

## A bull market for Christmas?



### Highlights

- Despite new highs and expensive valuations in certain markets, the macroeconomic environment makes the case for an overweight in equities over their fixed-income counterparts.
- For one, U.S. activity exceeded expectations in Q3, GDPnow is forecasting a growth of around 3.5% for Q4 and there is no indication that the trend will falter next year - barring any unforeseen shock. Additionally, inflation remains fairly contained and should help central banks in maintaining a fairly accommodative stance.
- A hike in February is almost a certainty, but weak inflationary figures will push the Fed to wait for more consistency in CPI growth before modifying its strategy.
- In Canada, no hikes are anticipated in December, but the BoC could cause a surprise and tighten the monetary policy as early as January 2018.
- For crude oil, we expect much more resistance in the coming months as any incremental dollar will be met with increasing selling pressure from producers as higher demand expectations stemming from global synchronized growth are now priced-in.
- As for the Canadian dollar, we now think that taking a neutral approach towards currency hedging is the right approach, despite high speculative length crude oil, as the currency pair could weaken in light of a BoC hiking earlier than what the market expects.
- We call for patience and maintain our bias in favour of Canadian equities, despite our level of conviction diminishing in light of consistent downward revisions to S&P/TSX Energy earnings. For Emerging Markets, we believe pros and cons balance out, and we bring back our recommendation to neutral.

**Table 1 Global Asset Allocation**

Global Classes	Weights				
Cash	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fixed Income	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Equities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<b>Fixed Income</b>					
Federal	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Investment Grade	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
High Yield (USD)	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Non-Traditional FI	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<b>World Equities</b>					
S&P/TSX	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
S&P 500 (USD)	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Growth vs. Value</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Large vs Small cap.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Defensives vs Cyclical</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
MSCI EAFE (USD)	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
MSCI EM (USD)	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Alternative Investments</b>					
Currency Hedge	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Commodities	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Energy</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Base Metals</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Gold</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Hedge Funds	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Infrastructure	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Source: CIO Office

Current Allocation   
Previous Month Allocation 

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## Market review

### Fixed income

- U.S. 10-year treasuries were range-bound last month, closing at 2.41%, almost exactly where they were at the end of October. Meanwhile, 2-year rates climbed 19-bps with a December rate hike increasingly baked-in and resulting in a flatter yield curve.
- The yield curve also moderately flattened in Canada. Contrary to the U.S., this outcome reflects a 7-bps decline in 10-year rates to 1.88%, while 2-year rates added 4 bps.

### Canadian equities

- The S&P/TSX reached a record high of 16,132 on November 7, fuelled by a 17% jump in Valeant Pharmaceuticals. The benchmark eased slightly in the following weeks, but managed to end the month up a fraction.
- Cyclicals sectors (such as Energy and Industrials) came under pressure, but gains in Telecom and Consumer stocks as well as a resilient Financials sector tipped the balanced in favour of the headline figure.

### U.S. equities

- The S&P 500 ended at a new record high, up 2.8% (3.1% total return) and extending a 7-month gain streak.
- All sectors contributed positively to this performance, although tech stocks lost some lustre late in November. Telecom and Consumer stocks were particularly strong, while Financials rallied later in the month amid a positive Q3 GDP growth revision and the Republicans' tax plan gaining traction.

### Commodities

- Crude oil prices remained on their upward trend last month, supported by confidence that OPEC will continue to curb oil production throughout 2018. WTI oil prices are up 35% from their June 2017 trough.
- Little has changed in gold prices, locked in a tight range of \$1270-\$1300 U.S. for the last two months.

### Foreign exchange

- Despite some strength early in November, the loonie reversed course and edged lower to 78 cents U.S., as data showed that Canada's current account deficit expanded in the third quarter.
- North of the border, the greenback softened despite upbeat consumer confidence and GDP figures.

### Table 2 Market Returns

Asset classes	November	YTD	2016
<b>Cash (3-month T-bills)</b>	0.1%	0.5%	0.5%
<b>Bonds (FTSE/TMX Ovr. Univ.)</b>	<b>0.8%</b>	<b>2.9%</b>	<b>1.7%</b>
FTSE/TMX Short term	0.1%	0.5%	1.0%
FTSE/TMX Mid term	0.6%	1.9%	1.6%
FTSE/TMX Long term	1.8%	7.0%	2.5%
FTSE/TMX Government	0.8%	2.6%	0.9%
Federal	0.4%	0.8%	0.0%
Provinces	1.2%	4.6%	1.8%
Municipales	1.1%	5.0%	2.0%
FTSE/TMX Corporate	0.7%	3.8%	3.7%
AA+	0.2%	1.3%	2.0%
A	0.8%	4.8%	3.6%
BBB	0.8%	4.3%	5.1%
BoAML High-Yield (USD)	-0.3%	7.2%	17.5%
Preferred shares	0.7%	13.6%	7.0%
<b>Canadian Equities (S&amp;P/TSX)</b>	<b>0.5%</b>	<b>7.8%</b>	<b>21.1%</b>
Energy	-0.1%	-8.1%	35.5%
Industrials	-1.4%	17.0%	22.8%
Financials	0.4%	12.6%	24.1%
Materials	-0.4%	3.8%	41.2%
Utilities	0.3%	11.8%	17.7%
Cons. Disc	1.7%	23.4%	10.7%
Cons. Staples	3.8%	7.7%	7.5%
Healthcare	18.3%	8.1%	-78.4%
IT	0.2%	16.4%	5.2%
Telecom	2.4%	16.1%	14.7%
REITs	3.0%	11.4%	3.4%
S&P/TSX Small cap	0.4%	0.2%	38.5%
<b>US Equities (S&amp;P500 / USD)</b>	<b>3.1%</b>	<b>20.5%</b>	<b>12.0%</b>
Energy	1.8%	-5.6%	27.4%
Industrials	3.9%	18.8%	18.9%
Financials	3.5%	19.8%	22.8%
Materials	1.0%	21.5%	16.7%
Utilities	2.8%	19.4%	16.3%
Cons. Disc	5.1%	20.1%	6.0%
Cons. Staples	5.7%	11.0%	5.4%
Healthcare	2.9%	22.9%	-2.7%
IT	1.1%	38.8%	13.8%
Telecom	6.0%	-6.6%	23.5%
REITs	3.0%	11.4%	3.4%
Russell 2000 (USD)	2.8%	13.8%	19.5%
<b>World eq. (MSCI ACWI)</b>	<b>2.0%</b>	<b>22.6%</b>	<b>8.5%</b>
MSCI EAFE (USD)	1.1%	23.6%	1.5%
MSCI EM (USD)	0.2%	32.9%	11.6%
<b>Commodities (CRB index)</b>	<b>0.4%</b>	<b>1.5%</b>	<b>12.9%</b>
WTI oil (US\$/barrel)	5.6%	6.8%	44.8%
Gold (US\$/ounce)	0.8%	10.5%	9.0%
Copper (US\$/tonne)	-1.2%	21.9%	17.4%
<b>Forex (DXY - US Dollar index)</b>	<b>-1.6%</b>	<b>-9.0%</b>	<b>3.6%</b>
USD per EUR	2.4%	13.0%	-2.9%
CAD per USD	0.1%	-4.0%	-2.9%

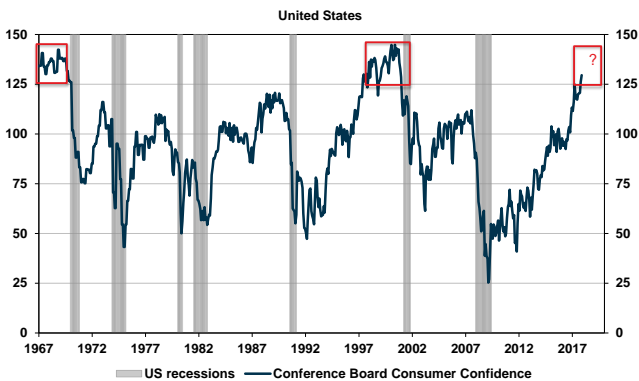
Source: Datastream

2017-11-30

**An overweight in equities remains justified**

Despite new highs and expensive valuations in certain markets, the macroeconomic environment makes the case for an overweight in equities over their fixed-income counterparts (table 1). After U.S. activity exceeded expectations in Q3, GDPnow is forecasting a growth of around 3.5% for Q4 and there is no indication that the trend will falter next year - barring any unforeseen shock. Consumer confidence has also only been this high twice since 1967, the inception year of this measure. At these levels, enthusiasm usually persists for two years before the economy overheats and goes into recession (chart 1).

**1 Still a few good years ahead of us?**



Source: CIO Office, Datastream



Additionally, job markets remain very strong, as are the manufacturing and services sectors, which remain solidly in expansion territory. On this basis, we believe there are good years of growth ahead of us.

Inflation also remains fairly contained and should help central banks in maintaining a fairly accommodative stance. True, all signs point towards a Fed hike in December, but low inflation will ensure the FOMC is cautious in its approach:

*“Consistent with their expectation that a gradual removal of monetary policy accommodation would be appropriate, many participants thought that another increase in the target range for the federal funds rate was likely to be warranted in the near term if incoming information left the medium-term outlook broadly unchanged.”*

FOMC Minutes, Oct. 31 - Nov. 1 meeting

In November, many members expressed fear about the achievement of medium- to long-term inflation targets, as the measures stay stubbornly below the thresholds set by the Central Bank. This problem followed the Fed for several years:

**Two Years Ago...**

*“Inflation has continued to run below the Committee’s 2 percent longer-run objective, partly reflecting declines in energy prices and in prices of non-energy imports. Market-based measures of inflation compensation remain low; some survey-based measures of longer-term inflation expectations have edged down.”*

Fed Meeting Statement, December 2015, (hike)

**One year Ago..**

*“Consistent with their expectation that a gradual removal of monetary policy accommodation would be appropriate, many participants thought that another increase in the target range for the federal funds rate was likely to be warranted in the near term if incoming information left the medium-term outlook broadly unchanged.”*

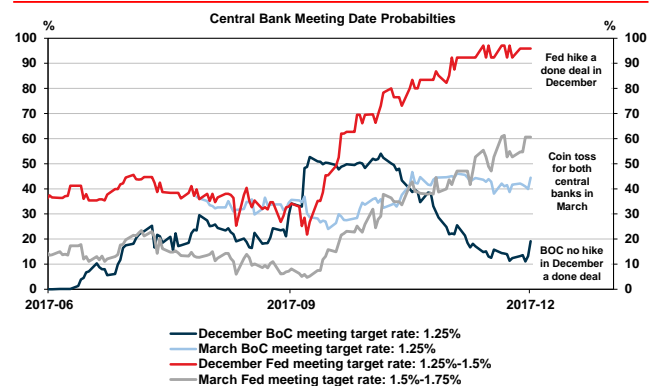
Fed Meeting Statement, December 2016, (hike)

At first, the members blamed transitory factors such as the sudden drop in energy prices or the strength of the U.S. dollar. However, most of these reasons have since faded. The Fed will probably wait for more consistency in inflation growth before modifying its strategy.

The arrival of a new Fed Chair will not change much regarding future rate hikes either. Despite some differences in their respective regulatory approaches, Powell and Yellen seem to agree on the way forward for the normalization of monetary policy, and the transition of power should be smooth sailing for financial markets.

Finally, on both the Canadian and U.S. sides, the next decisions regarding rate hikes appear to be set for December, but there is still considerable uncertainty for the March meeting (chart 2). By then, additional action will largely depend new on economic data.

**2 Economic data will set the course of action in March**



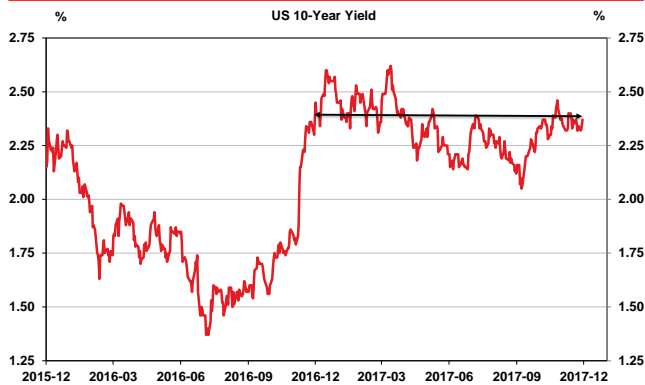
Source: CIO Office, Datastream



**Fixed Income: Spread differential to tighten**

The story could not be more boring in the United States regarding bond yields, the rate levels being the same level as last year (chart 3).

**3 US rates: boring!**

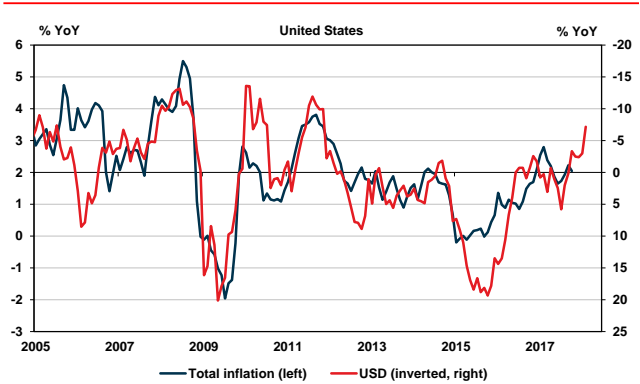


Source: CIO Office, Datastream



However, we believe 2018 to finally be the year in which wage inflation will eventually take off, putting upward pressure on the medium/long-term rates and justifying a positioning with a shorter duration (chart 4).

**4 Will 2018 be the year of inflation?**

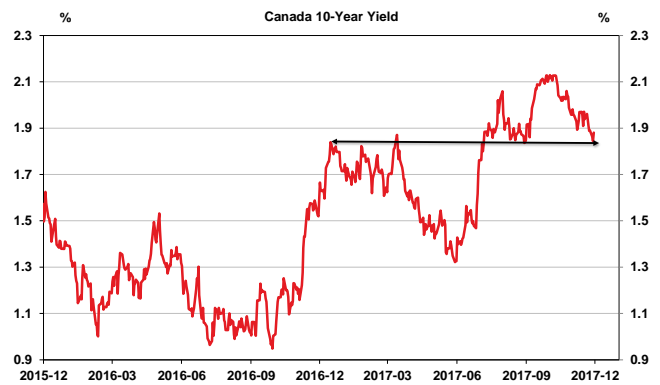


Source: CIO Office, Datastream



On the Canadian side, the situation is much more volatile, partly reflecting Mr. Poloz's sudden policy changes (chart 5). We have to admit, his job is not easy as some data points contradict each other. As an example, retail sales were weaker during the third quarter while employment figures were red-hot. However, our economic department believes most figures will synchronise soon and growth will pleasantly surprise in the coming quarters. For now, no hikes are anticipated in December, but the BoC could cause a surprise and tighten the monetary policy as early as January 2018.

**5 Canadian rates: Same level but an improved economy**



Source: CIO Office, Datastream

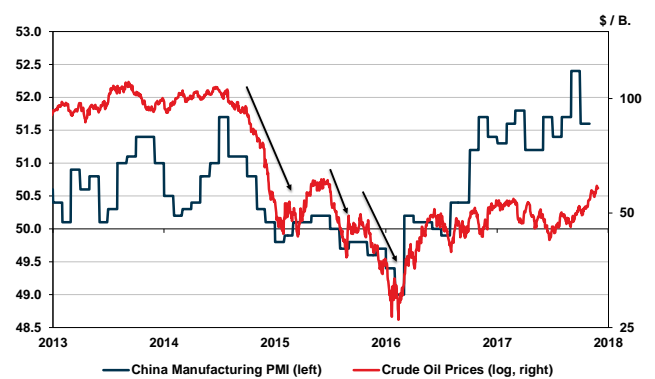


**Commodities: Following a path full of twists and turns**

The Fed will not be able to blame inflation weakness on energy prices, as crude has jumped an impressive 25% since July. Understanding the different factors influencing the future direction of energy price is akin to hitting a fast moving target. While their November 2017 letter focused on the relative calm of energy complex as risks seemed more balanced, this month we see some clouds on the horizon as the market is now recalibrating its expectations.

On the bullish side, global growth remains strong and all indications are pointing towards continuity. Emerging market economies are the main drivers of incremental demand for energy products and, as long as the Chinese manufacturing sector remains healthy, crude prices should remain supported (chart 6).

**6 Decelerating PMIs can contribute to weakness in crude**



Source: CIO Office, Datastream

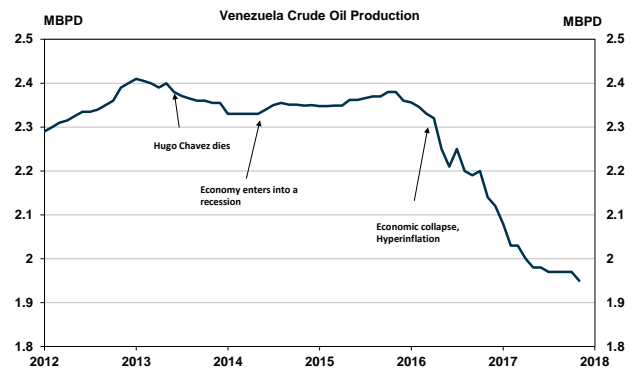


A geopolitical risk premium has also re-emerged, which is no surprise since it is usually tied to a supply and demand picture in deficit. Prince Mohammed Bin Salman's consolidation of power in Saudi Arabia, as well as his willingness to clash with the religious establishment to implement social and economic

reforms, will certainly generate some uncertainty going forward. The continent where the country is located also poses a problem, as it continues its “cold war” with Iran (which itself is dealing with potential oil export sanctions from the U.S.) in a bid for regional hegemony that increases destabilization risks in the Middle East.

On the other side of the globe, Venezuela is facing an uphill battle with civil unrest. Uncertainty about the “refinancing and restructuring” of its foreign debt may scare away buyers or suppliers. Some operational problems are already occurring as product quality as well as output are declining (chart 7).

**7 Big problems in Venezuela**



Source: CIO Office, Bloomberg



While most of the reasons cited above are all valid explanations for the run up in prices, some downside risks are shaping up. For one, the best cure for high prices is... high prices. As chart 8 shows, the “sweet spot” for shale oil producers is when WTI is around \$50. Now that we are more than \$5 away from that threshold, companies are more confident about their margins and restarting production. If prices continue to appreciate further, we would expect even more activity in the U.S. and, as a result, the deficits would be drastically reduced.

**8 50\$ is the sweet spot for shale oil production**



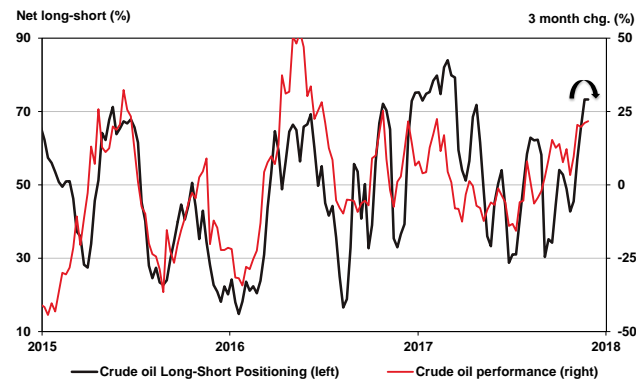
Source: CIO Office, Datastream



U.S. shale oil is the main reason behind the ‘OPEC’s + Russia’ cautiousness regarding the extension of cuts into 2018. They do not want be subsidizing U.S. companies to ramp up activity while losing market share themselves. Consequently, we think that although the initial announcement of the extension is good news, we doubt the deal will remain active throughout the whole term if prices appreciate too much.

Speculative money has also tilted much more heavily on the long side in recent weeks (chart 9), partly due to the deal talk. While we never use CFTC positioning reports as foolproof indications that a reversal is in the cards, they tend to indicate when markets are somewhat getting ahead of themselves. In this particular case, we expect that further price appreciation will be difficult in the coming weeks and the risks of a downturn have increased.

**9 A speculative reversal on the horizon?**



Source: CIO Office, Datastream



The Keystone shutdown due to a November spill of 5000 barrels in South Dakota also made the news, and was cited as a reason for the recent run up in prices. For now, a slow restart of operations is planned for the pipeline, which has a 590,000 barrel per day capacity (roughly accounting for one sixth of Canadian exports to the U.S.). This is more of a price differential issue between Canadian and U.S. delivery points than a fundamental supply-and-demand problem. There is still as much Canadian crude oil being produced. It is just now more difficult to deliver in the U.S., but we consider this impact to be temporary.

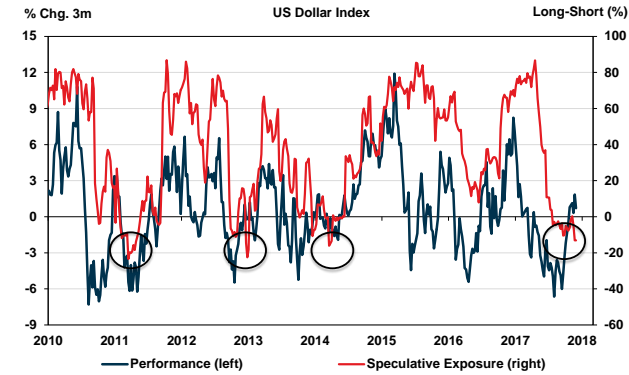
We expect much more resistance in the coming months as any incremental dollar will be met with increasing selling pressure from producers. Higher demand expectations stemming from global synchronized growth are now priced-in, and we would need further positive surprises to spur more WTI appreciation.

Consequently, unless a geopolitical event or a shutdown of a major production center occurs, we consider the upside potential to be limited for the rest of the year and at risk of a speculative selloff.

**Currencies: A speculative reversal in the making?**

The uncertainty surrounding American tax reform, as well as the Fed minutes showing members worried about the lack of inflation, weighed on the U.S. dollar in November and speculators adding short positions just poured oil on the fire (chart 10).

**10 Speculators rarely stay that short for very long**



Source: CIO Office, Datastream

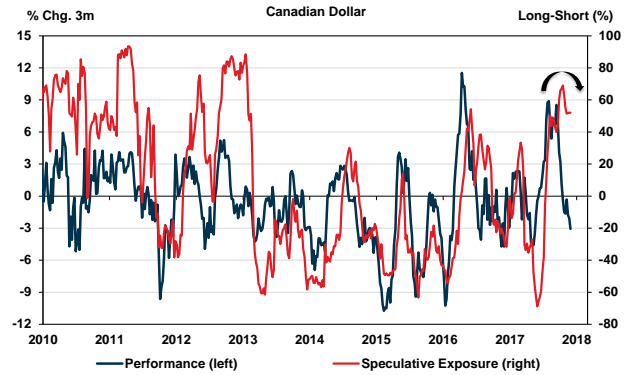


In our opinion, most of these reasons are temporary in nature. Regarding the tax reform, the chances that it will pass the vote significantly increased at the end of the month. After several failures in attempts to implement the "Trump Plan," Republicans have a strong incentive to achieve at least one success before the mid-term elections. Any failure at this level would become a big drag on the government, and would weaken not only the GOP but also the U.S. dollar. However, this option is not our base scenario for now.

With regard to inflation, as stipulated in the fixed-income portion, we believe that it will not dampen the Fed's resolve to continue on its normalization strategy, which should serve to support the greenback. We are aware that the big bull market cycle for the U.S. dollar is in its last innings. However, we believe the U.S. economy still has some good quarters ahead, and that there remains some time before any major reversal will occur at this level.

As for the Canadian dollar, we now think that taking a neutral approach towards currency hedging is the right approach. Despite high speculative length in both crude oil and the loonie (chart 11), the currency pair could weaken in light of a BoC hiking earlier than what the market expects. In previous letters, we showed that the rate differential is usually the primary force for the loonie movements and we expect it to tighten in the coming months.

**11 If crude oil weakens, this position will reverse quickly**



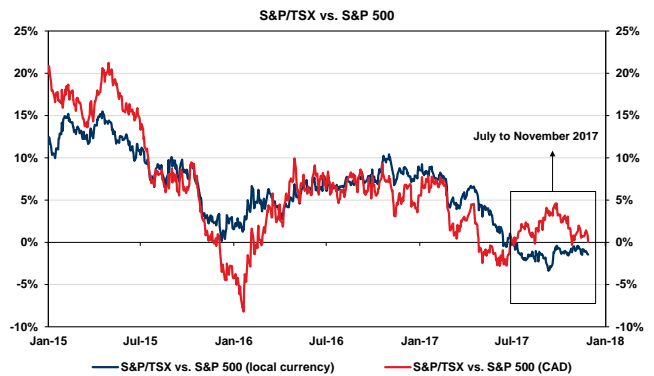
Source: CIO Office, Datastream



**Equities: And the winner is... not in North America**

Stocks continued to do well last month, with gains in all major regions of the world. In Canada, the S&P/TSX hit an all-time high of 16,132 points on November 7, while the S&P 500 managed to settle above 2,600 points for the first time in history. As such, our tactical positioning in favour of Canadian equities has been at a standstill relative to its U.S. counterpart since it was initiated in July (chart 12).

**12 Canadian vs. U.S. equities at a standstill since July**



Source: CIO Office, Datastream. Normalized in July 2017



In our last four pieces, we covered elements supportive of stocks on this side of the border, namely: (1) improving economic momentum in Canada and globally, (2) their pro-cyclical/value tilt and (3) attractive relative valuations. Those arguments still hold, and we continue to like the risk/reward profile of Canadian equities. However, our level of conviction has moderately diminished over the last few weeks.

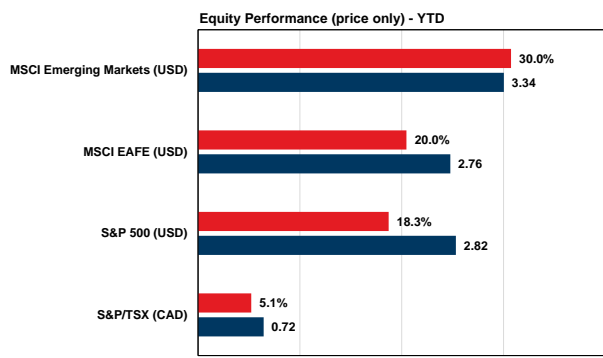
For instance, we previously stated that "Energy shares need to regain some leadership against Technology for the S&P/TSX to really distance itself from its southern neighbour."<sup>1</sup> Despite a

<sup>1</sup> October 2017 Asset Allocation Strategy

25% increase in WTI oil prices since July 2017, the next 12 months' earnings expectations for Canadian energy companies are actually down 14%, compared to a 10% increase for U.S. tech stocks. At this point, we believe it is better to be patient and to continue to favour areas where pessimism seems exaggerated at the expense of high optimism south of the border. Nonetheless, our positioning was tactical (3-6 months horizon): if momentum doesn't reverse, this will increasingly look like a value trap in which case we would revert back to neutral.

The fact remains, however, that neither the S&P 500 nor the S&P/TSX will stand on the winner's platform by year-end. Rather, Emerging Markets (EM) are on the road to rack up their best year since 2009, up 30% so far in 2017. The story even holds when we adjust for the higher volatility that comes with investments in rapidly growing countries (chart 13).

**13 Emerging markets on the winners' platform in 2017**

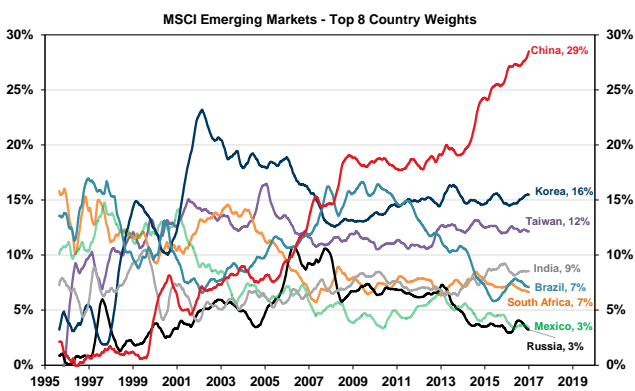


Source: CIO Office, Datastream. Risk adjusted = YTD price return divided by YTD std. of daily returns. NATIONAL BANK

But, what exactly hides behind such stellar performance? And, how has the benchmark evolved over the last two decades?

The first striking observation is the degree to which China has increased in importance, from virtually zero in the mid-90s all the way up top almost one third of the index lately (chart 14).

**14 Emerging China: From zero to nearly 1/3**

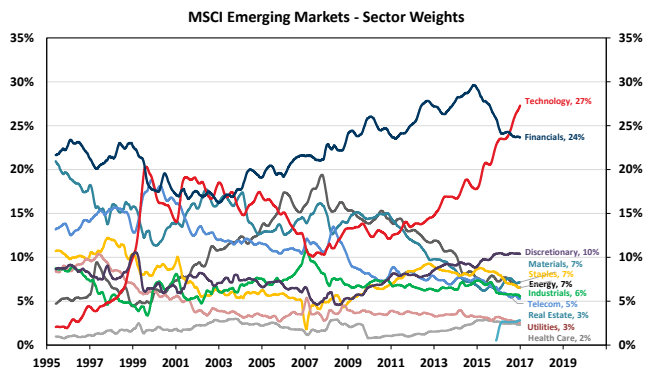


Source: CIO Office, Datastream. Weights are regression based (Rolling 50-days window, 6-months MA). NATIONAL BANK

Taken together, Asian equities now account for about 71% of the index (35% in 1995) compared to 12% for South American stocks (38% in 1995). Therefore, one has to keep in mind that despite encompassing 24 countries, an investment in MSCI Emerging Markets is primarily an investment in Asian equities, and especially in China.

The second observation we make is sector wise. The combination of a smartphone boom and a structural shift away from export-focused/commodity-driven economies toward domestic consumption has clearly left its mark on the EM sector allocation. Technology weight has nearly tripled over the last decade, from 10% to 27% (chart 15). Meanwhile, both Materials and Energy importance were cut in half over that period, moving from 16% to 7%, and 13% to 7%, respectively. In other words, Emerging Markets are much less a commodities play than they were in early 2000s, and are much more driven by technology and financials performance nowadays.

**15 Emerging Techs: Three time their weight in 10 years**



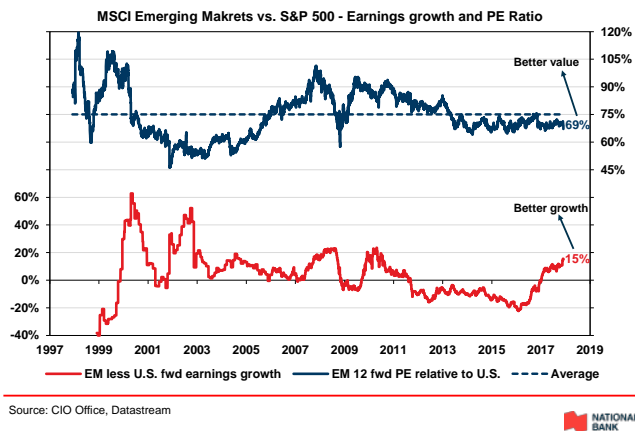
Source: CIO Office, Datastream. NATIONAL BANK

Given their history, China and techs are often synonymous with risk. However, the truth is fundamentals are also on the rise and compare advantageously to the U.S. For instance, on a price to forward-earnings basis, EM is trading at a 31% discount to U.S. equities, slightly below its average for the last 20 years (chart 16, blue line, next page). That reflects the fact that, after five years of being beaten down by USD strength and declining commodity prices, EM forward-earnings growth has reclaimed the front seat lately (chart 16, red line, next page).

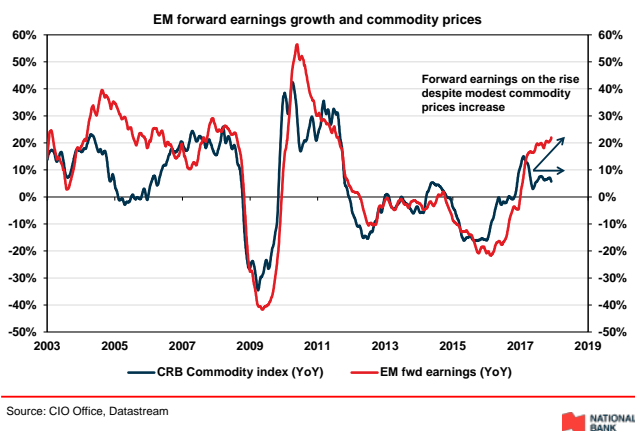
Moreover, since the start of the year, a meaningful gap between commodity prices and earnings growth has been established, which further supports the point that EM fundamental reliance on commodities is diminishing (chart 17, next page).

In addition, there seems to be some upside potential when we look at current EM levels. Not only are they still 19% lower than their all-time high, but they also swiftly broke through a decade-long downward trend suggesting that this rally has legs to go the

**16 Emerging Markets relative to the S&P 500**



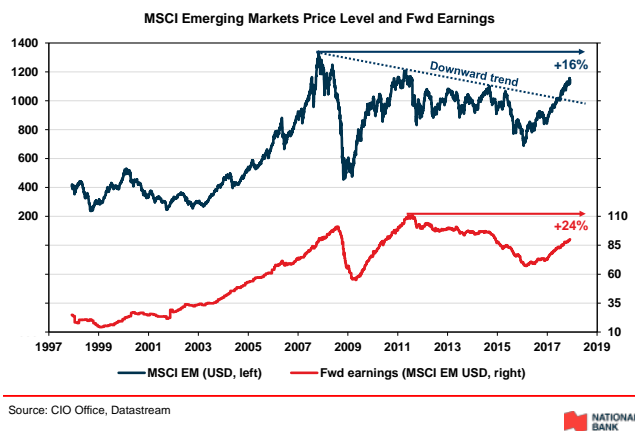
**17 EM earnings diminishing reliance on commodities**



distance (chart 18, blue line). Similarly, forward earnings would have to expand 23% just to get back to their July 2011 peak (chart 18, red line).

Yet, risk shouldn't be overlooked. China is a highly leveraged country. On the matter, President Xi Jinping has recently said

**18 Emerging Markets relative to themselves**



that controlling financial risk was a top priority this year. While this is desirable, many fear the rules will curb demand for bonds, leading to tighter credit conditions and impacting economic growth. We should not forget that the last two major bouts of global risk aversion were triggered by worries over China's economic outlook (August 2015, January 2016). Meanwhile in the U.S., Capitol Hill is quite busy with delivering tax reform and NAFTA negotiations. But, soon enough we should expect the President to go after the 300 billion USD trade deficit it has with China.

Finally, EM relative performance remains highly dependent on the greenback and capital flows (chart 19). Short-term upside to the U.S. dollar also inclines us to temper our expectations for EM in the coming weeks (see Currencies section).

**19 EM remain highly dependent on the greenback**



The bottom line is we call for patience and maintain our bias in favour of Canada, despite our level of conviction diminishing in light of consistent downward revisions to S&P/TSX Energy earnings. For Emerging Markets, we believe pros and cons balance out, and we bring back our recommendation to neutral. Their 2017 run is spectacular, but evidence points towards more upside over the medium term. To their advantage, commodities exposure has diminished over the years, while roaring sectors of the global economy (especially technology) occupy an increasingly important fraction of the bundle. Still, risks related to Chinese reforms, growing anti-globalization sentiment, and short-term upside to the USD against key pairs incline us to be cautious. But, we'll pay close attention to how those risks evolve in the coming weeks and adjust our positioning accordingly.



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