



CIBC
Wood Gundy

Parkland County

Investment & Economic Outlook:

May 2017

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Climbing Walls of Worry

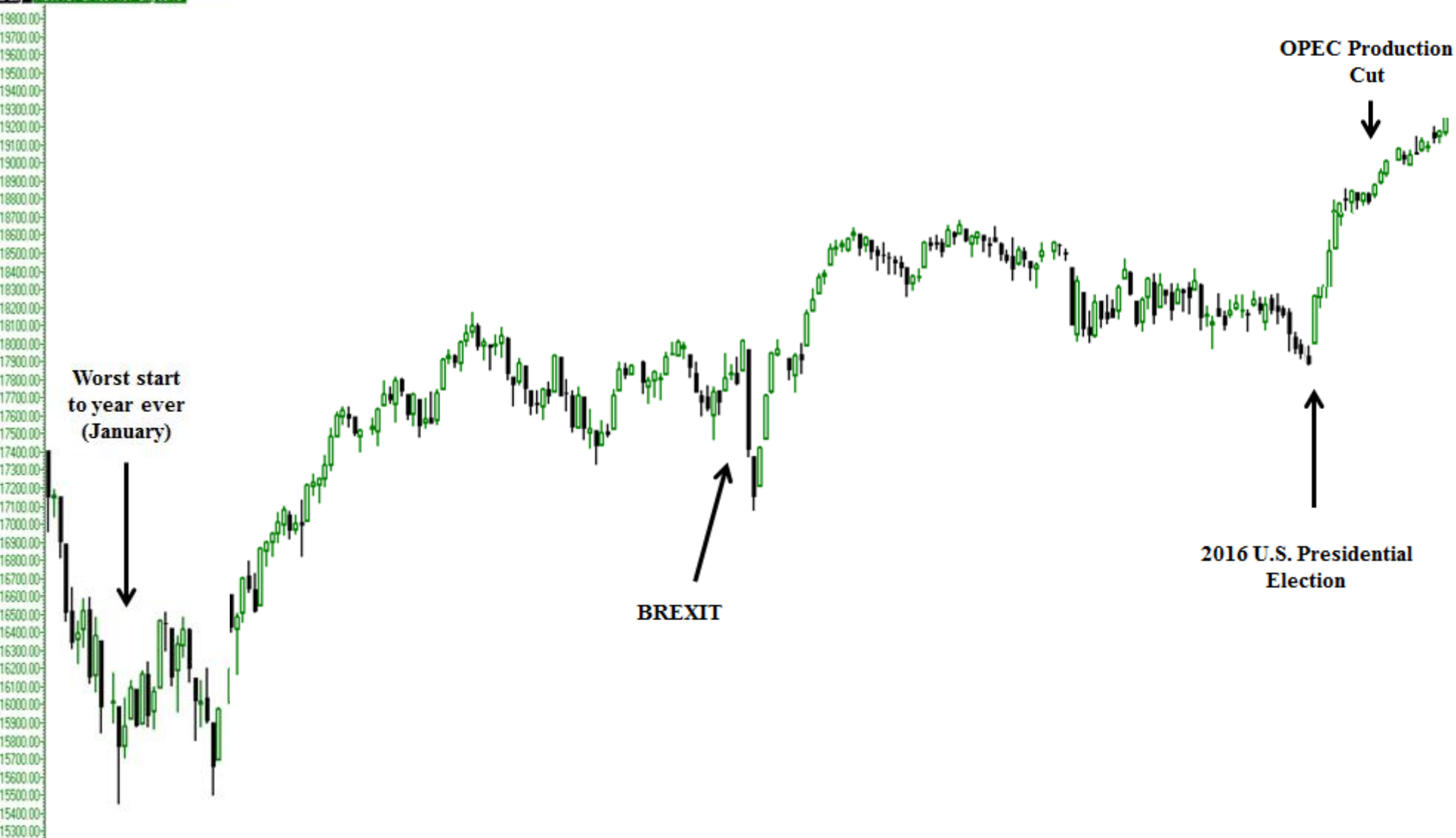
(...and cutting through the noise)



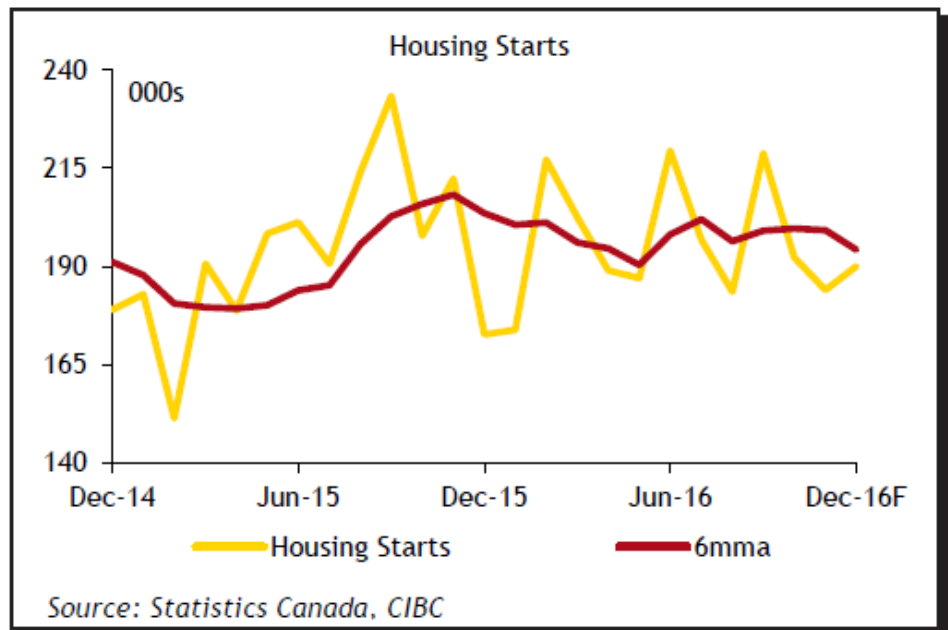
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A Volatile Year: Dow Jones Index

Daily C: DJIA 201 C: 19614.81 Chg 65.19



- Governor Poloz has warned that the closing of the output gap and any potential tightening is still a very distant proposition, with Canada not following in the Fed's footsteps towards high rates
- High existing consumer debt levels, a weak economic outlook, and lack of important inflation channels decrease Bank of Canada (BoC) policy effectiveness
- Q4 growth is now likely to modestly undershoot the BoC's 1.5% growth forecast
- Manufacturing was down by 2% in October, leaving the sector's overall output essentially flat from last year
- Housing starts have already started slipping, and that trend should continue in 2017



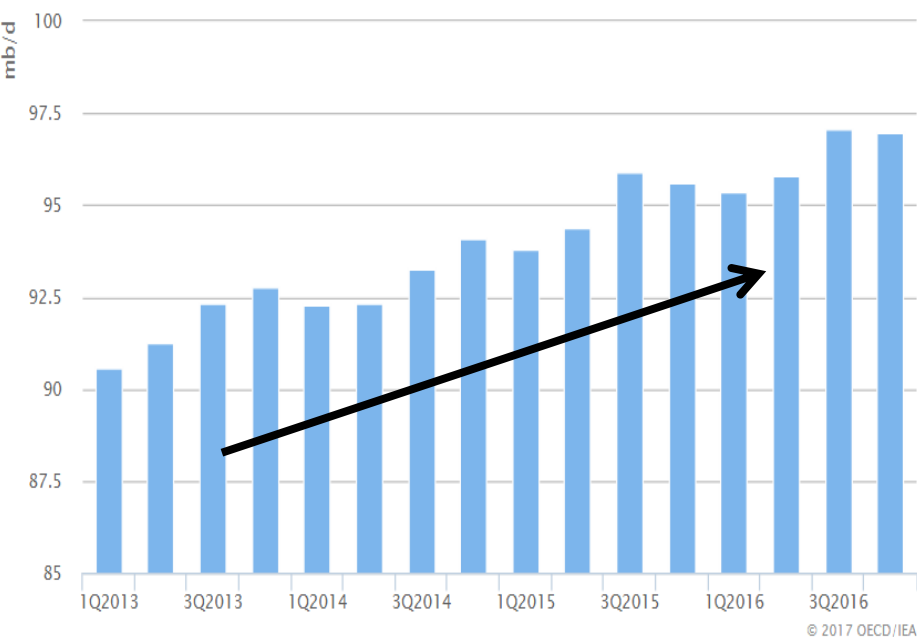
Canada: The Trump Effect

- The uncertain future of NAFTA and protectionist U.S. trade policy could delay capital spending decisions for facilities in Canada aimed at the U.S. market
- Trump's EPA nominee suggests that the new administration will not be following Canada's lead in putting a price on carbon. The incentives may lean to locating carbon-emitting activities stateside
- The U.S. Fed is raising interest rates to contain inflation come 2018, largely due to an accelerating economy. That's pushing up bond yields in Canada in an economy that is much further from full employment, pressuring borrowers with higher rates on debt
- As Canada tries to build a more innovative, services-oriented economy, it's going to be more of a struggle to retain the required top talent here with the tax advantages an employee relocated south of the border would garner

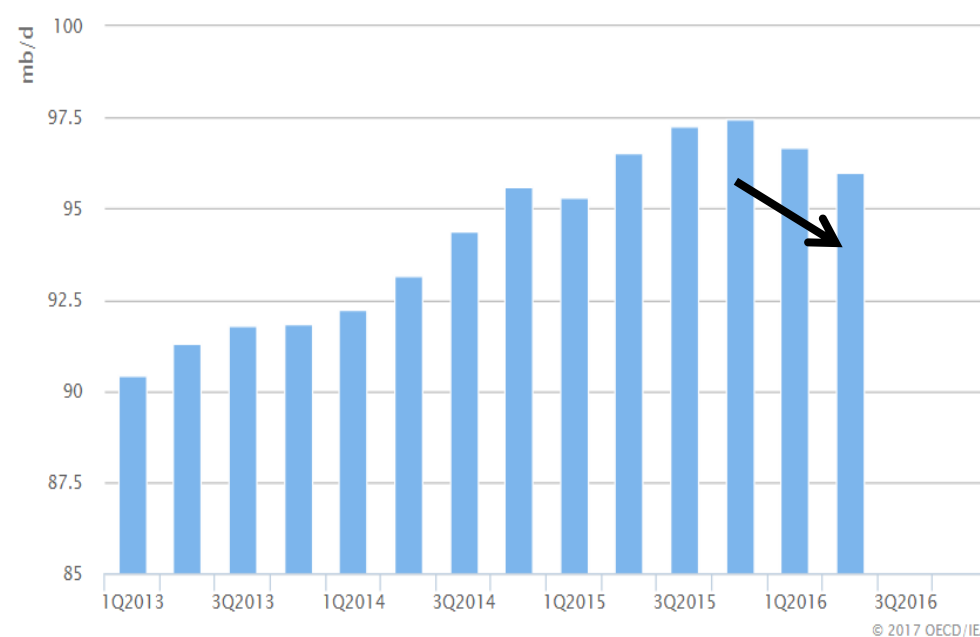


Demand Continues to Build

World Oil Demand



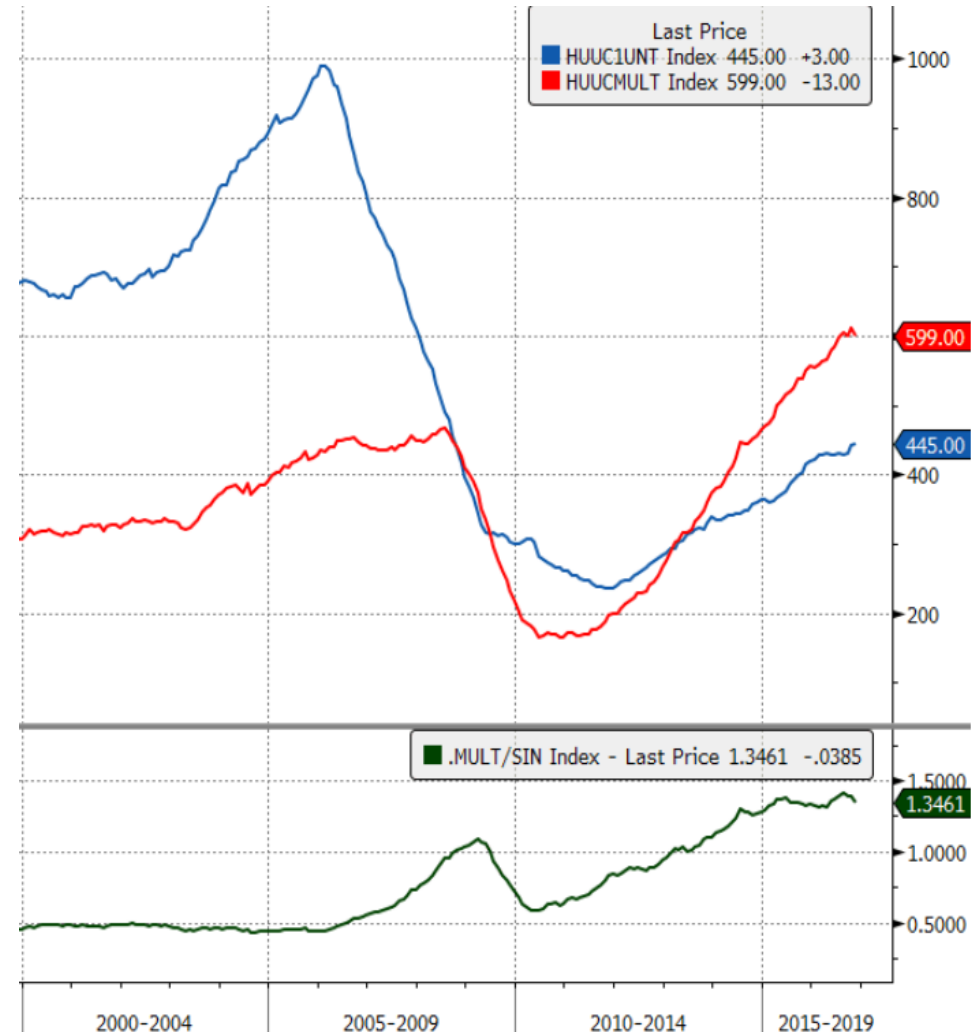
World Oil Supply



- U.S. crude oil demand remains ahead of the 5 year running average by 410 MBPD
- Demand has averaged a 1.2 MBPD pace of increase
- Oil Supply forecasted to reach balance by the end of the first quarter in 2017

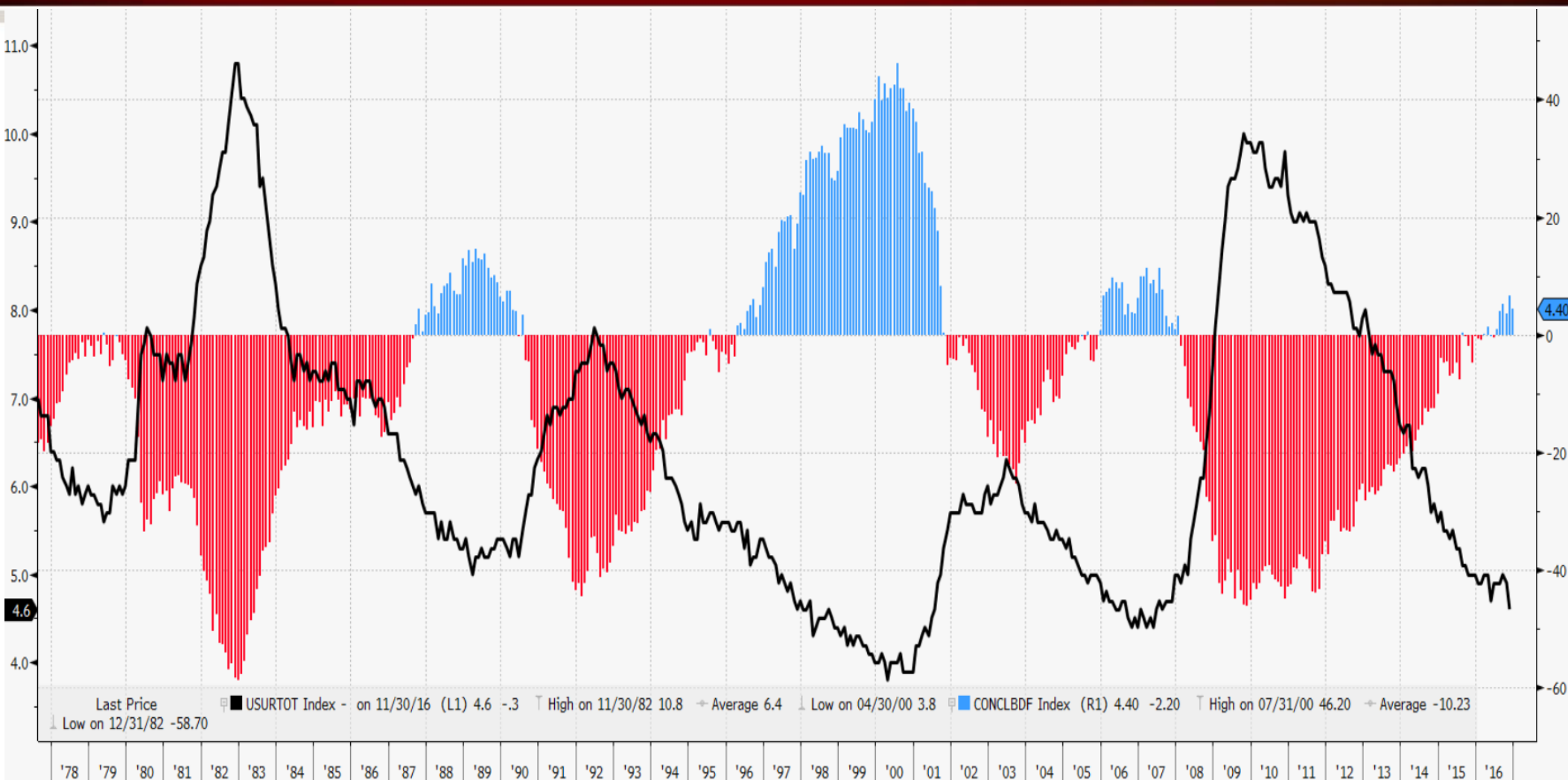
U.S. Housing

- U.S. GDP Growth:
 - Q3: 2.9%
 - Q2: 1.4%
 - Q1: 0.8%
- Q3 growth was at the fastest pace seen since 2014
- Household spending was the greatest contributor of growth. Consumer confidence at new cyclical high
- Job gains are translating into healthy gains in spending. Jobless rate: 4% in November
- Durable goods, specifically autos, grew more than 16%. Better than Q2's 9% pace
- Importantly for the U.S. Fed, annualized core inflation was 1.7% in Q3



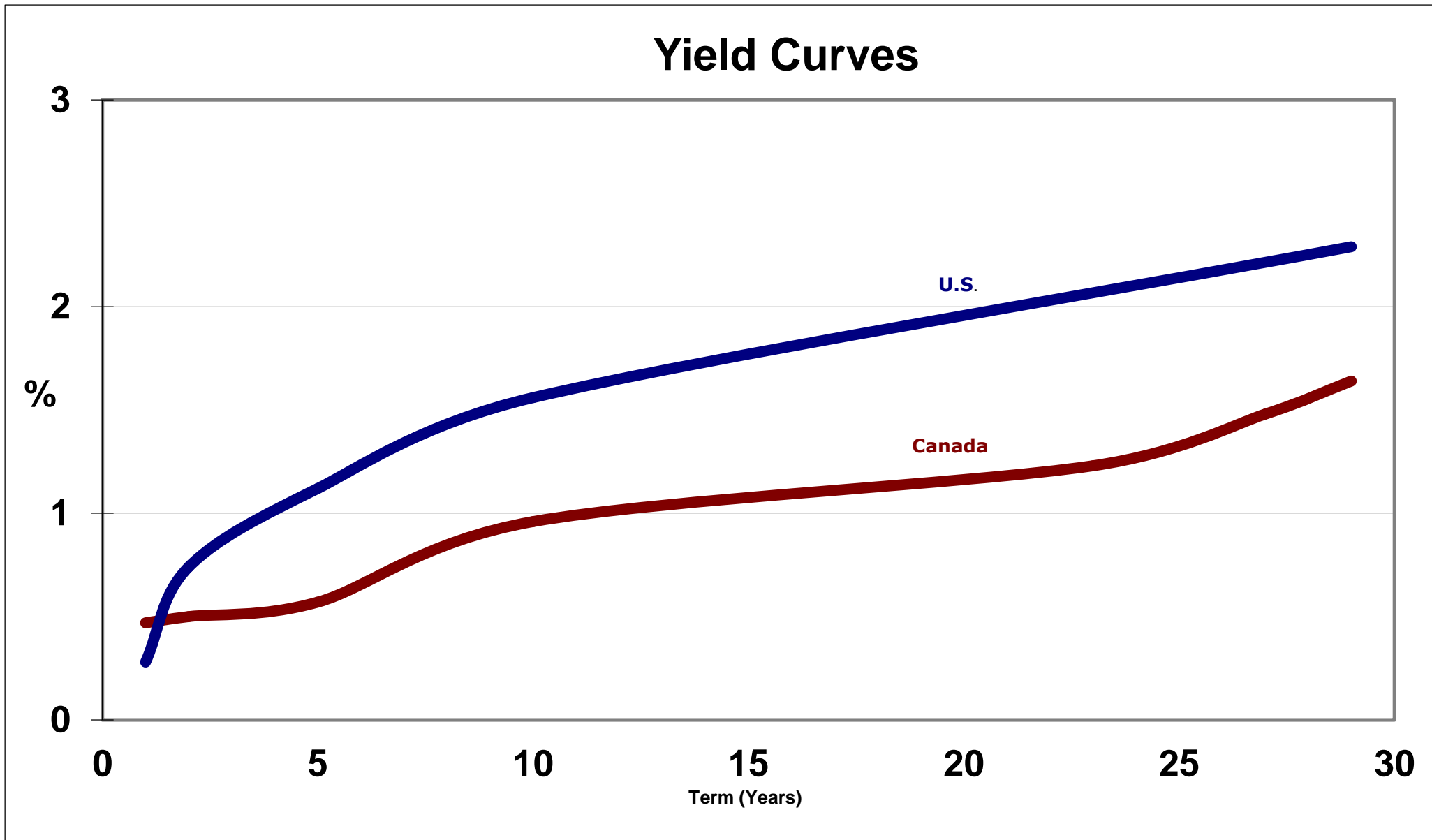
U.S. Single Family Homes Under Construction: —
 U.S. Multi Family Homes Under Construction: —

U.S. Consumer Confidence



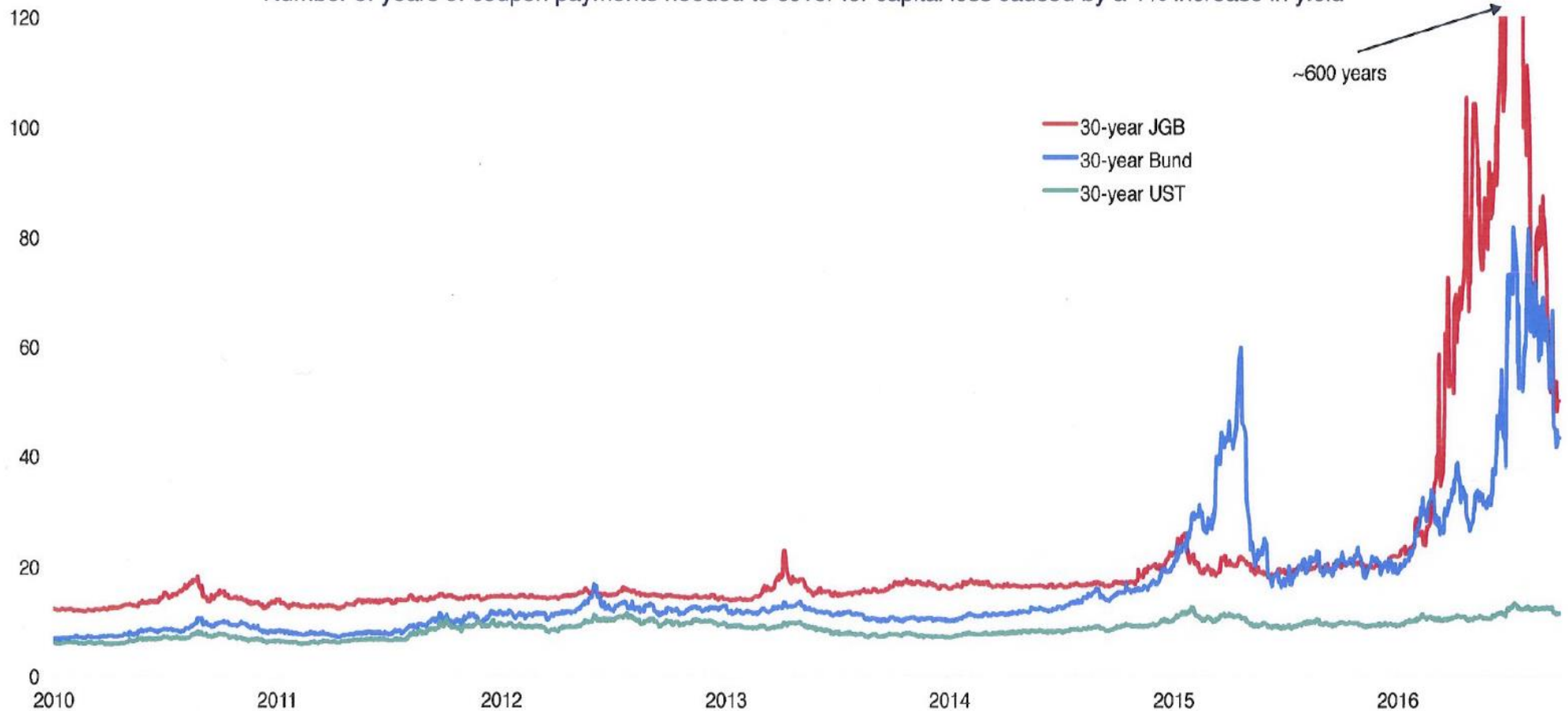
Unemployment Rate: —

Consumer Confidence: Jobs Plentiful Less Hard to Get – Histogram: —



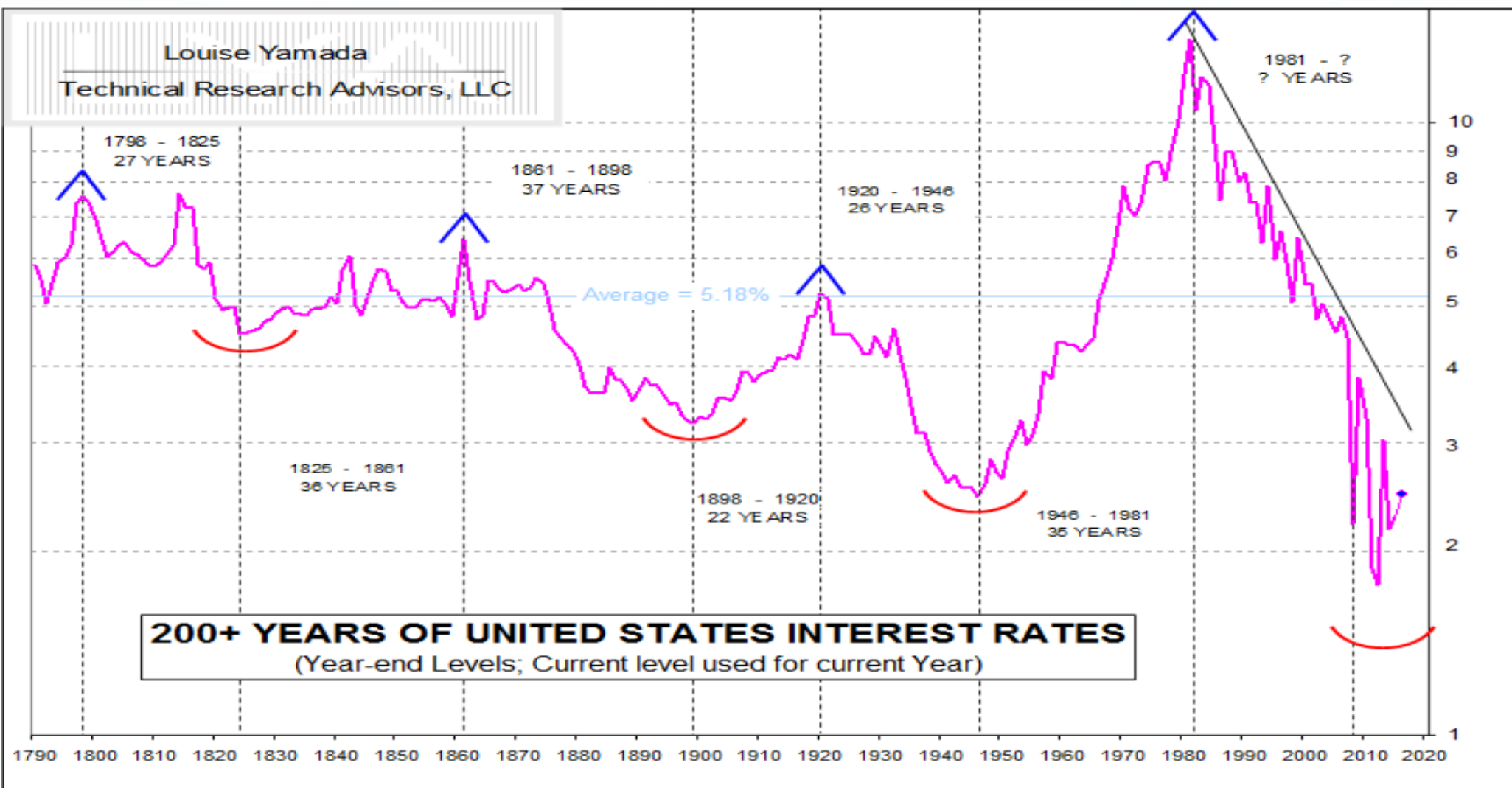
Investing When the Monetary Tide Is Turning Yields Do Not Protect Bondholders from Duration Risks

Number of years of coupon payments needed to cover for capital loss caused by a 1% increase in yield



Source: Algebris Investments (UK), Bloomberg

Interest Rate Cycles



Data Used in Chart:

Foreign loan made to U.S. government: 1790, 1792, 1794.
Average foreign loans made to U.S. government: 1791.
Federal government bonds: 1798-1820, 1860-1.
Federal government average new issue: 1841.
Federal government average market yield: 1842-8..

New England municipals: 1821-5, 1827, 1829-30, 1832-40, 1849-59, 1865-1884.
Highest grade corporates (RR): 1862-4, 1885-98.
30-year prime corporates: 1899-1976.
30-year treasury bond yield: 1977-2007
10-year treasury bond yield: 2008-present.

Note: 1821 - U.S. debt insignificant. 1833 - No federal debt all all. Interpolated: 1793, 1795-7, 1822, 1826, 1828, 1831.

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