Quarterly Market Review

Portfolio Advice & Investment Research

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Please refer to Appendix A of this report for important disclosure information.

Q4/14 Quarterly Market Review

Highlights

Canadian & U.S. Fixed Income

- The North American fixed income markets rallied in Q4/14, in spite of the fact that the U.S. Federal Reserve (the Fed) ended its quantitative easing (QE) program.
- Canadian and U.S. government bond indices posted total returns of 3.04% Q/Q and 2.30% Q/Q, respectively in Q4/14, whereas Canadian and U.S. investment grade corporate bond indices registered total returns of 1.87% Q/Q and 1.67% Q/Q, respectively. U.S. non-investment grade corporate bonds had a negative 1.07% Q/Q return.

Canadian Equities

- During Q4/14, the S&P/TSX Composite Index (S&P/TSX) slipped primarily on the back of weakness in the heavyweight energy sector, coupled with a decline in the materials sector.
- The S&P/TSX underperformed the U.S. S&P 500 Index (S&P 500) for a second consecutive quarter. This relative underperformance of the commodities heavyweight S&P/TSX has coincided with a sharp decline in the price of crude oil and gold bullion.
- Three of the ten sectors of the S&P/TSX posted losses during the quarter.
- Small-cap stocks underperformed large-cap Canadian equities, and growth stocks outperformed their value counterparts.

U.S. Equities

- U.S. equities posted decent gains in Q4/14 in U.S. dollar terms. The strength in the U.S. dollar versus the Canadian dollar further enhanced gains for Canadian investors.
- The S&P 500 touched new all-time highs during Q4/14 and registered its eighth consecutive quarterly gain, the longest quarterly winning streak since June 1998.
- Seven of the ten sectors of the S&P 500 advanced during the quarter.
- Large-cap U.S. equities underperformed mid- and small-cap U.S. stocks, while U.S. growth stocks outperformed their value counterparts.

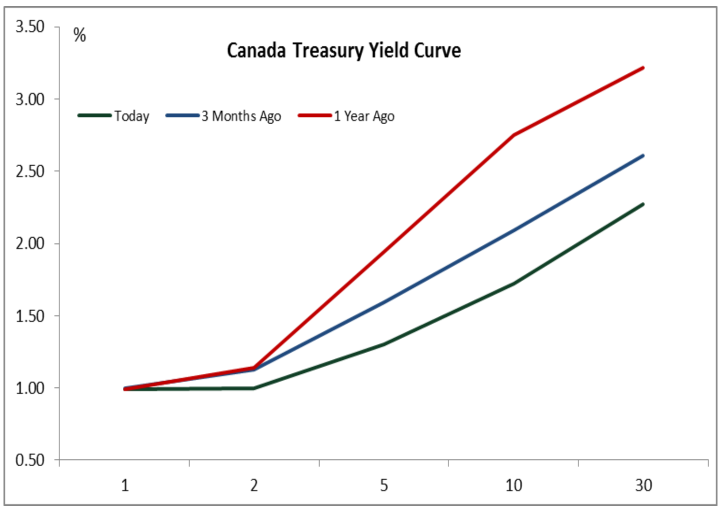
International Equities

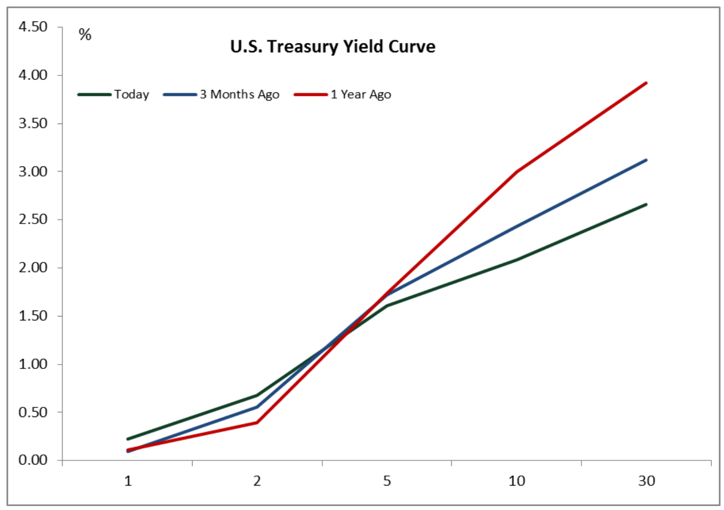
- Most major developed international markets advanced in Q4/14. In emerging market equities, while Chinese and Indian equities posted gains, resource exporting economies, such as Brazil, were exceptionally weak.

Canadian & U.S. Fixed Income

Money Market/Bond Issues and Indices (Total Return)	Q4/14 Return	2014 Return	Canadian Yields	U.S. Yields
91-Day Treasury Bill	--	--	0.91%	0.04%
2-Year Government Bonds	--	--	1.01%	0.66%
5-Year Government Bonds	--	--	1.34%	1.65%
10-Year Government Bonds	--	--	1.79%	2.17%
30-Year Government Bonds	--	--	2.34%	2.75%
FTSE TMX Canada Universe Bond Index	2.70%	8.79%	2.23%	--
FTSE TMX Canada All Government Bond Index	3.04%	9.29%	2.04%	--
FTSE TMX Canada All Corporate Bond Index	1.87%	7.58%	2.71%	--
FTSE TMX Canada Real Return Bond Index	1.32%	13.18%	0.57%	--
Merrill Lynch High Yield Master II Index - US$	-1.07%	2.50%	--	6.71%

Source: Bloomberg Finance L.P. as at December 31, 2014.





Source: Bloomberg Finance L.P. as at December 31, 2014

The North American fixed income markets rallied in Q4/14, in spite of the fact that Fed ended its QE program. European sovereign debt yields declined to record lows as economic stagnation and deflationary pressures, combined with investors' anticipation of some form of European QE, pushed rates lower. The yield gap between North American and European sovereign debt continued to enhance the relative appeal of U.S. Treasuries and Canadian government bonds. Investor concerns that the end U.S. QE would lead to higher long-term interest rates have proven unfounded, as bond yields have fallen further since the program wound up in October.

The U.S. 30-year Treasury led the rally in North American government bonds, as its yield declined 45 basis points (bps) in Q4/14. The U.S. 10-year Treasury yield fell 32 bps during the quarter, touching 2014 lows of 2.06% in mid-December. For reference, the U.S. 10-year Treasury yield started 2014 at 3.00%. The front end of the Treasury yield curve rose in response to expectations that the Fed will move to tighten policy in the coming year. The incorporation of Fed tightening expectations lifted the U.S. 2-year Treasury yield from 0.57% at the end of Q3/14 to 0.66% at the end of Q4/14.

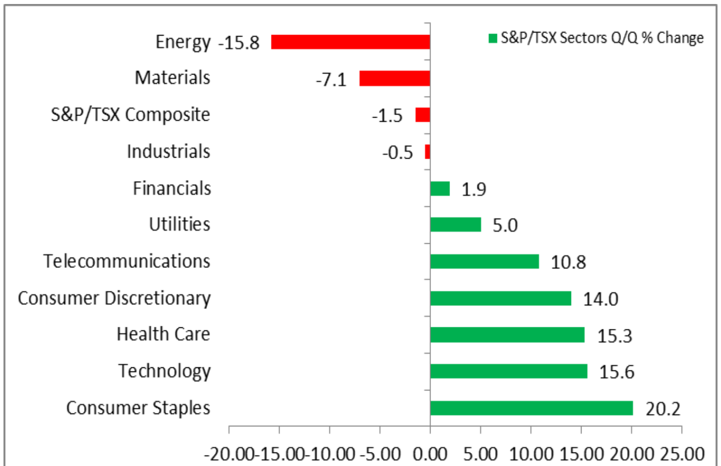
The 10-year Government of Canada bond yielded 1.79% at the end of Q4/14, as it declined 36 bps during the quarter. Unlike U.S. Treasuries, the Canada curve has yet to reflect expectations for Bank of Canada rate hikes. The 2-year Government of Canada bond yielded 1.01% at the end of December, down from the 1.12% at the end of Q3/14. Canadian and U.S. investment grade corporate bond indices registered total returns of 1.87% Q/Q (+7.58% for 2014) and 1.67% Q/Q (+7.65% for 2014) respectively, aided mainly by falling government bond yields. Credit markets have experienced increased volatility and investment grade spreads have widened to levels last seen in Q4/13, having made their steadiest and most protracted move higher in quite some time. High yield spreads moved almost 100 bps wider during the latest quarter. Credit conditions in the energy sector have exhibited significant weakness, with spreads increasing almost 400 bps during the quarter as the plunge in oil prices took its toll. It is unclear if the move higher in credit spreads represents a break of the longer-term tightening trend, but it warrants attention. Overall for Q4/14, high yield bonds, as measured by the Merrill Lynch High Yield Master II Index – US$, returned negative 1.07% Q/Q (+2.50% for 2014). Canadian and U.S. government bond indices posted total returns of 3.04% Q/Q (+9.29% for 2014) and 2.30% Q/Q (+6.19% for 2014), respectively.

During the quarter, the Canadian dollar fell 3.64% against the U.S. dollar (-8.59% for 2014). The Dollar Index, which measures the strength of the U.S. dollar against a basket of six major currencies, closed near a nine-year high at the end of 2014. The divergence in monetary policy between the U.S., Europe, and Japan and relatively higher U.S. interest rates are the key drivers of the strong dollar.

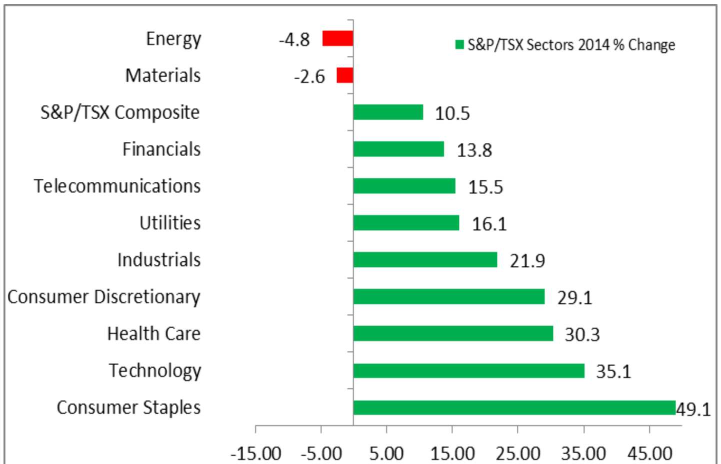
Canadian Equities

Indices	December 31/14	Q4/14 Return	2014 Return
S&P/TSX Composite Index	14,632.44	-2.19%	+7.42%
S&P/TSX 60 Index	854.85	-1.09%	+9.07%
S&P/TSX Cdn MidCap Index	946.42	-5.36%	+2.79%
S&P/TSX Cdn SmallCap Index	579.03	-9.47%	-5.19%
S&P/TSX Preferred Share Index	809.29	-0.25%	+1.72%

Source: Bloomberg Finance L.P. as at December 31, 2014. Price index values and returns.



Source: Bloomberg Finance L.P., as at December 31, 2014. Index Total Returns.



Source: Bloomberg Finance L.P., as at December 31, 2014. Index Total Returns.

The S&P/TSX slipped 2.19% on a price return basis (-1.50% on a total return basis) during Q4/14 primarily on the back of weakness in the energy sector, coupled with a decline in the materials sector. The S&P/TSX underperformed the U.S. S&P 500 for a second consecutive quarter in Q4/14.This relative underperformance of the commodities heavyweight S&P/TSX has coincided with sharp declines in crude oil and gold bullion prices. In Q4/14, the price of the West Texas Intermediate (WTI) crude oil fell 41.56% (-45.87% for 2014), to its lowest level since 2009, driven both by rising oil supply, particularly from the U.S., and less global incremental demand, particularly in emerging markets. Sentiment was also impacted by the Organization of the Petroleum Exporting Countries (OPEC's) refusal to cut its output target in response to the falling oil price. A surging U.S. dollar hurt the price of gold bullion which ended Q4/14 lower by 1.93% (-1.72% for 2014), touching a four-year low in November. The weakness in the gold price has been accentuated by investors withdrawing money from gold-backed exchange traded funds (ETFs), which saw their assets fall to the lowest level since 2009. Despite the decline during the quarter, for 2014 the S&P/TSX was up 7.42% on a price return basis (+10.50% on a total return basis), and eight of the ten sectors finished the year in positive territory.

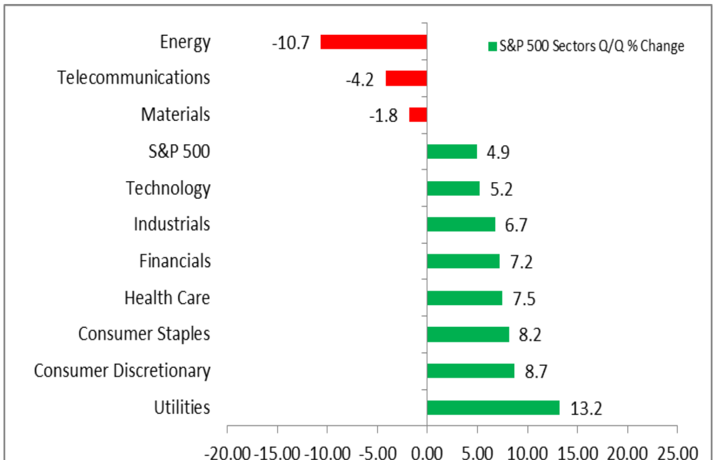
Three of the ten sectors of the S&P/TSX posted losses in Q4/14. Small-cap stocks underperformed large-cap Canadian equities, with the S&P/TSX Small Cap Index shedding 9.47% Q/Q (-5.19% for 2014) on a price return basis, compared to the large-cap S&P/TSX 60 Index's loss of 1.09% Q/Q (+9.07% for 2014). Canadian growth stocks, as measured by the Morningstar Canada Momentum Index, gained 3.01% Q/Q (+8.73% for 2014) and outperformed the comparable value benchmark, the Morningstar Canada Value Index, which registered a loss of 0.76% Q/Q (+8.36% for 2014).

Canadian preferred shares traded lower in price during Q4/14. The S&P/TSX Preferred Share Index (TXPR) declined 0.25% during the quarter (+1.72% for 2014). Looking at the individual segments of the market, the prices of the Rate-Reset preferred shares declined 1.30% during Q4/14, while Perpetual preferred share prices outperformed as they gained 1.84%. The smaller Fixed-Floater segment declined 4.65% in price, while the prices of Floating Rate issues were the laggards, declining 4.86%. Investment grade issues, particularly Perpetuals and Rate-Resets with larger reset spreads performed well. At the same time, issues from lower credit quality issuers, particularly those with low reset spreads and reset/redemption dates approaching in the next year or so, were under pressure, with tax loss selling pushing the prices on a number of issues down to all-time-lows in December.

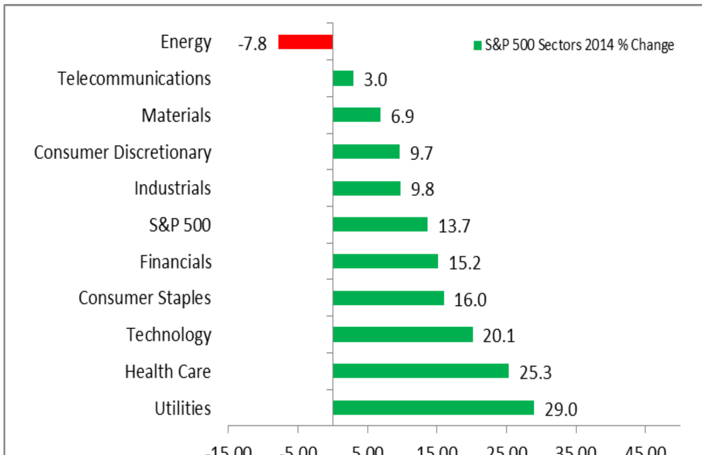
U.S. Equities

Indices	December 31/14	Q4/14 Return	Q4/14 Return (C$)	2014 Return	2014 Return (C$)
Dow Jones Industrial Average Index	17,823.07	+4.58%	+8.38%	+7.52%	+17.50%
S&P 500 Index	2,058.90	+4.39%	+8.18%	+11.39%	+21.74%
S&P 400 Index	1,452.44	+5.94%	+9.79%	+8.19%	+18.23%
NASDAQ Composite Index	4,736.05	+5.40%	+9.23%	+13.40%	+23.93%
Russell 2000 Index	1,204.70	+9.35%	+13.32%	+3.53%	+13.14%

Source: Bloomberg Finance L.P. as at December 31, 2014. Price index values and returns. Index returns calculated in local currency and C$.



Source: Bloomberg Finance L.P., as at December 31, 2014. Index Total Returns.



Source: Bloomberg Finance L.P., as at December 31, 2014. Index Total Returns.

U.S. equities posted decent gains in Q4/14 with the S&P 500 gaining 4.39% Q/Q (+11.39% for 2014) and the Dow Jones Industrial Average (Dow) advancing 4.58% Q/Q (+7.52% for 2014). The S&P 500 touched new all-time highs during the quarter and registered its eighth consecutive quarterly gain, the longest quarterly winning streak since June 1998. The strength in the U.S. dollar versus the Canadian dollar helped enhance returns for Canadian investors. In Canadian dollar terms, the S&P 500 gained 8.18% Q/Q (+21.74% for 2014) on a price return basis, and the Dow rose 8.38% Q/Q (+17.50% for 2014).

During the quarter, U.S. equities were supported by the positive news on the U.S. economic front. Also, the strength in the U.S. dollar made U.S. dollar assets, such as U.S. equities, relatively more attractive to foreign investors. The American economy registered 5% annualized growth in real gross domestic product (GDP) in Q3/14. This was well ahead of the consensus economist estimate of 4.3% and the strongest single quarter of growth since Q3/03. The growth was driven primarily by strong private domestic demand. November was the tenth consecutive month with over 200,000 jobs created by the U.S. economy. Employment gains are lending support to household spending. U.S. retail sales surprised to the upside both in October and November.

Seven of the ten sectors of the S&P 500 advanced during the quarter, with energy, materials and telecommunications being the sectors that finished down. The S&P 500, a benchmark for U.S. large-cap equities, gained 4.39% Q/Q (+11.39% for 2014) on a price return basis, and underperformed U.S. mid-cap stocks, as measured by the S&P 400 Index, which gained 5.94% Q/Q (+8.19% for 2014) as well as the rise in small-cap U.S. stocks, as measured by the Russell 2000 Index, of 9.35% Q/Q (+3.53% for 2014). U.S. growth stocks, as measured by the Morningstar U.S. Growth Index, gained 4.66% Q/Q (+12.66% for 2014), and outperformed the comparable value benchmark, the Morningstar U.S. Value Index, which registered a gain of 3.16% Q/Q (+9.75% for 2014).

International Equities

Indices	December 31/14	Q4/14 Return	Q4/14 Return (C$)	2014 Return	2014 Return (C$)
FTSE 100 Index	6,566.09	-0.86%	-1.30%	-2.71%	+0.00%
DAX Index	9,805.55	+3.50%	+3.15%	+2.65%	-1.46%
CAC 40 Index	4,272.75	-3.25%	-3.94%	-0.54%	-4.62%
MSCI Europe TR (LC) Index	7,001.62	+0.05%	-0.83%	+5.22%	+3.08%
Nikkei 225 Stock Average	17,450.77	+7.90%	+2.55%	+7.12%	+2.67%
MSCI Emerging Markets Free TR (LC) Index	97,552.71	+0.08%	-1.04%	+5.57%	+6.90%

Source: Bloomberg Finance L.P. as at December 31, 2014. Price index values and returns, except MSCI Europe TR (LC) and MSCI Emerging Markets Free TR (LC) which are total return indices. Index returns calculated in local currency and C$.

Most major developed international markets advanced in Q4/14. In Europe, the UK's FTSE 100 Index lost 0.86% Q/Q (-2.71% for 2014) on a price return basis as weakness in energy majors Royal Dutch Shell, BP and BG acted as a drag on the Index. Germany's DAX Index gained 3.50% Q/Q (+2.65% for 2014) on expectations that additional stimulus measures from central banks in Europe, Japan and China could help boost German exports.

Japan's Nikkei 225 Stock Average posted a 7.90% Q/Q (+7.12% for 2014) gain on a price return basis in Q4/14 on the back of strength in exporters as the Japanese Yen approached a seven-year low against the U.S. dollar. In late December, Japan's Prime Minister Shinzo Abe approved a US$29.2 billion stimulus package meant to boost consumer spending. Also, the Bank of Japan has repeatedly assured investors that it will not hesitate to take further action to bolster the nation's economy, if necessary.

In emerging market equities, Chinese equities rallied 36.90% Q/Q (+57.80% for 2014), with the Shanghai Composite Index rising to its highest level since January 2010, after the People's Bank of China unexpectedly cut interest rates in November and sparked speculation that the Chinese central bank is likely to ease again soon. India's S&P/CNX Nifty Index gained 3.99% Q/Q (+31.38% for 2014) Index and hit a new all-time high in November on continued investor optimism over the reform agenda announced by the new central government. Lower commodity prices as well as a corruption investigation involving index-heavyweight state-run oil company Petroleo Brasileiro SA, led to Brazil's IBOVESPA Index falling 7.60% Q/Q (-2.90% for 2014).

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