# Greystone Quarterly Market Update

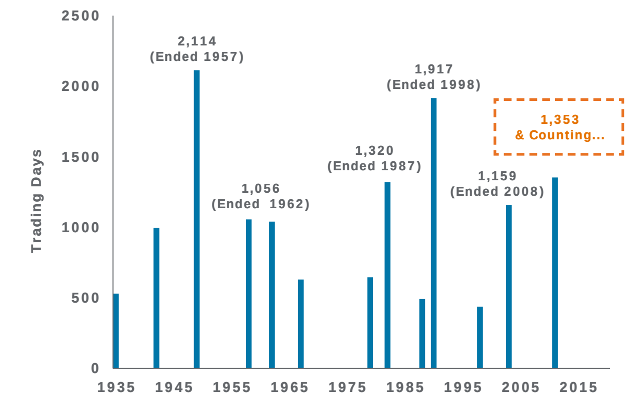

## Q1-2017

**ROBERT L. VANDERHOOFT, CFA**
Chief Executive Officer & Chief Investment Officer

In terms of longevity, the current business cycle is among the most stretched in history, but with the caveat that it has also been one of the weakest recoveries. The length of an economic expansion is not in and of itself predictive of a recession; however, continued price expansion can lead to a fuller valuation of positive expected outcomes and can risk complacency among market participants. A simple measurement of days since the S&P 500 index witnessed a 15% correction is now beyond what we witnessed prior to 2008 and represents the third longest stretch since the 1930s.[1] We remain constructive on equity markets, but are keenly aware of taking modest risks with our positions as this business cycle continues to mature.

Our overweight in equity markets is grounded in improving corporate earnings, strong labour markets, positive trends in global inflation, and monetary policy that remains accommodative throughout the world. Our analysis of leading indicators points to improving conditions and a belief that they are not yet flagging the end of this economic cycle.

**Figure 1: S&P 500 Trading Days Without a 15% Correction**




Source: Cornerstone Macro. Bloomberg.

In our regional assessment, non-North American equities appear relatively attractive, benefitting from fairer valuations when compared to Canada and the United States. Emerging market returns have lagged developed markets for most of the recovery and could benefit from a price convergence and improving global GDP growth.

From a geo-political perspective, the impending exit of the U.K. from the European Union will likely have ramifications for the country's domestic market, but the risks of a global contamination appear minimal. Our primary focus for European politics will be the French Presidential election, which we believe contains the

[1] Cornerstone Macro. Bloomberg.

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greatest potential source of volatility, if current polls are not reflective of the outcome. In the United States, the Republican administration's failure to pass the American Health Care Act will likely limit the extent of tax reform and future infrastructure spending. We do not believe this poses an immediate risk to U.S. economic growth as the private sector is well positioned for continued expansion.

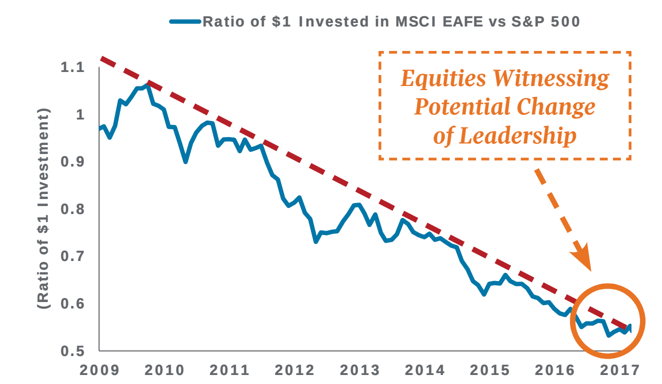
Global interest rates and bond prices found a stable range through the first quarter following a sell-off to end 2016. Our fundamental outlook calls for a modestly defensive posture, with below benchmark duration positioning. As yields are closer to fair value, our focus is increasingly towards valuation across credit sectors. While Canadian corporate bonds appear close to our fair value assessment; global investment grade credit, high yield and emerging market spreads are near post-crisis lows. Our highest conviction credit opportunity is in private markets, where we are finding opportunities to deploy capital at attractive spreads versus corporate bonds.

Canada's housing market is beginning to garner global attention with Toronto prices accelerating and picking up the baton from Vancouver. Chatter of a housing bubble continues, but we believe that supply constraints have the potential to limit the downside in the event of a correction. In the immediate future, global growth would also potentially cushion the effect of a cooler housing market. Institutional investors exposed to commercial real estate are facing higher valuations and we are pursuing redevelopment opportunities within existing assets. This can, and has, reduced the pressure of chasing valuations in deploying capital.

Private infrastructure witnessed record fundraising in 2016. Emerging markets are garnering more attention as competition is intensifying for deals within developed markets. Our view remains that the mid-market segments benefit from less competition, particularly from larger global pension plans. This results in the potential for a robust pipeline and investment opportunities with attractive risk-adjusted return profiles.

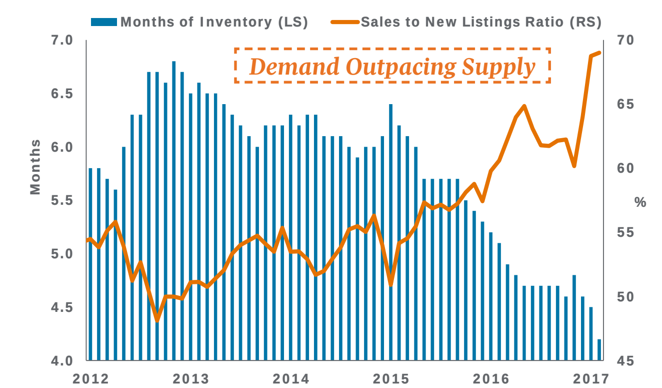
From a multi-asset perspective, our overweight bias is found in international equity and private commercial mortgages. Within real assets we believe the latitude to allocate across asset classes may allow for more efficient deployment of capital. We retain an underweight bias to interest rate exposure on bond portfolios and recommend modest credit risk in light of tighter spreads.

**Figure 2: International Equities Gaining Momentum**




Source: Bloomberg. All local currency.

**Figure 3: Canadian Aggregate Residential Real Estate**




Source: Canadian Real Estate Association.

## Multi-Asset Returns

| Calendar Year | | | | | Ending Mar 31, 2017 |
|---|---|---|---|---|---|
| 2012 | 2013 | 2014 | 2015 | 2016 | QTD |
| EM Eq 15.6 | Glo. Eq 35.2 | Long Bonds 17.5 | Glo. Eq 18.9 | Infrastructure 27.2 | EM Eq 10.8 |
| Real Estate 14.0 | Cdn. Eq 13.0 | Glo. Eq 14.4 | Infrastructure 11.5 | Cdn. Eq 21.1 | Glo. Eq 5.8 |
| Glo. Eq 13.3 | Infrastructure 12.8 | Infrastructure 10.6 | Real Estate 7.8 | EM Eq 7.3 | Cdn. Eq 2.4 |
| Infrastructure 8.7 | Real Estate 10.6 | Cdn. Eq 10.6 | Mortgages 4.0 | Real Estate 5.9 | Long Bonds 1.9 |
| Cdn. Eq 7.2 | EM Eq 3.9 | Bonds 8.8 | Long Bonds 3.8 | Glo. Eq 3.8 | Bonds 1.2 |
| Long Bonds 5.2 | Mortgages 1.3 | Real Estate 7.0 | Bonds 3.5 | Long Bonds 2.5 | Mortgages 1.1 |
| Bonds 3.6 | Cash 1.0 | EM Eq 6.6 | EM Eq 2.0 | Mortgages 1.8 | Real Estate 0.9 |
| Mortgages 3.6 | Bonds -1.2 | Mortgages 6.0 | Cash 0.6 | Bonds 1.7 | Cash 0.1 |
| Cash 1.0 | Long Bonds -6.2 | Cash 0.9 | Cdn. Eq -8.3 | Cash 0.5 | Infrastructure -0.1 |

**Benchmarks**

- S&P/TSX
- MSCI World (Net)
- MSCI Emerging Markets (Net)
- Infrastructure*
- IPD All Property**
- Custom Mortgage Benchmark***
- FTSE TMX Cda 91 day T-bill
- FTSE TMX Cda Universe
- FTSE TMX Cda LT Overall

Returns in C$, excluding Infrastructure ($USD). Gross of investment management fees. May be subject to rounding.
* Infrastructure returns are the Preqin Infrastructure Quarterly Index up to its most recent publication, Q2 2016 and are Greystone Infrastructure Fund (Canada) LP thereafter.
** Real estate returns are the IPD Canada All Property Index up to its most recent publication, Q4 2016 and are Greystone Real Estate Fund returns thereafter.
*** Custom Mortgage Benchmark: FTSE TMX Cda Short Term Overall 60%, FTSE TMX Cda Mid Term Overall 40% + 0.5% per annum.
Past performance is not necessarily a guide to future results.
Source: FactSet, Greystone as at Mar 31, 2017. Preqin as at Jun 30, 2016.

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### REAL ASSETS

- Real Estate
- Infrastructure

### PRIVATE DEBT

- Mortgages

### EQUITIES

- Income & Growth
- Canadian,U.S.,Global, International, China
- Canadian Small Cap

### MULTI-ASSET

- Target Date Funds
- Balanced
- Alternative Balanced
- Alternative Suite

### FOR FURTHER INFORMATION PLEASE CONTACT:

Toll Free: 1.800.213.4286
Email: inquiries@greystone.ca

**REGINA (HEAD OFFICE)**
300 Park Centre
1230 Blackfoot Drive
Regina, Saskatchewan S4S 7G4
Canada

**TORONTO**
77 King Street West
Suite 4510, TD North Tower
Toronto, Ontario M5K 1J3
Canada

**WINNIPEG**
201 Portage Avenue
Suite 1907
Winnipeg, Manitoba R3B 3K6
Canada

**HONG KONG**
Suite 1, 12/F
International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

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* An eligible employee is defined as contributing one or more years of service to Greystone.