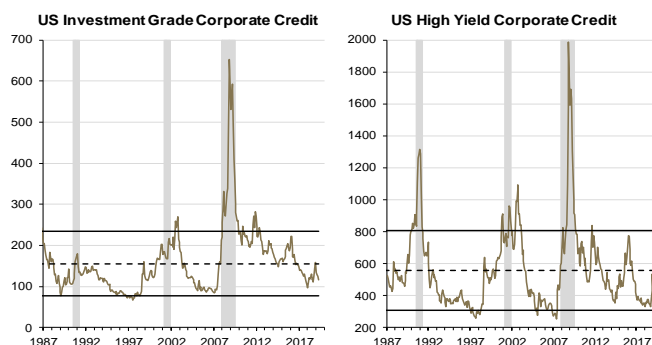


Shaded regions represent periods of US recession
Source: Bloomberg, Guardian Capital

Finally, there is the valuation perspective. Corporate bond yield spreads over government securities have narrowed sharply from their two-year highs established at the end of last year, driving their outperformance versus Treasuries so far this year. Importantly though, spreads remain above their previous lows in both the Investment Grade and High Yield spaces, suggesting that there may still be more room to run.

CHART 49: SPREAD YOUR WINGS

Yield Spread Over US Treasuries
(basis points)



Shaded regions represent periods of US recession
Source: Bloomberg, Guardian Capital

Home-field disadvantage

In a welcome change of pace for Canadian investors, after another year of lagging its peers in 2018, the domestic equity market north of the 49th parallel found itself on the top of the leaderboard to start 2019.

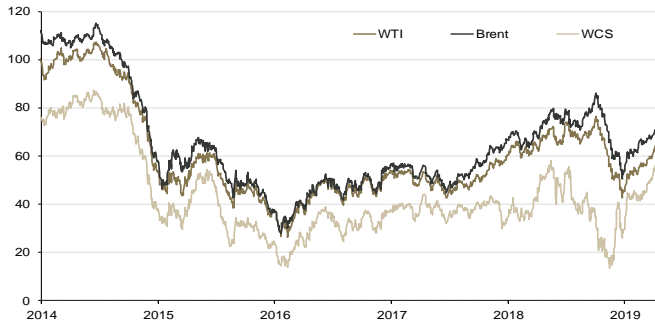
However, while there still appears to be scope for continued gains being recorded given the signs of improvement in global growth, and the Canadian stock market's still-attractive relative valuations and ample dividend yield, there are reasons to be cautious.

A leading driver of the gains in the S&P/TSX year-to-date has been the rebound in the Energy sector. Benchmark crude oil prices plunged 40% in the final months of 2019 against a combination of supply factors — namely, the US granted last minute waivers on trade sanctions with Iran, which meant that there was a larger available supply of oil in the marketplace than had been assumed — and global growth concerns.

As these concerns over the outlook have ebbed, and major oil producers scaled back production, prices have recovered and held fairly stable in recent months.

CHART 50: BACK FROM THE BOTTOM

Benchmark Crude Oil Prices
(US dollars per barrel)



Source: Bloomberg, Guardian Capital

With global crude inventories remaining ample, there is some question as to how much more upside remains, which could limit further gains for Canada's heavily weighted Energy sector.

Moreover, the mandated production cuts in Alberta's oil patch are making headway in reducing stockpiles, but there are still egress issues that need to be addressed. Against this, there appears to be potential downside here for Canadian oil producers as the domestic benchmark Western Canadian Select heavy oil price has narrowed the gap with American West Texas Intermediate price to a significant degree. This suggests that some spread widening could be in the cards which would serve as a headwind for the sector.

CHART 51: MAKES NO DIFFERENCE ANY MORE?

Differential Between WTI and WCS Crude Oil Price
(US dollars per barrel)



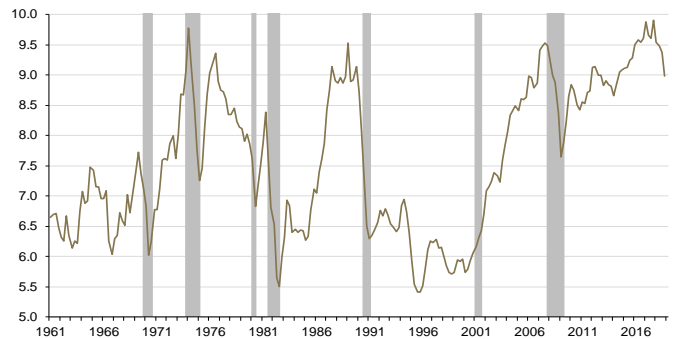
Dashed line represents historical average
Source: Bloomberg, Guardian Capital

A larger potential headwind for the Canadian economy and stock market is the ongoing weakness in housing and what it means for the Financial sector.

The efforts by policymakers to put a damper on activity in the residential real estate sector — which had expanded to historically high 10% of GDP — have proven successful.

CHART 52: SUBSTANTIAL SHARE

Residential Investment Share of Canadian GDP
(percent)



Shaded regions represent periods of US recession
Source: Bloomberg, Guardian Capital

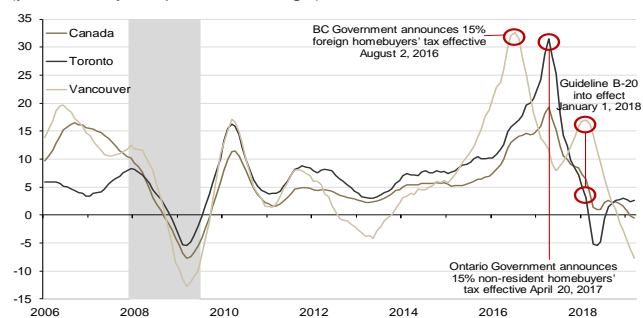
This undoubtedly plays an important role in safeguarding the stability of the Canadian financial system and mitigating risks that the domestic market will face a repeat of what played out in the US more than a decade ago.

At the same time, given that the housing market plays a significant part in the economy, a slowing here has ripple effects across Canada. For lenders, slowing demand for housing means less robust growth in demand for mortgages and other loans which adversely affects lenders' bottom lines.

More broadly, housing is the largest asset owned by the vast majority of households and slowing growth (or outright declines as has been the recent case, with the Canadian composite home price down year-over-year for the first time since 2009) in home prices impacts overall net wealth.

CHART 53: NO APPRECIATION FOR HOME PRICES

Composite Canadian House Prices (year-over-year percent change)



Shaded region represents period of US recession

Source: Canadian Real Estate Association, Guardian Capital

The adverse wealth effect has the impact of restraining consumer spending (which again affects demand for loans from households) since instead of relying on their homes to generate savings, Canadians are forced to save more out of current incomes.

Given that Energy and Financials account for half of the total market capitalization of the S&P/TSX, restrained performance for these sectors carries significant implications for the broad market and economic performance. This can mute the positives of any pro-cyclical global developments.

Heavens above

Despite the calls that the sky was on the verge of falling at the end of last year, the heavens remain firmly above our heads.

Risks continue to linger over the outlook, but several of the most significant ones have subsided, at least for the near term. With those clouds parting, the macroeconomic backdrop looks more constructive than it did at the end of last year, which should be supportive for continued performance among risk assets, albeit likely not keeping pace with the gains recorded so far this year.

Overall growth is still expected to moderate, which combined with inflation remaining tame, provides cause for the central bank to err on the side of caution. But while monetary policymakers are committed to

keeping ample liquidity in the system and interest rates low, markets appear to be overestimating the likelihood that cuts to policy rates are in the offing.

The associated potential upside risks to interest rates and the low-yield cushion offered by bonds makes the asset class relatively less attractive and continues to support a tilt to equities in a balanced fund asset mix.

The still elevated uncertainty and the probability that volatility will pick up, however, suggest that it may still be prudent to manage risk by keeping a focus on quality and exposures to cash flow generating assets.

Balanced Fund Summary Views

Equities	+	Fixed Income	—
Canadian Equity	Neutral	Government Bonds	—
US Equity	+	Investment-Grade Credit	+
EAFE Equity	Neutral	High-Yield Credit	+
Emerging Markets	+		

Market Returns at March 31, 2018 All Returns in Cdn \$

CANADIAN EQUITIES

INDEX RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
S&P / TSX Composite	1.0	13.3	13.3	8.1	5.4	9.5
S&P / TSX 60	1.0	12.5	12.5	9.0	6.3	9.3
S&P / TSX Completion	1.2	15.8	15.8	5.4	2.9	10.4
S&P / TSX Small Cap	-1.1	10.7	10.7	-1.8	0.2	8.1
BMO Small Cap Blended (Weighted)	-1.0	11.3	11.3	-1.3	0.8	9.9
S&P/TSX Composite High Dividend Index	1.6	14.3	14.3	9.0	3.7	11.6
S&P / TSX Composite Dividend	0.9	12.6	12.6	7.9	6.2	N/A

S&P/TSX SECTOR RETURNS (%)

Energy	-0.3	15.6	15.6	4.3	-4.4	3.5
Materials	2.4	8.5	8.5	2.9	1.0	0.3
Industrials	3.6	15.3	15.3	15.4	11.9	17.2
Consumer Discretionary	-1.0	9.8	9.8	-5.0	8.8	13.9
Consumer Staples	3.3	10.6	10.6	19.9	15.3	16.2
Health Care	2.0	49.1	49.1	44.9	-18.8	10.0
Financials	-1.2	10.4	10.4	3.7	8.9	14.3
Information Technology	5.6	26.0	26.0	29.1	20.9	7.3
Communication Services	2.5	10.0	10.0	16.9	10.5	14.3
Utilities	4.6	16.1	16.1	12.3	7.3	10.1
Real Estate	3.8	17.5	17.5	19.3	12.4	18.0

US EQUITIES

INDEX RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
S&P 500	3.4	11.2	11.2	13.4	15.2	16.6
Dow Jones Industrial Average	1.6	9.4	9.4	14.0	16.5	16.6
NASDAQ	4.1	13.9	13.9	13.3	17.3	18.3
Russell 1000	3.2	11.5	11.5	13.2	14.9	16.7
Russell 2000	-0.7	12.1	12.1	5.7	11.2	16.0
Russell 3000	2.9	11.6	11.6	12.6	14.6	16.7
Russell 1000 Growth	4.3	13.6	13.6	16.7	17.9	18.2
Russell 1000 Value	2.1	9.5	9.5	9.4	11.9	15.2

S&P 500 SECTOR RETURNS (%)

Energy	3.6	14.0	14.0	5.0	1.0	7.0
Materials	2.7	8.0	8.0	3.2	9.4	13.1
Industrials	0.3	14.8	14.8	7.0	13.6	17.9
Consumer Discretionary	5.7	13.4	13.4	17.3	18.0	21.8
Consumer Staples	5.6	9.7	9.7	14.5	12.8	14.1
Health Care	2.0	4.4	4.4	19.1	15.6	17.0
Financials	-1.2	6.3	6.3	-1.2	13.6	16.4
Information Technology	6.4	17.4	17.4	19.7	23.2	20.7
Communication Services	3.9	11.6	11.6	11.7	9.3	10.4
Utilities	4.4	8.6	8.6	23.7	15.2	13.5
Real Estate	4.1	8.2	8.2	24.3	13.1	12.2

INTERNATIONAL EQUITIES

INDEX RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
MSCI World Index (Net)	2.8	10.0	10.0	7.7	10.9	13.0
MSCI EAFE Index (Net)	2.1	7.6	7.6	-0.3	6.3	9.6
MSCI ACWI	2.7	9.7	9.7	6.2	10.6	12.6
MSCI France	1.9	8.3	8.3	-0.3	6.6	9.1
MSCI Germany	0.0	4.6	4.6	-10.7	3.1	9.2
MSCI Japan	2.0	4.3	4.3	-4.6	9.7	8.6
MSCI UK	2.5	9.4	9.4	3.5	4.6	9.9
S&P/IFC Investable (Emerging Markets)	2.5	7.1	7.1	-3.9	8.6	10.5
MSCI EAFE Growth (Gross)	3.3	9.7	9.7	2.6	8.4	10.8
MSCI EAFE Value (Gross)	1.1	5.7	5.7	-2.2	5.1	9.4

INTERNATIONAL EQUITIES

MSCI EAFE SECTOR RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
Energy	1.8	8.0	8.0	8.3	4.4	6.0
Materials	2.4	10.7	10.7	0.5	6.7	8.8
Industrials	1.8	8.1	8.1	-2.1	7.6	11.3
Consumer Discretionary	0.0	5.2	5.2	-7.2	5.8	11.4
Consumer Staples	6.3	9.9	9.9	6.9	9.0	12.7
Health Care	3.3	8.8	8.8	11.2	7.4	11.4
Financials	-1.2	4.6	4.6	-9.6	3.7	8.7
Information Technology	4.2	12.8	12.8	-0.4	12.0	10.5
Communication Services	2.3	2.0	2.0	-1.1	3.2	7.5
Utilities	2.7	6.6	6.6	12.6	6.6	4.4
Real Estate	5.9	11.5	11.5	7.9	3.3	1.6

Sources: Bloomberg Finance L.P., FTSE Bond Analytics, TD Securities, Thomson Financial

Market Returns at March 31, 2018 All Returns in Cdn \$

CANADIAN FIXED INCOME

INDEX RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
FTSE Canada 91 Day TBill	0.1	0.4	0.4	1.5	0.8	0.8
FTSE Canada Short Term Bond Index	0.9	1.7	1.7	3.5	1.9	2.5
FTSE Canada Mid Term Bond Index	2.1	3.8	3.8	5.7	3.8	4.9
FTSE Canada Long Term Bond Index	4.5	6.9	6.9	7.3	6.4	7.1
FTSE Canada Universe Bond Index	2.4	3.9	3.9	5.3	3.8	4.4
FTSE Canada High Yield Overall	1.4	4.0	4.0	4.7	5.3	9.2
FTSE Canada Real Return Bond	4.0	5.1	5.1	3.7	3.6	5.0

SECTOR RETURNS (%)

FTSE Canada Federal Bond	1.8	2.5	2.5	4.6	2.7	2.8
FTSE Canada Provincial Bond	3.1	5.2	5.2	6.2	4.9	5.4
FTSE Canada All Corporate Bond	2.0	4.0	4.0	4.9	3.9	5.7

GLOBAL FIXED INCOME

INDEX RETURNS (%)	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
FTSE World Government Bond	2.7	-0.5	-0.5	1.9	4.5	2.8

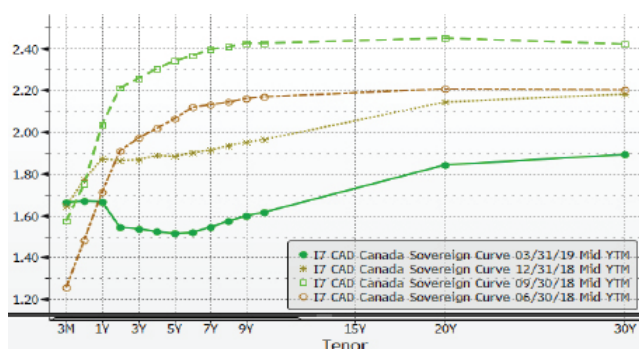
COMMODITY

	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
Bloomberg WTI Cushing Crude Oil Spot Price	6.6	29.5	29.5	-4.1	-6.5	2.5
Bloomberg European Dated Brent BFOE Price	4.1	24.2	24.2	1.1	-5.3	4.1
Edmonton Crude Oil Syncrude Sweet Blend FOB Spot	4.6	37.4	37.4	-8.7	-7.5	2.2
S&P GSCI Nat Gas Index Spot	-4.0	-11.4	-11.4	0.9	-5.9	-2.9
S&P GSCI Copper Index Spot	1.0	6.3	6.3	0.2	3.3	5.5
S&P GSCI Gold Index Spot	0.1	-0.9	-0.9	1.3	4.1	4.1

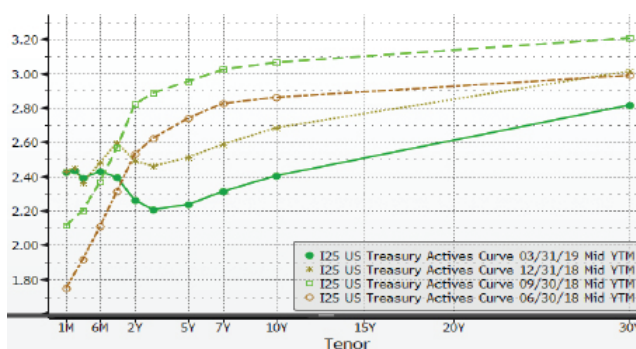
CURRENCY

	1 Mo	3 Mos	YTD	1 Yr	5 Yrs	10 Yrs
Canadian \$/US \$ (% chg)	1.4	-2.2	-2.2	3.5	3.9	0.6
Canadian \$/Yen (% chg)	2.0	-3.0	-3.0	-0.2	2.4	-0.5
Canadian \$/GBP (% chg)	-0.6	0.1	0.1	-4.4	-1.1	-0.3
Canadian \$/Euro (% chg)	0.0	-3.9	-3.9	-6.0	-0.3	-1.1

GOVERNMENT OF CANADA YIELD CURVE



US TREASURY YIELD CURVE



Sources: Bloomberg Finance L.P., FTSE Bond Analytics, TD Securities, Thomson Financial

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