Weekly Market Snapshot

For the week ending February 24, 2017

GLC ASSET MANAGEMENT GROUP

Equities (local currency, price only, % change)

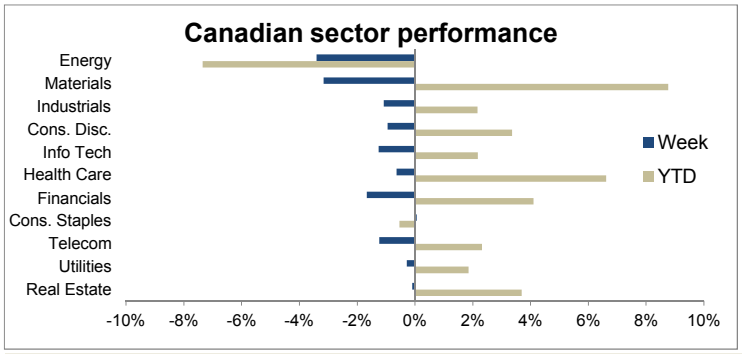
	2/24/2017	Week	1 Month	YTD	1 Year
S&P/TSX Composite	15533.46	-1.93%	-0.49%	1.61%	21.92%
S&P/TSX Small Cap	673.86	-2.74%	0.10%	2.31%	39.80%
S&P 500	2367.34	0.69%	3.83%	5.74%	22.67%
NASDAQ	5845.31	0.12%	4.36%	8.59%	28.68%
Russell 2000	1394.53	-0.38%	1.85%	2.76%	36.44%
Euro Stoxx 50	3304.09	-0.14%	0.69%	0.41%	17.16%
FTSE 100	7243.70	-0.77%	1.31%	1.41%	23.46%
Nikkei 225	19283.54	0.25%	2.64%	0.89%	21.16%
Shanghai Composite	3253.43	1.60%	3.53%	4.83%	11.08%
MSCI EM Index (USD)	943.52	0.48%	3.84%	9.42%	28.10%

Fixed Income (total return, % change)

	2/24/2017	Week	1 Month	YTD	1 Year
FTSE TMX Canada Universe Bond Index	1020.67	0.71%	1.09%	0.92%	1.78%
FTSE TMX Canada All Corporate Bond Index	1153.55	0.56%	1.18%	1.42%	5.13%

Interest Rates - Canada (change in bps)

	2/24/2017	Week	1 Month	YTD	1 Year
3-month Tbill	0.47	-1	2	1	1
GOC bonds 2 yr	0.75	-3	-4	0	25
GOC bonds 10 yr	1.60	-11	-15	-12	46
GOC bonds 30 yr	2.33	-8	-6	2	39



Currencies and Commodities (in USD, % change)

	2/24/2017	Week	1 Month	YTD	1 Year
CDN $	0.76	0.03%	0.50%	2.65%	4.67%
US Dollar Index	101.09	0.14%	0.74%	-1.10%	3.73%
Oil (West Texas)	53.49	0.17%	1.83%	-0.43%	75.95%
Natural Gas	2.79	-5.56%	-15.98%	-21.85%	18.14%
Gold	1257.19	1.83%	3.99%	9.56%	2.31%
Copper	2.70	-0.88%	-0.81%	7.32%	27.53%
CRB Index	190.93	-0.62%	-2.06%	-0.82%	18.23%

NORTH AMERICAN EQUITIES

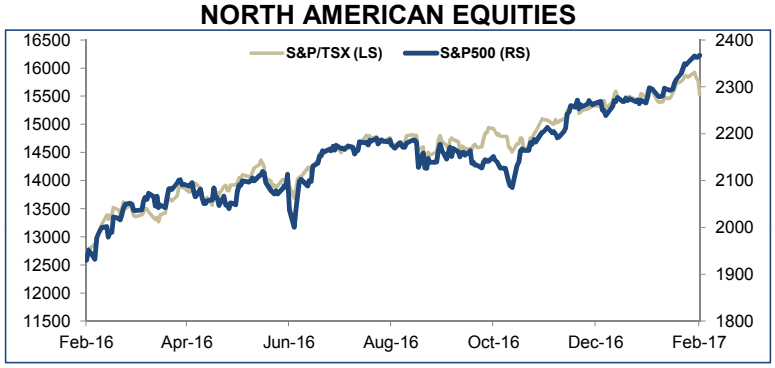
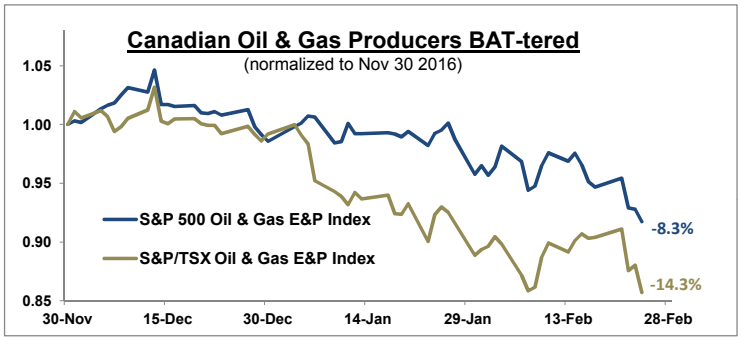


Chart of the Week



HIGHLIGHTS

US equities crept higher with the S&P 500 extending its string to five weekly all-time highs and the Dow Jones Industrials making an 11th all-time daily high in a row. To the contrary, the S&P/TSX took a breather, posting its biggest one-week decline for the year. North American 10-year bond yields experienced their largest one-week decline of 2017, enabling the FTSE/TMX Universe to record its largest one-week gain for the year.

Capital markets continue to digest a stream of expectation-beating corporate earnings, largely better economic data and higher inflation readings. The question on everyone's lips is 'Have equities gone too far, too fast?' Any answer to that only comes with hindsight. The debate for now is around how much of the move higher in equities is a healthy, normal response to improving fundamentals (like earnings growth and economic data); versus how much is based purely on hope for equity-friendly government policies or continued easy monetary policy. We believe it is a mixture of both and lean toward the view that in the medium-term, the improvement in fundamentals will justify current equity levels. However, in the near-term North American equities have risen to their current levels much sooner than we had forecast. Especially in the US, where we sit just a couple of percent shy of reaching our 2017 annual return forecast. We don't believe that one should extrapolate these YTD gains in a straight line. At some point, equities are likely to be disappointed by fundamentals, and/or run out of patience with 'all talk and no action' politicians, and we will experience a pullback. Given the backdrop of solid fundamentals and signs that many investors are eager for just such a pullback, we feel the magnitude of any selloff would be contained. Given the moves of the past several months, investors would be wise to ensure they have rebalanced to their intended asset mix.

Indeed there are worries out there, as reflected in yields on safe haven bonds that are at, or near, their YTD lows and gold is up over 11% from its late December low. Strength in these safe-haven assets may be more about uncertainty over the European political calendar, and the negative impacts on currencies and yields from uncertain US policies or central bank moves, than they are over strides made for stocks. **continued on page 2**

Canadian equities were hit hard on the week. Even though oil and gold prices gained, energy and materials were the worst performers. Despite solid earnings and dividend increases from CIBC and Royal Bank, the financials sector also weighed. The poor performance in Canada's big three sectors is likely a combination of profit taking and a case of 'buy on rumour, sell on fact'.

Falling bond yields and some profit taking are the culprits for weakness in the financial sector. Sixteen of 27 financial sector companies have reported, with earnings beating expectations by 3% on y/y EPS growth of 10%, with the banks running at 15%. For materials, the sector had generated a YTD return in excess of 15% on rallying gold prices, but hasn't been meeting earnings expectations. In contrast, the energy sector is the worst performer on the year, in spite of beating earnings expectations. With 21 of the 50 companies reported, y/y earnings growth is over 400%, beating estimates by an average of 115%. The prospect of a US border adjustment tax (BAT) is being blamed for the sharp under-performance of Canadian energy stocks vs. their US counterparts (see chart of the week). Last week President Trump made comments that seemed to support a BAT, though a month ago he suggested that a BAT was too complicated. Ultimately, Congress decides the countries tax policy and current signals from Congress suggest that a BAT isn't likely.

Economic data didn't help Canada out this week as December retail sales disappointed. Retail sales fell 0.5% m/m on a price basis, with volumes declining by 1%. This marks the fifth consecutive year with a December decline (headline and volumes), suggesting that there are some seasonality adjustment issues in the numbers. Consider that, unadjusted sales hit a record $50 billion, or 11% above the average month in the rest of 2016 and the y/y change is a very solid 4.3%.

The decline for North American bond yields over the past two weeks is even more telling given higher than expected inflation and a less-dovish tone from the US Federal Reserve (Fed). Canadian CPI jumped 0.9% m/m in January, well above expectations and pushed the annual rate to 2.1% from 1.5%. The average of the new three core measures was a tamer 1.6%. This marks the first reading above the Bank of Canada's (BoC) 2% target since October of 2014. The muted core numbers should keep the BoC on the sidelines, especially given the 2.65% YTD rise for the Loonie. Meanwhile, January US CPI came in 0.1% above expectations at 2.5% y/y, the fastest pace since March of 2012. Core inflation that was forecast to decline, rose 0.1% to 2.3% y/y, the highest level in five months. These readings along with plenty of other strong data for the US economy have Fed officials sticking to their three rate hike story, although they are fuzzy on the timing. The bond market is not on the same page with yields falling, including 'Fed sensitive' 2-year yields, and market based odds for three rate hikes sit below 25% all the way out to January 2018.

Outside of North America, preliminary eurozone flash PMI's for February point to further strength. The composite reading rose 1.6 points to 56.0, the highest reading since April 2011. In Japan, the preliminary February Manufacturing PMI rose 0.8 points to 53.5.

The week ahead brings a BoC monetary policy meeting, Canadian GDP and current account balance. On tap for the US are GDP, personal spending and incomes as US lawmakers return to Washington and Trump addresses a joint session of Congress. Globally, most PMI's are released.