

THE STANTON REPORT

Winter 2016

*Views and opinions for
the friends and clients
of Investment Advisor
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A Word from Richard

Happy New Year to all my friends and clients! I hope everyone enjoyed the holidays with their loved ones and took some time to relax and enjoy the season. With the holidays over the girls are back at school and all their extracurricular activities have started up again. Jenelle, our youngest turned 13 this month. I'm not sure where the time has gone, both kids are growing too quickly!

RBC Dominion Securities has prepared a market comment entitled "Still Not Out Of The Woods". In it, we describe the issues currently impacting global markets and the potential risks we face over the next several months. We also reiterate our long-term positive view on stocks and the potential opportunities that may present themselves in the weeks and months to come. If you haven't read it and would like us to send it to you please contact us.

As always, I am available to assist and discuss all of your investment goals and objectives for the coming year. Give Tracy a call or send her an email if you want to set up an appointment either in person or via telephone.

Thanks for reading.

Here is what happened in 2015;

- › **S&P/TSX Composite Index -8.3%**
- › **Down Jones Industrial Average 0.2%**
- › **MSCI World Index -0.3%**
- › **Crude Oil -30.5%**
- › **Natural Gas -19.1%**
- › **Gold -10.4%**
- › **Silver -11.7%**



RBC Wealth Management
Dominion Securities

Significant Headwinds Remain

Economic data remains uninspiring in most regions, although the threat of recession seems modest. While we continue to expect moderate economic growth, we recognize that warning signs are more and more evident and that it is prudent to raise the alert status. The downward trend for the U.S. ISM Index, sluggish corporate profits and a variety of market-based indicators, including a sustained widening of high-yield-bond spreads, sensitizes us to the possibility that the business cycle may be maturing. Sovereign-bond yields have traded in a fairly tight range over the last quarter, and while equity markets are still mostly below the levels of last summer, they have been staging a significant rebound during the final few months of the year. We expect the heightened level of volatility to persist over the coming quarters.

Significant downside risks remain, creating a challenging environment for investors. The geopolitical environment has been fraught with conflict and uncertainty for quite some time, and this is only increasing. The most salient recent developments relate to ISIS, but there are also long-term trends brewing with regard to the polarization of developed-world politics, Russia's increased aggression and China's growing global clout. Although China remains a key concern, its much-maligned housing market recently stabilized and it continues to defy hard-landing fears. We would also include the emerging-market slowdown, the resource shock and the prospect of tighter U.S. monetary policy in the list of headwinds that we are monitoring closely.

MINOR REVISIONS TO OUR ECONOMIC FORECASTS

Global economic growth has unquestionably slowed over the past year, with some concerned that the process is accelerating into a more severe correction. We fail to find any evidence of this. Despite the recent downward trend in the U.S. ISM Index, the latest batch of leading indicators has tentatively pushed higher and global industrial production remains fairly normal-looking. Whether this initial step higher in the leading indicators proves prescient, current levels remain inconsistent with a global recession. We have made only minor tweaks to our growth forecasts this quarter, nudging them slightly lower in aggregate due to emerging-market weakness.

U.S. DOLLAR BULL MARKET MATURING

The U.S. dollar bull market is maturing as it enters its fifth year. Many investors expect continued dollar

strength, and they may be correct given that previous dollar cycles lasted five to 10 years. We look for further gains for the greenback even after a year of incredible dollar strength. The prospect of policy normalization by the U.S. Federal Reserve (Fed), coupled with expansionary monetary policies elsewhere, means that this bull market still has room to run. However, with the U.S. dollar no longer deeply undervalued and the prospect of volatility rising, our positions and willingness to take risk are appropriately smaller. Of the four major currencies, we expect most weakness from the euro, the yen and the Canadian dollar, leaving the pound little-changed in our forecasts.

INFLATION SHOULD BEGIN TO MOVE HIGHER

Inflation remains very low as the end of the commodity supercycle has exerted a powerful disinflationary effect over the past few years. However, we believe the downward pressures on inflation will begin to abate as resource prices have largely completed their swoon and there is the potential for modest gains in some commodities in the years ahead. We continue to believe that the much talked-about deflation threat remains limited. We can largely account for why inflation is so low today, and those pressures are inherently temporary. Altogether, we look for inflation to recover partially in 2016, but not all the way to a normal level, and we suspect that the revival will be a tad more gradual than the market consensus.

DIVERGENT MONETARY POLICIES

The theme of diverging monetary policies will likely become more pronounced in the coming quarters. For the many central bankers still entertaining the delivery of more stimulus, the rationale generally rests on very low inflation, paired with persistent economic slack in the developed world and decelerating growth in emerging markets. At the other monetary policy extreme, the world's bellwether central bank – the Fed – is set to begin raising rates. We believe such action is justified to keep the economy on its optimal growth trajectory. To the extent that markets are priced for this outcome, and the Fed has emphasized its desire to proceed with extreme caution, this should not be overly problematic.

FORECASTING A MODEST INCREASE IN BOND YIELDS

Interest rates remain low and have proven adept at defying widespread forecasts over the past several years that they would rise. There is a distinct risk that this

trend persists, especially given the downward pressure that comes from ultra-stimulative central banks, slow growth, low inflation, shrinking fiscal deficits and an aging population.

In the U.S., some of these conditions seem more vulnerable to reversal than they have been for some time. With the Fed set to embark on a new tightening cycle, rising short-term interest rates should nudge bond yields higher over the coming quarters. However, there are a number of factors that may discourage U.S. yields from rising too quickly. The macroeconomic backdrop of moderate growth and inflation will allow the Fed to be patient, subtle and transparent as it sets itself on the long path to restoring “normal” monetary conditions. In addition, relatively low yields elsewhere in the world have made U.S. Treasury bonds attractive to global investors and the demand for Treasuries should limit how far yields can rise in the near term.

CORPORATE PROFIT GROWTH CRITICAL TO OUTLOOK

Stocks have experienced significant volatility so far in 2015 driven by the ebb and flow of headlines around the various risks that have the potential to impact the economy and markets. Most equity markets have moved sideways or down through 2015 as valuations have

moderated and earnings estimates have experienced constant negative revisions since the end of 2014.

The sell-off in many equity markets over the last few months has bolstered the long-term return potential for stocks. Even in the U.S., where stocks climbed slightly above fair value in the spring of 2015, valuations are back below the norm for periods of sustained growth, low inflation and low interest rates. Valuations are considerably more attractive in Europe and other global and emerging markets.

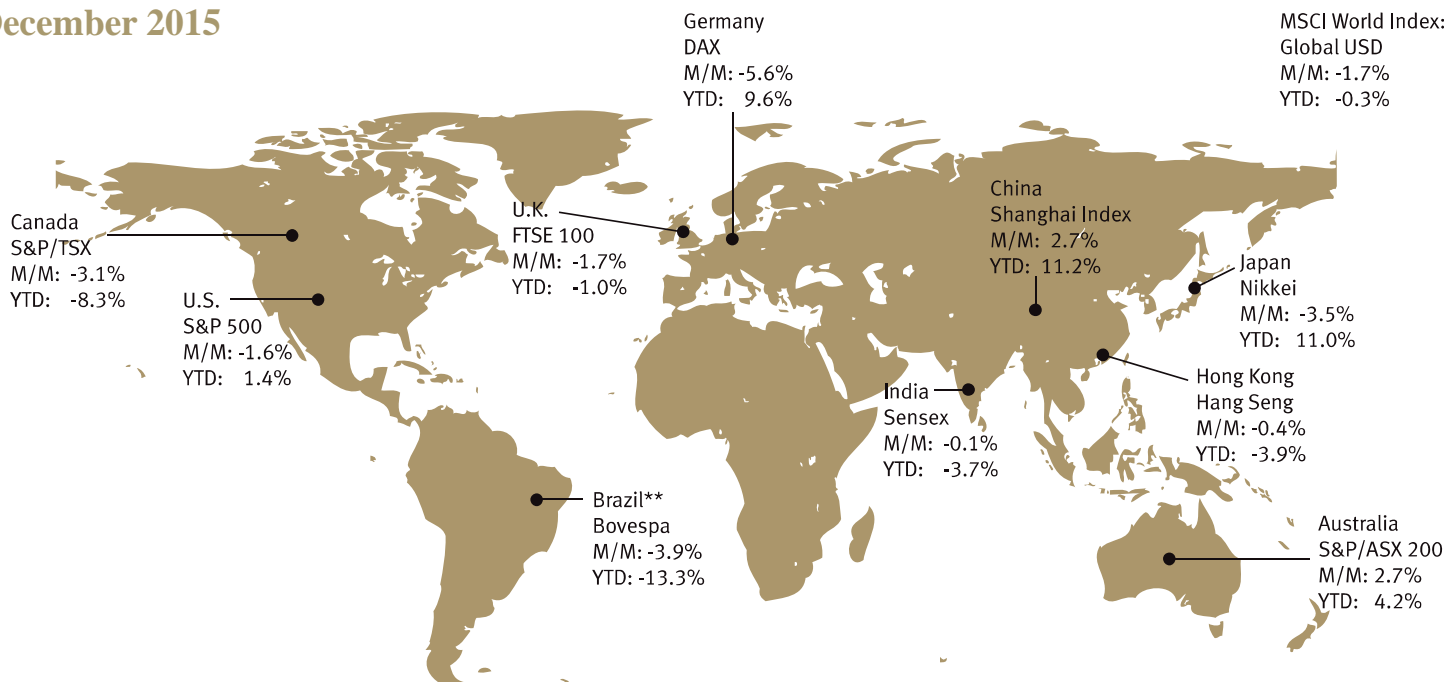
However, as expanding valuations have been the key driver of rising stock prices since the 2008-2009 financial crisis, they may be less supportive of higher equity prices going forward. With higher valuation levels, earnings growth will likely be the key driver of further gains in stocks. Analysts expect corporate profits to be above current levels in 2016 and 2017, but given that earnings estimates have been coming down for most of this year, this bears watching.

Provided by RBC Global Asset Management

December 11, 2015

World Markets

December 2015



All returns are on a total return basis unless otherwise noted. All returns calculated in local currency except for MSCI World

** These indices are calculated on a price return basis

2015 REPORT CARD

Positive Developments:

- › Markets unfazed by first Fed rate hike
- › U.S. economy still growing
- › Long-term productivity outlook is positive

- › Geopolitical tensions remaining high
- › Poor Spain election outcome from econ/market perspective

Negative Developments:

- › Credit market showing stress
- › Business cycle becoming more mature
- › Global PMIs slip in December after earlier rebound
- › ISM Manufacturing worries
- › Canadian GDP falling/stagnating again

Interesting Developments:

- › ECB stimulus disappointed markets
- › U.K. referendum on EU could be summer 2016
- › U.S. presidential election 2016
- › Paris environmental accord now ready for ratification
- › New Canadian mortgage rules to slow housing market?



OUT OF TOWN SCHEDULE

TERRACE
February 9 – 10

PRINCE RUPERT
February 11 – 12

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