



Assessing the Outlook for Long-Term Capital Market Returns

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Capital Markets Expectations for the Long-run

Will the future look like the past?

Bonds (FTSE TMX)	6.9%
Balanced Portfolio**	8.3%
Canadian Equity (S&P TSX)	8.7%
Consumer Price Index	1.8%

* Average Annual Returns ended December 31, 2016 over a 25 year period – total returns

** Balanced Portfolio: 25% S&P/TSX, 12.5% S&P 500, 12.5% EAFE, 50% FTSE TMX

Source: Investments Illustrated, Inc.

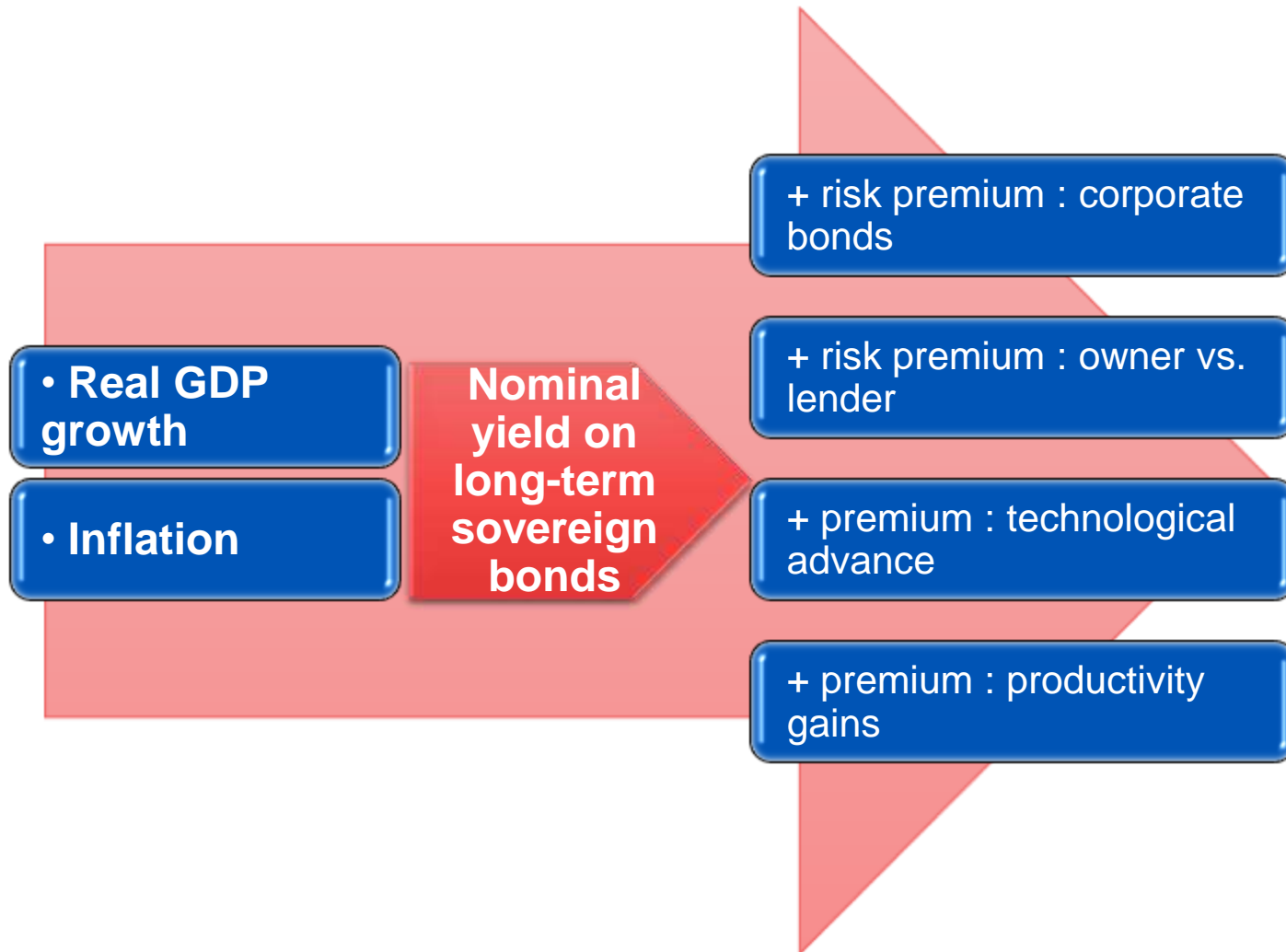
Topics:

- Fundamental determinants of broad asset class returns
- Long-term prognosis for the key fundamental drivers
- Long-term asset class return expectations

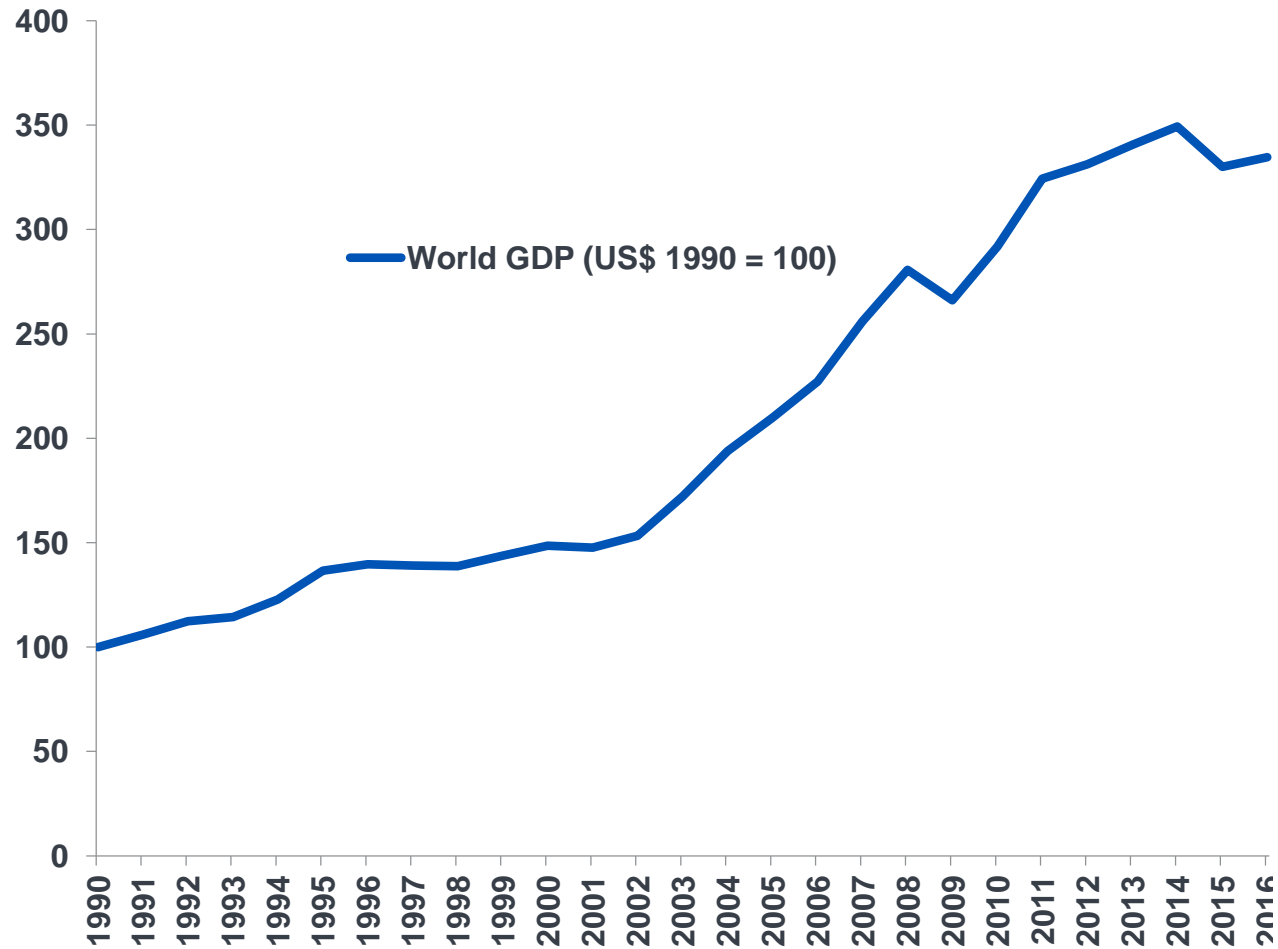
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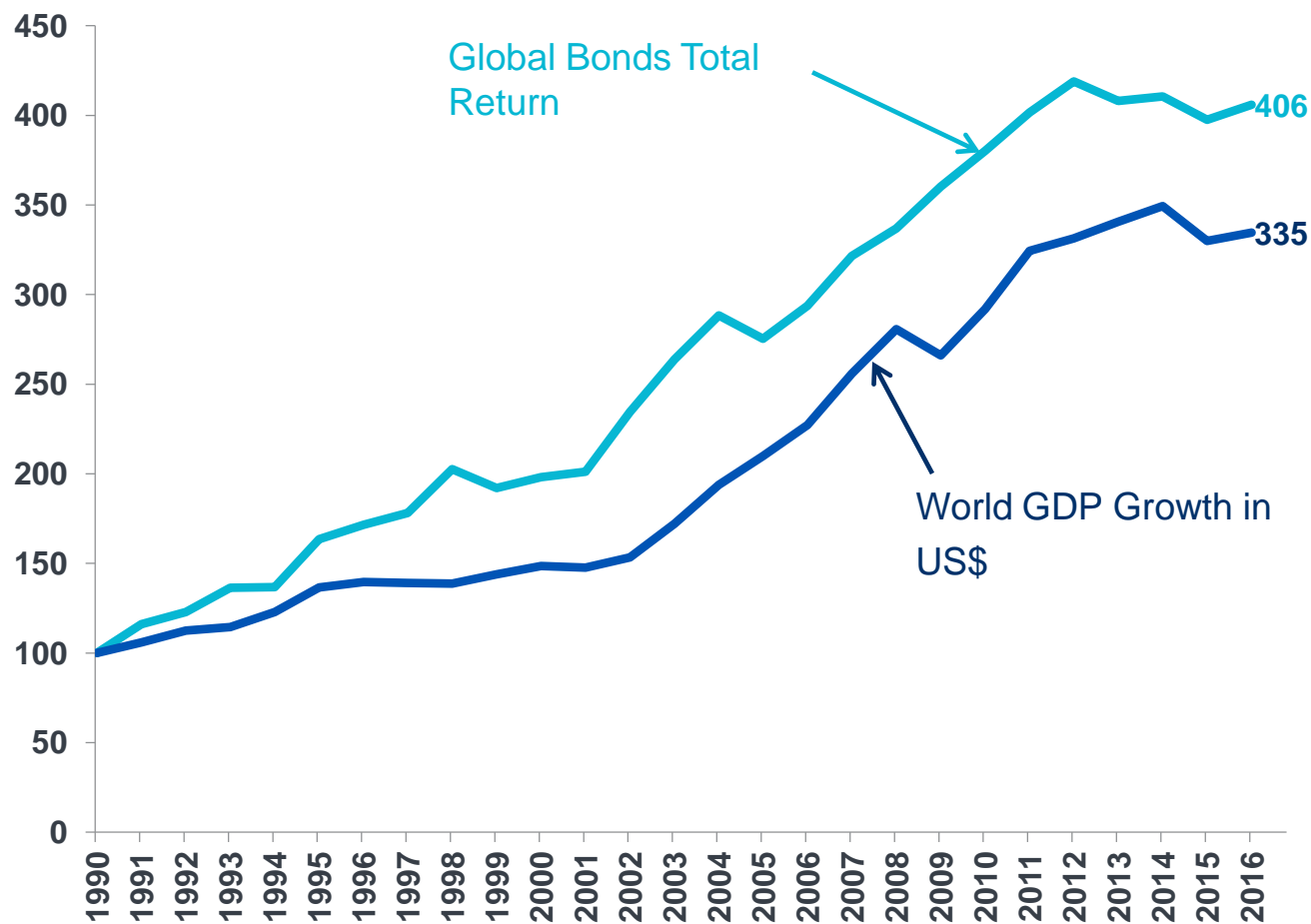
Fundamentals of Long-term Capital Market Returns



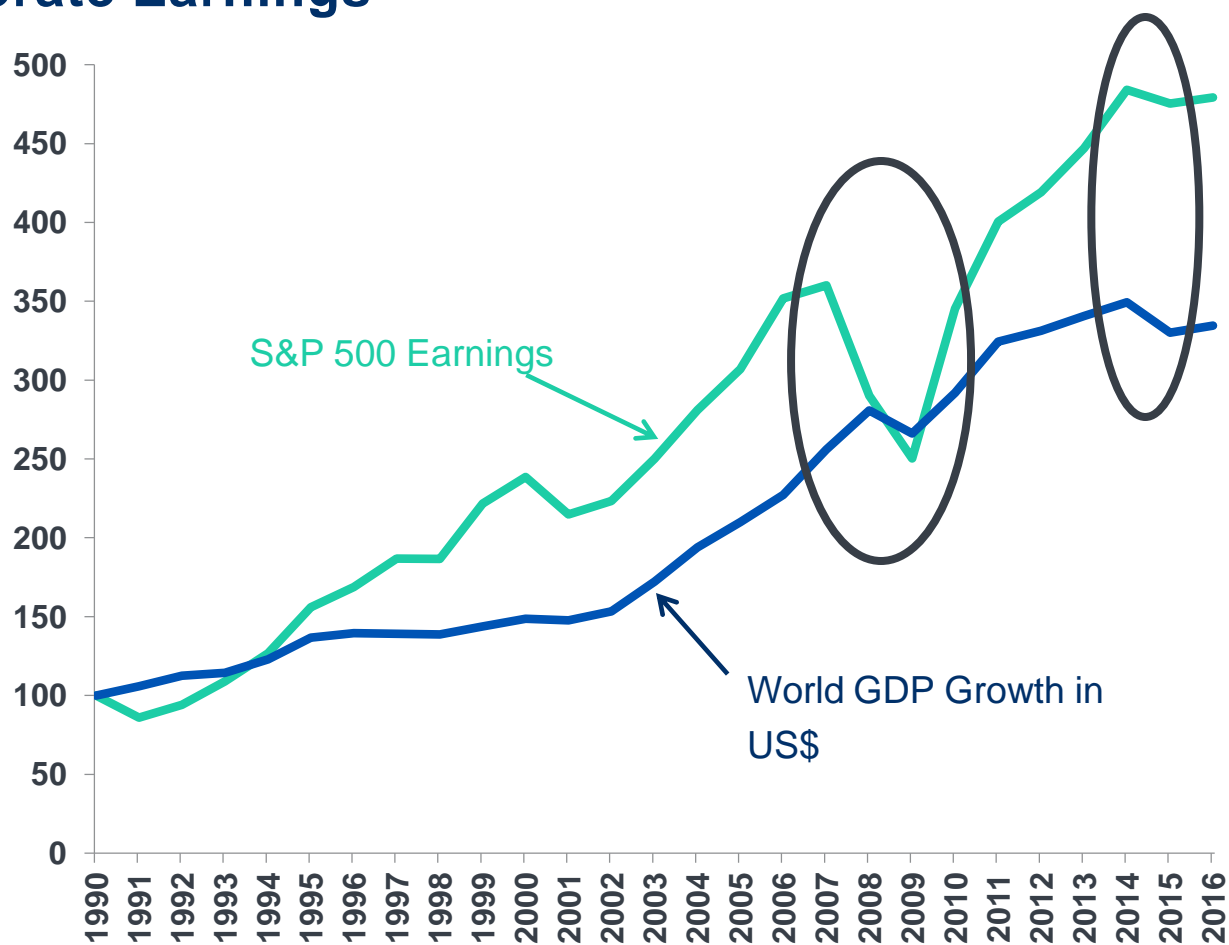
World GDP Growth



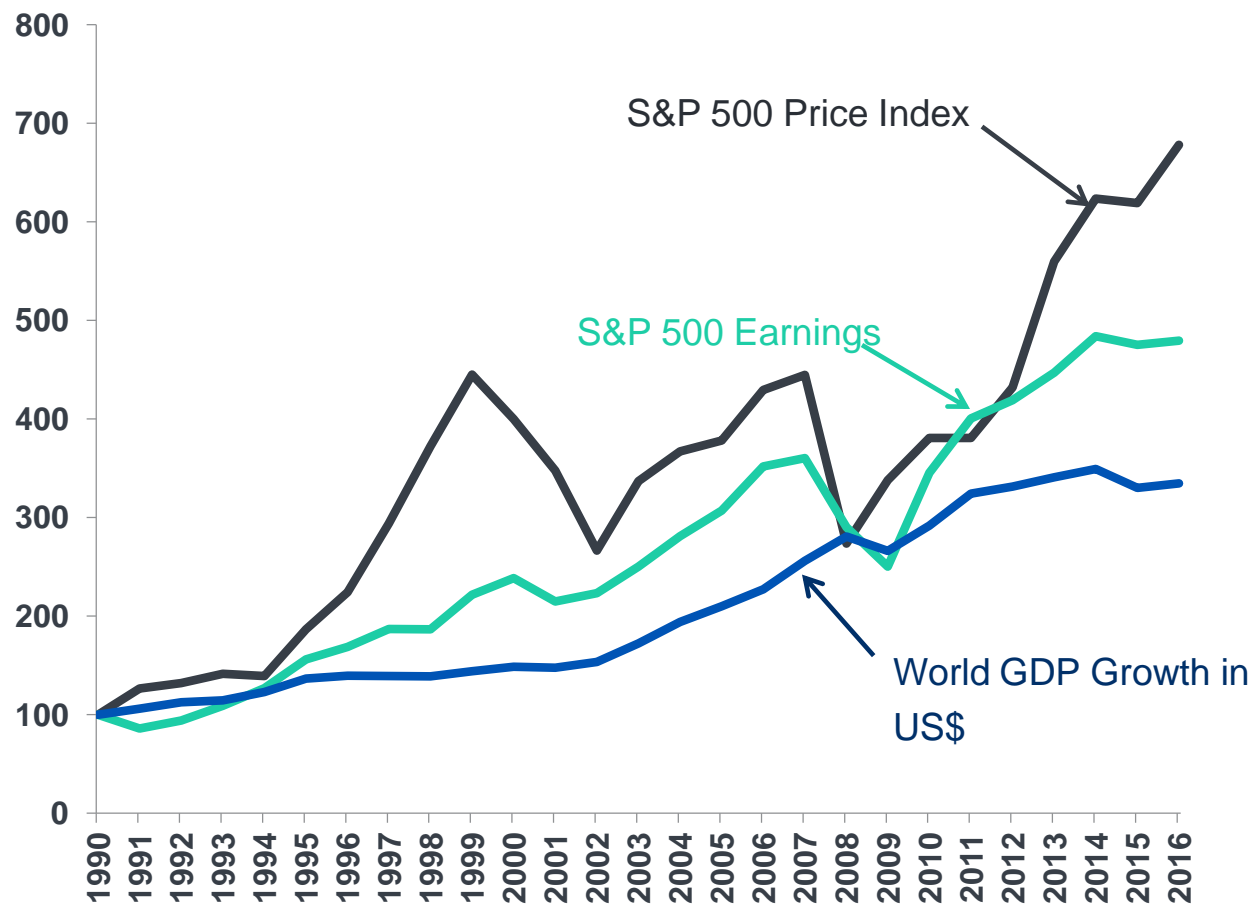
World GDP Growth & Global Bonds



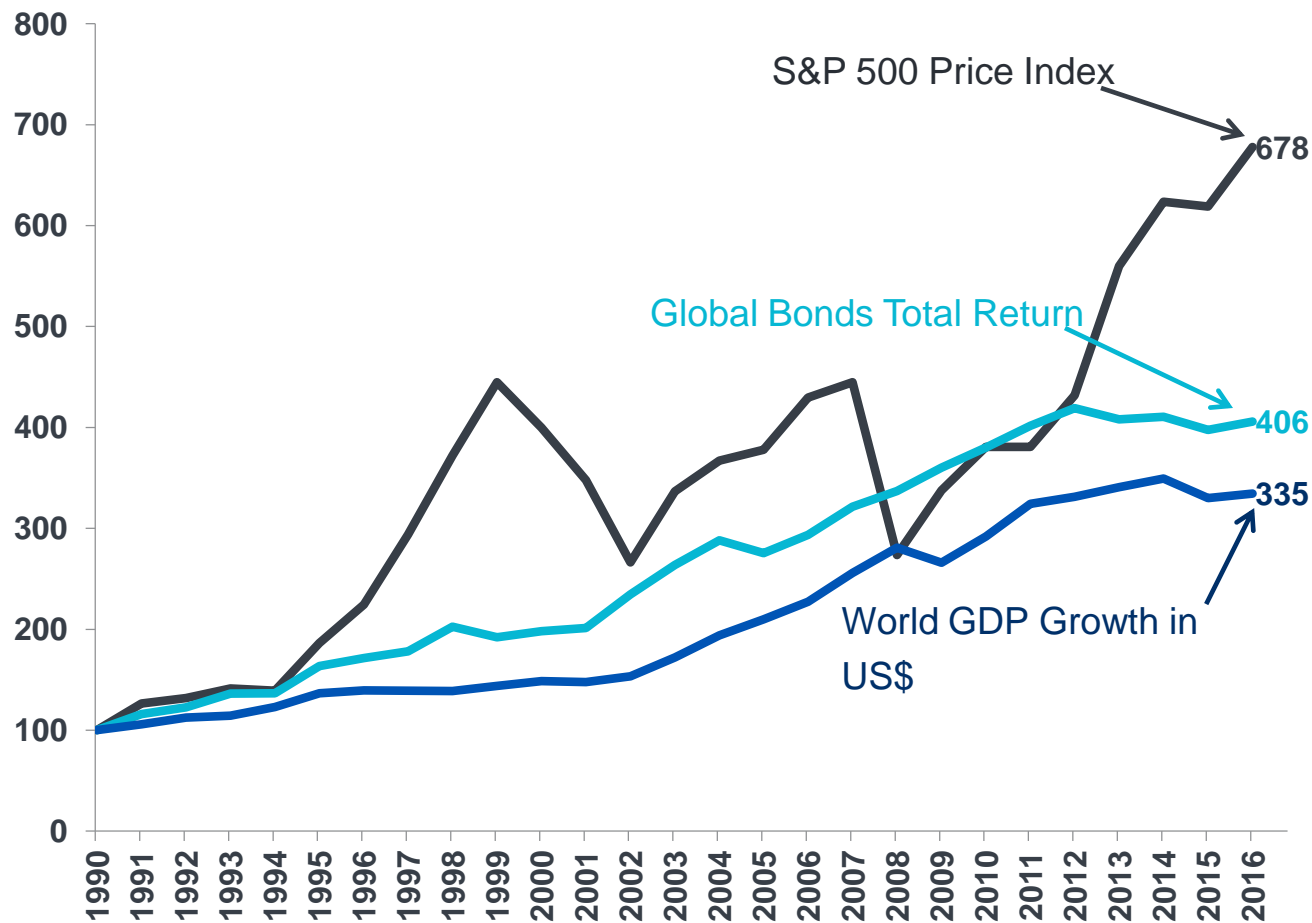
World GDP Growth & Corporate Earnings



Stocks, Earnings & World GDP Growth



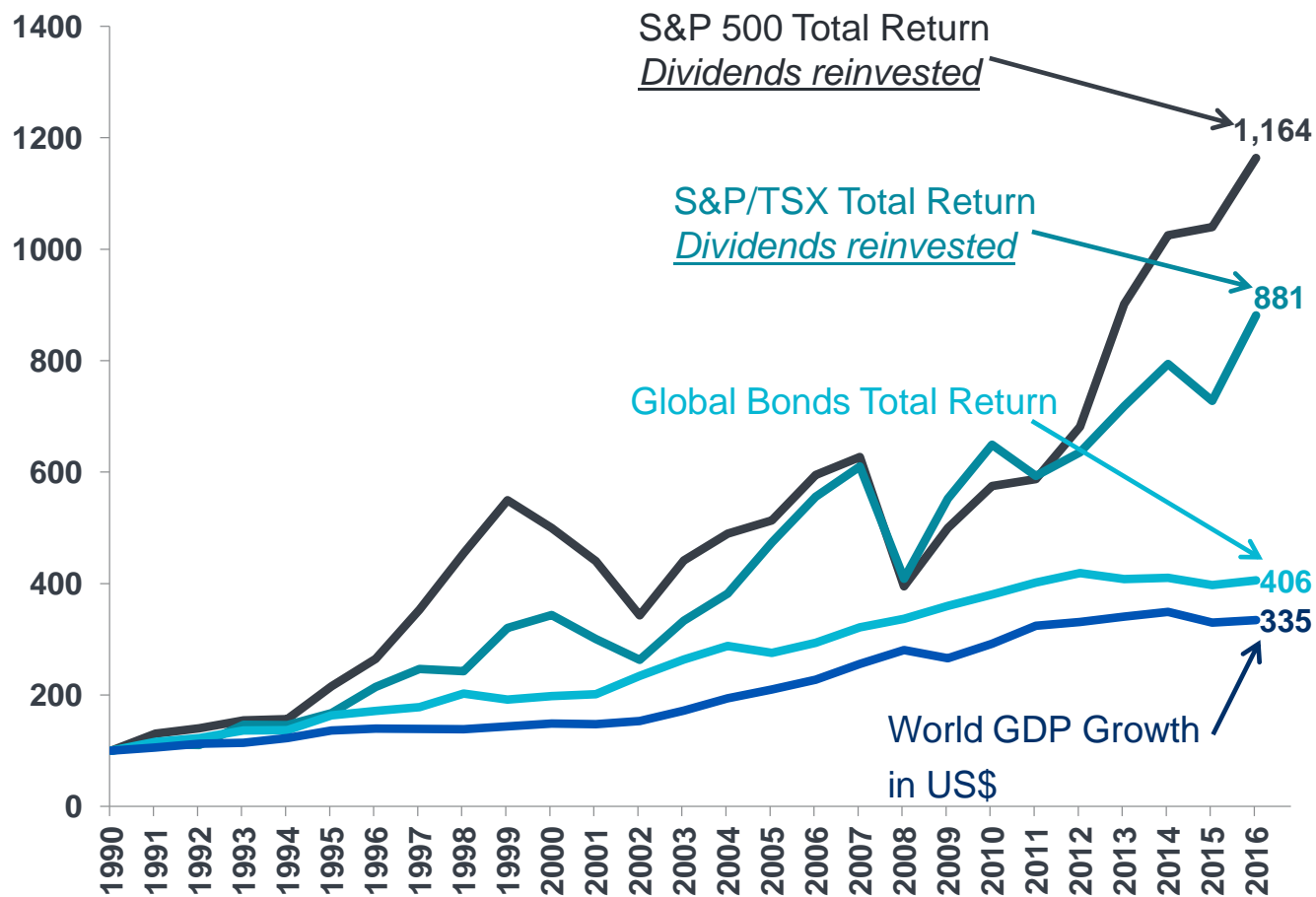
Stocks, Bonds & World GDP Growth



Source: Bloomberg December 2016

Stocks, Bonds & World GDP Growth

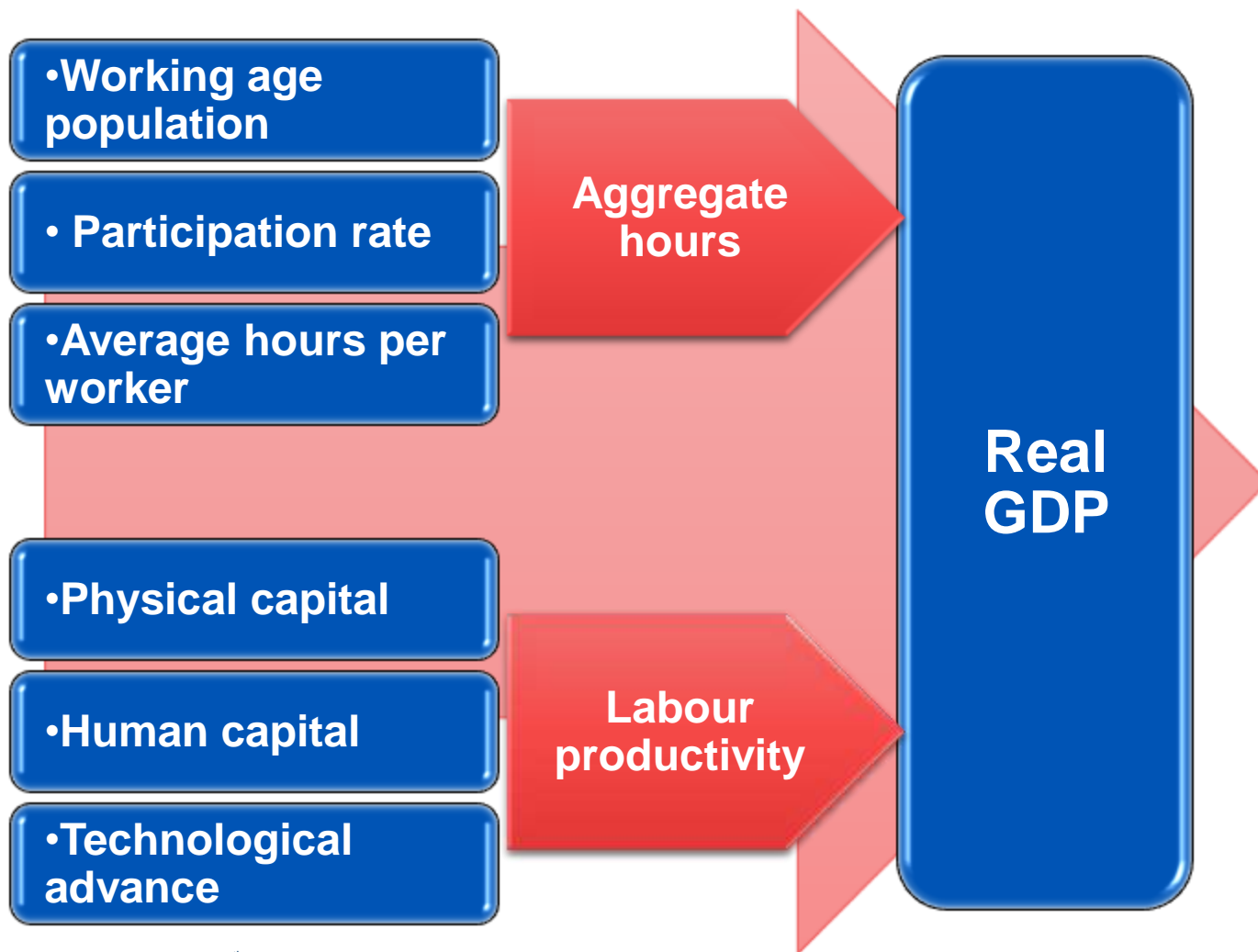
...Of course, stocks also give you the dividend!



Topics:

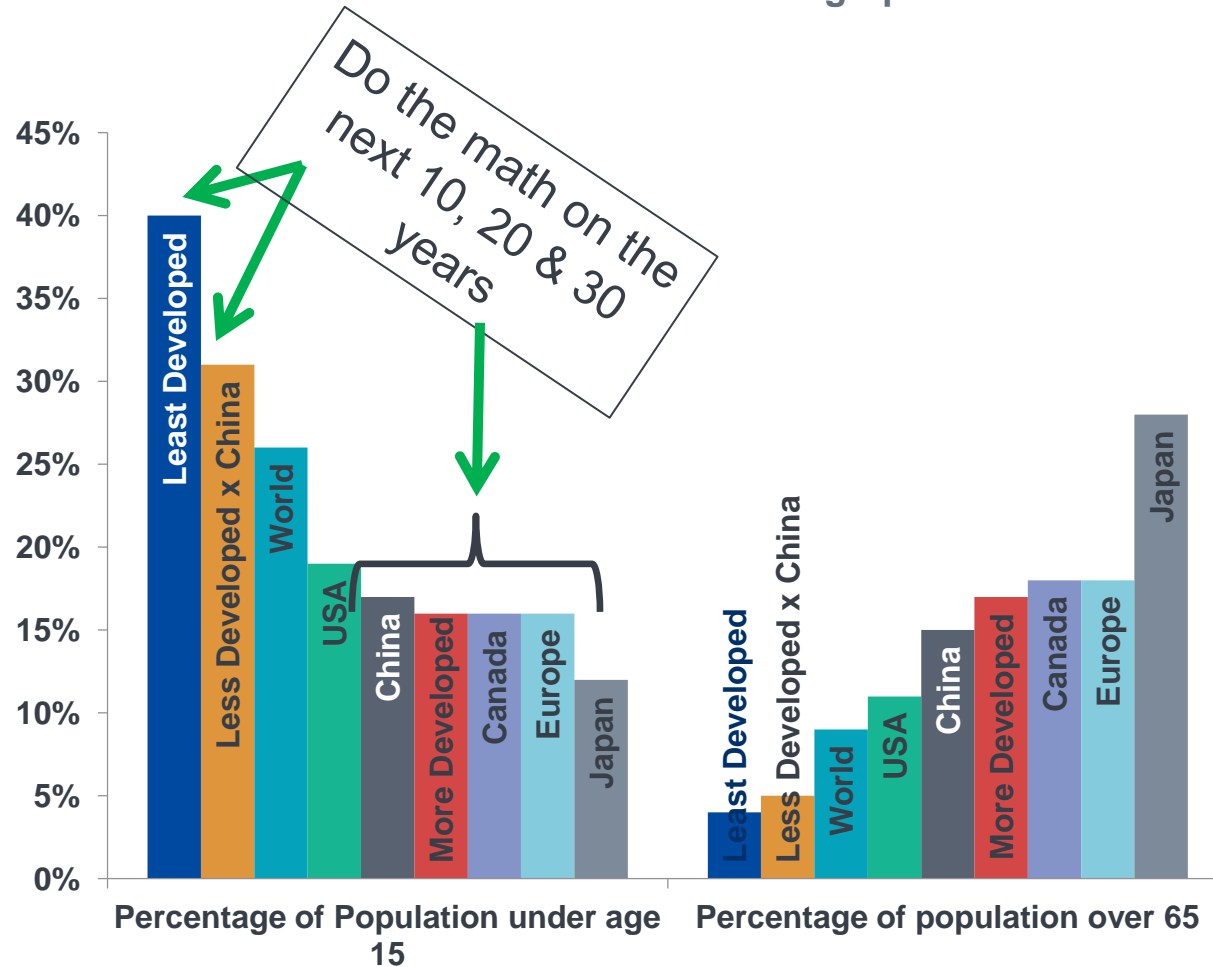
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Sources of Economic Growth



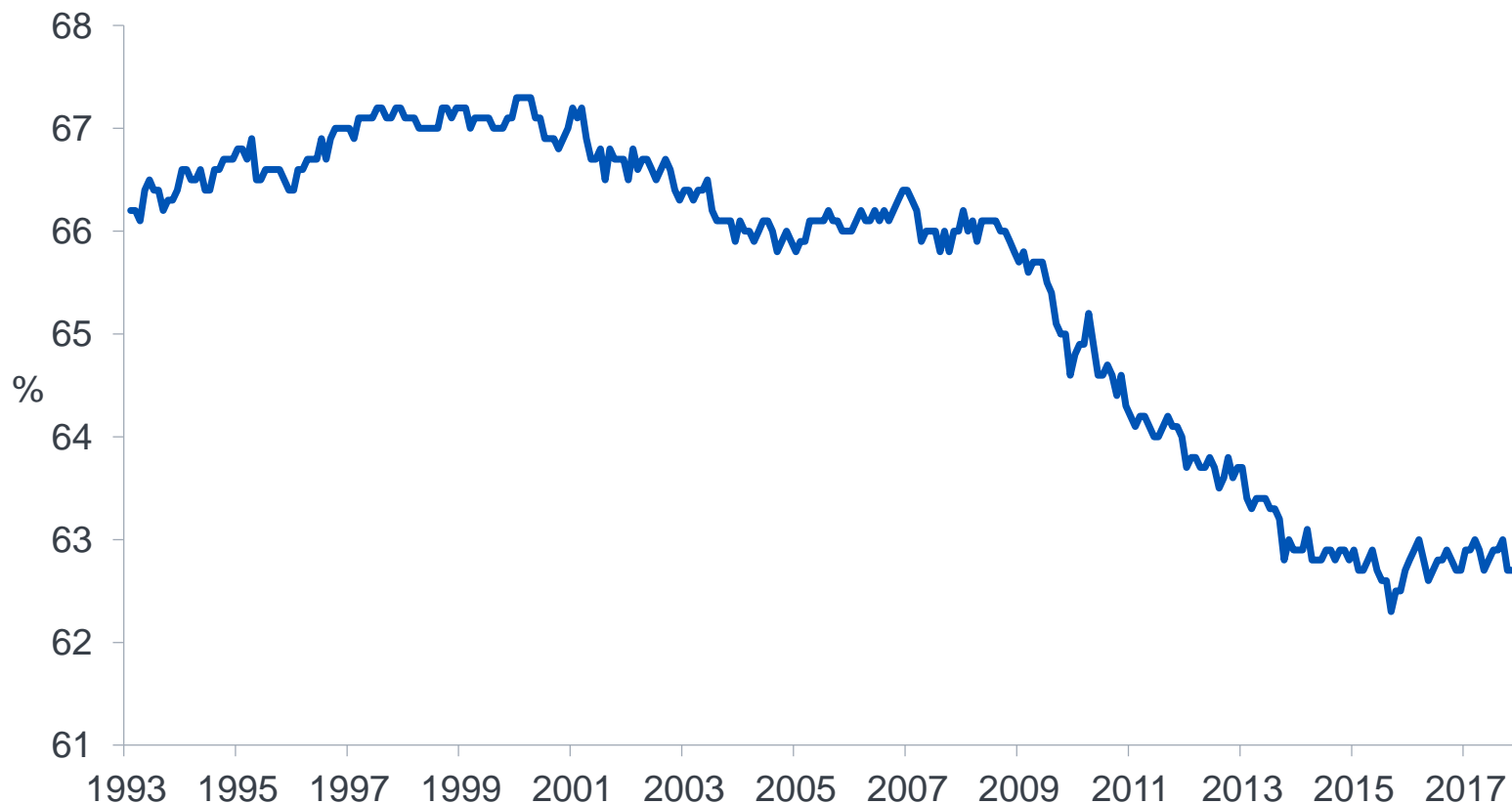
World Population Distribution

The good, the bad and the ugly of demographics



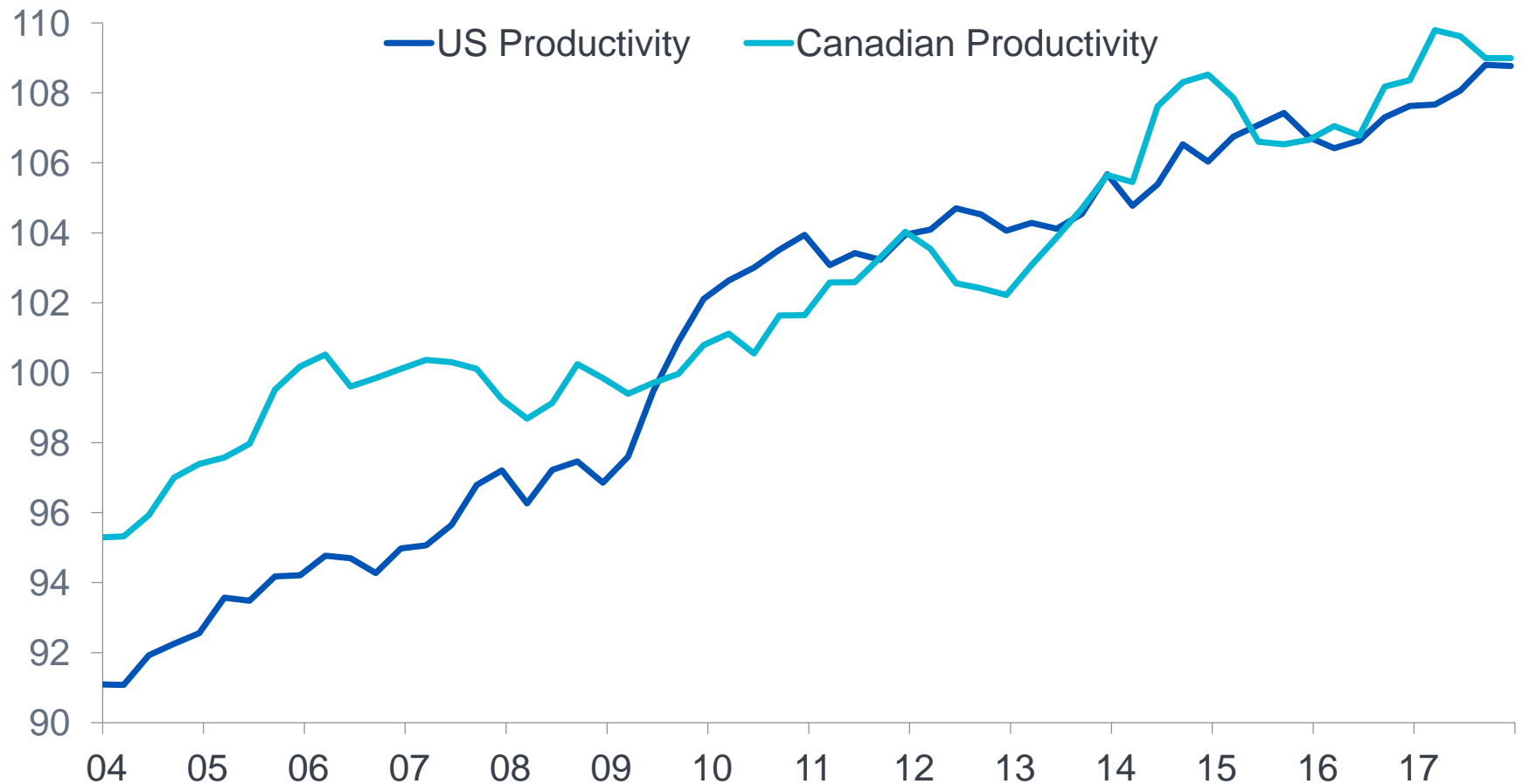
US Labour Force Participation Rate

No help here...



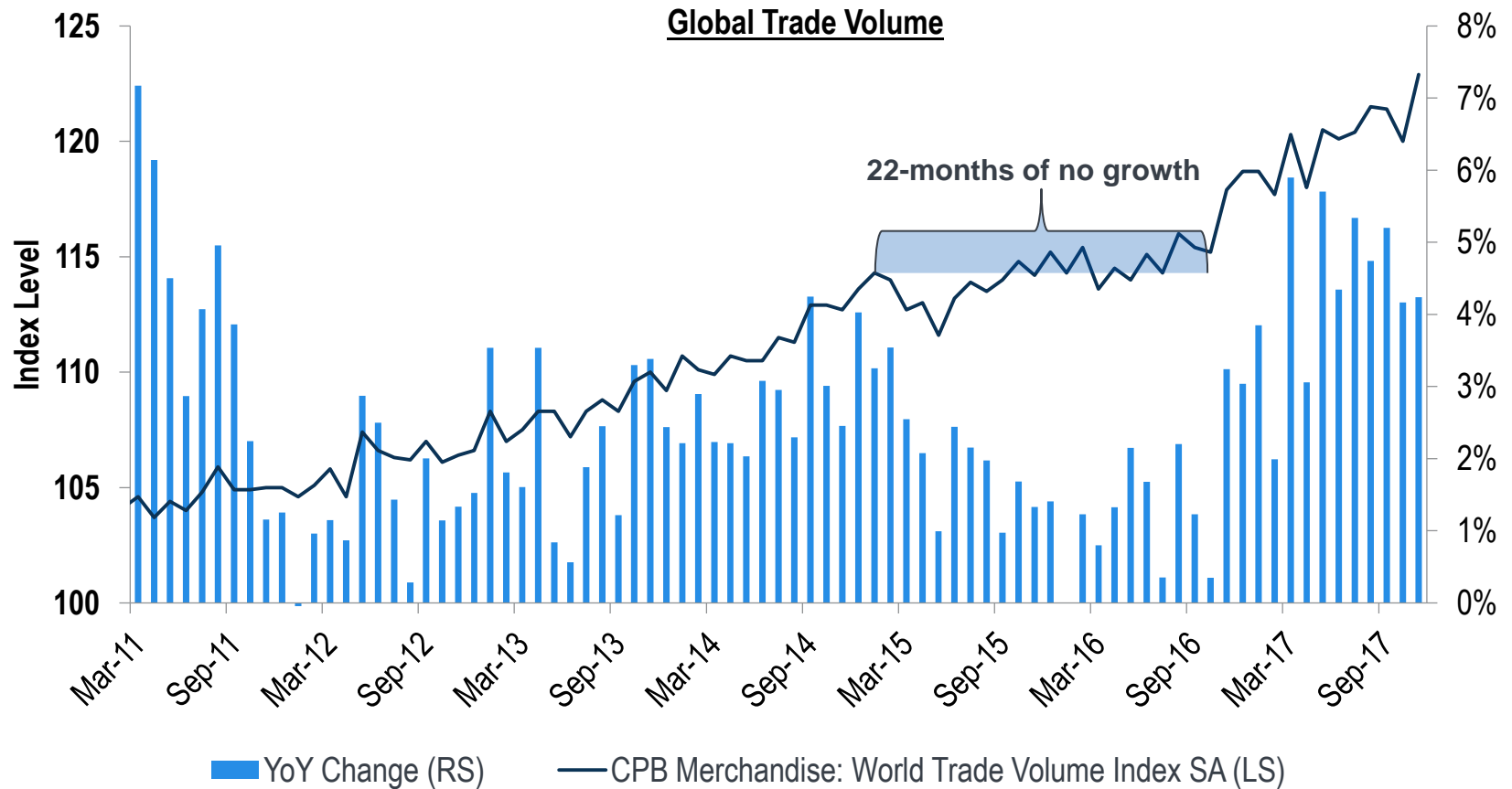
Labour Productivity

Spurred by technological innovation & trade



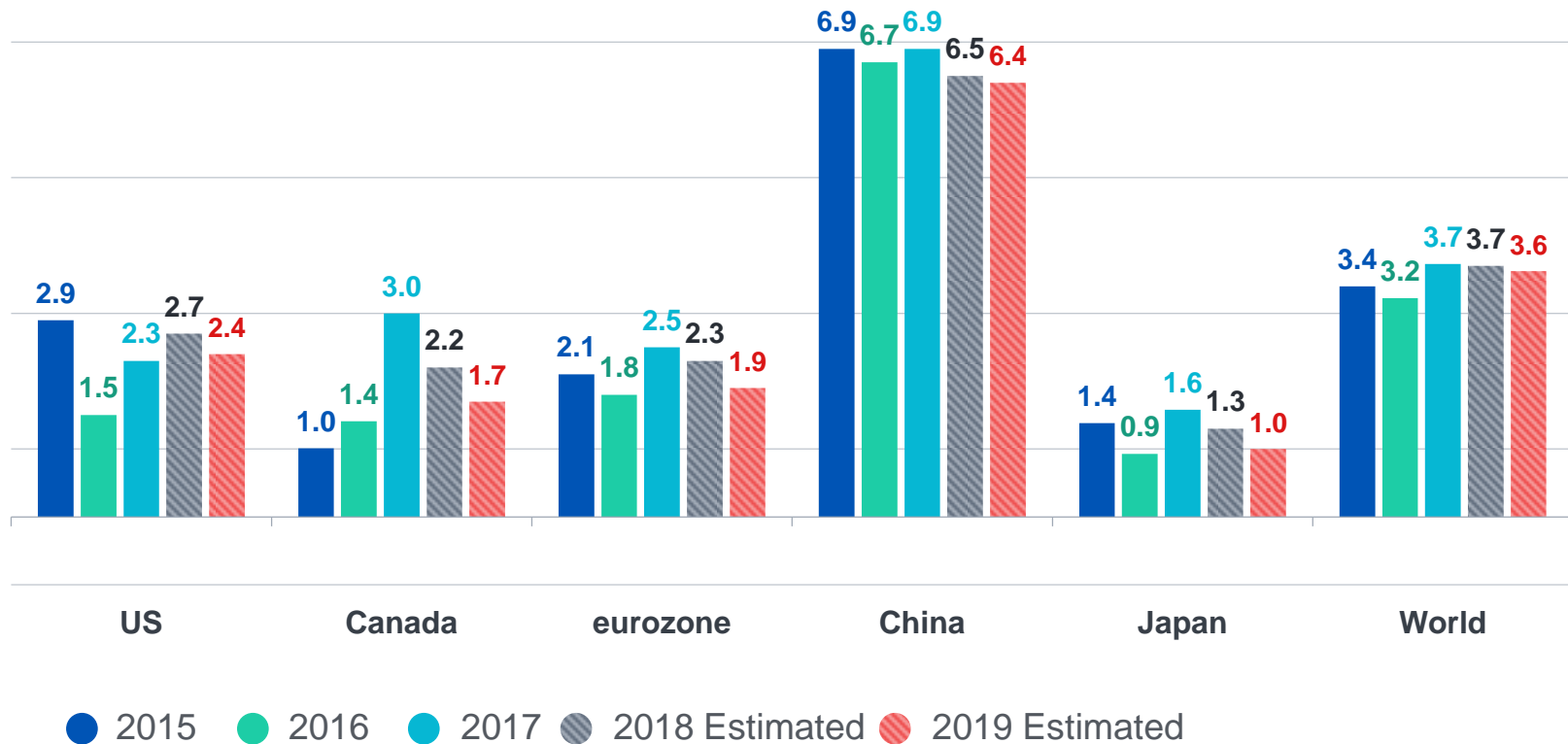
World Trade

Globalization is not dead, just hit a slump



Global GDP Growth

Real GDP Growth
year-over-year % change

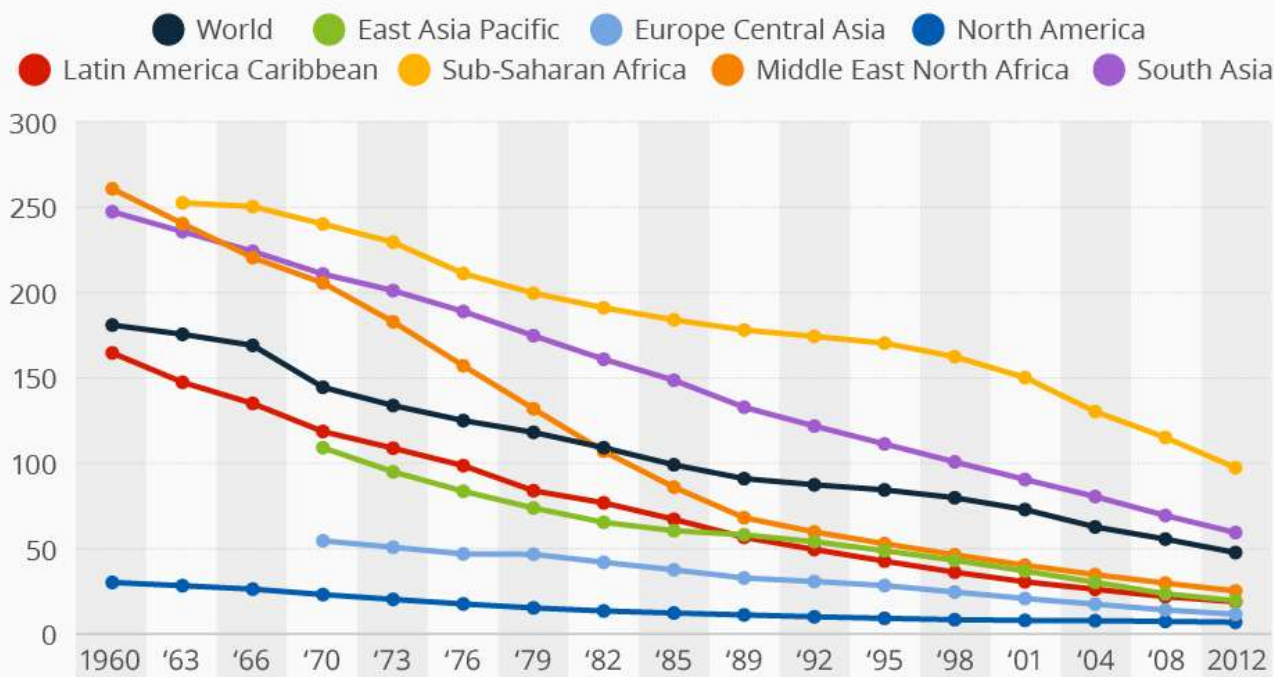


Global Growth's Positive Social Contribution

Real GDP per capita
is a measure of living standards

Global Child Mortality Rate Post 1950

Child mortality rate per 1,000 births by world region 1960-2012



@StatistaCharts

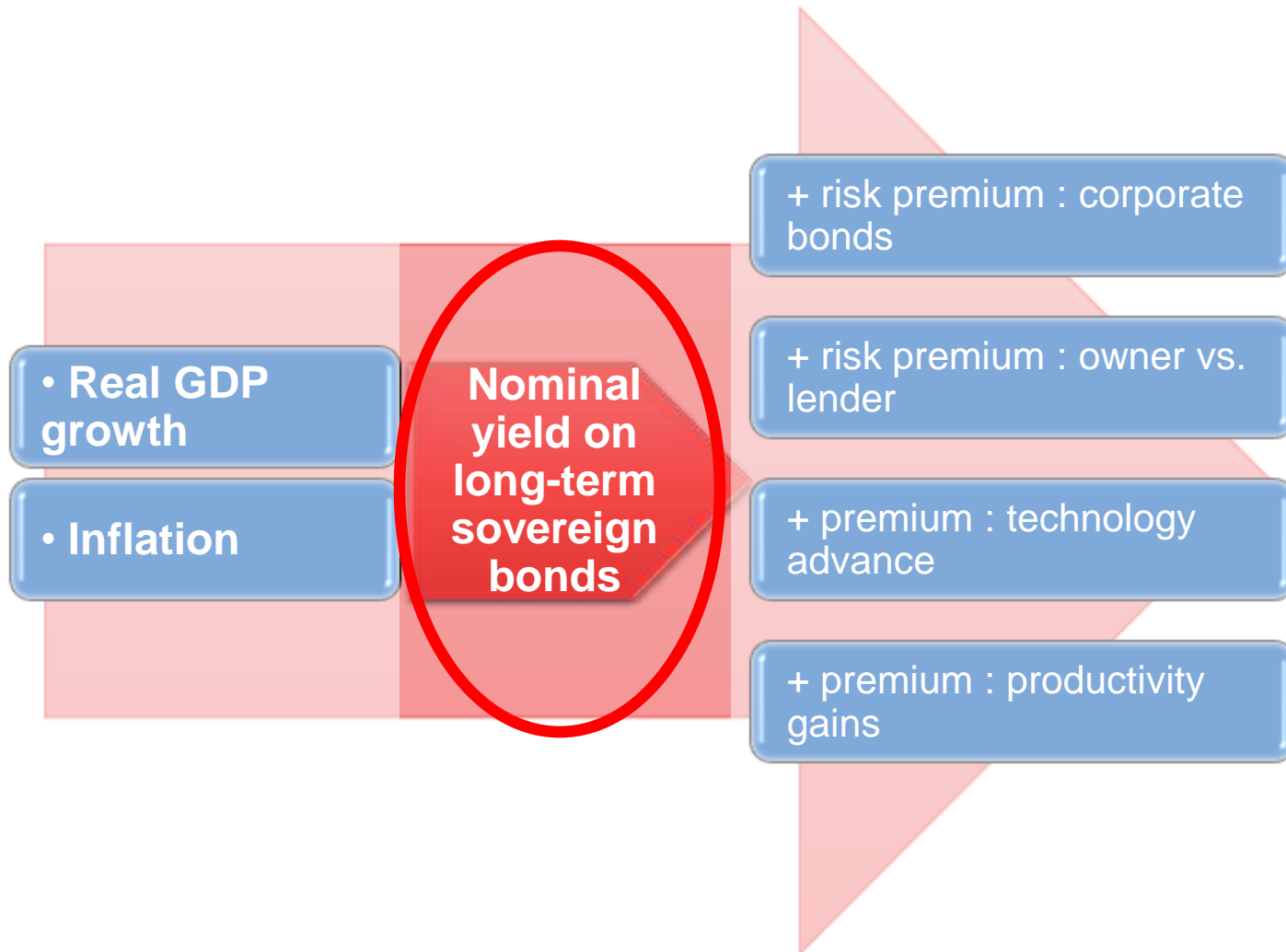
Source: UNICEF

statista

Topics:

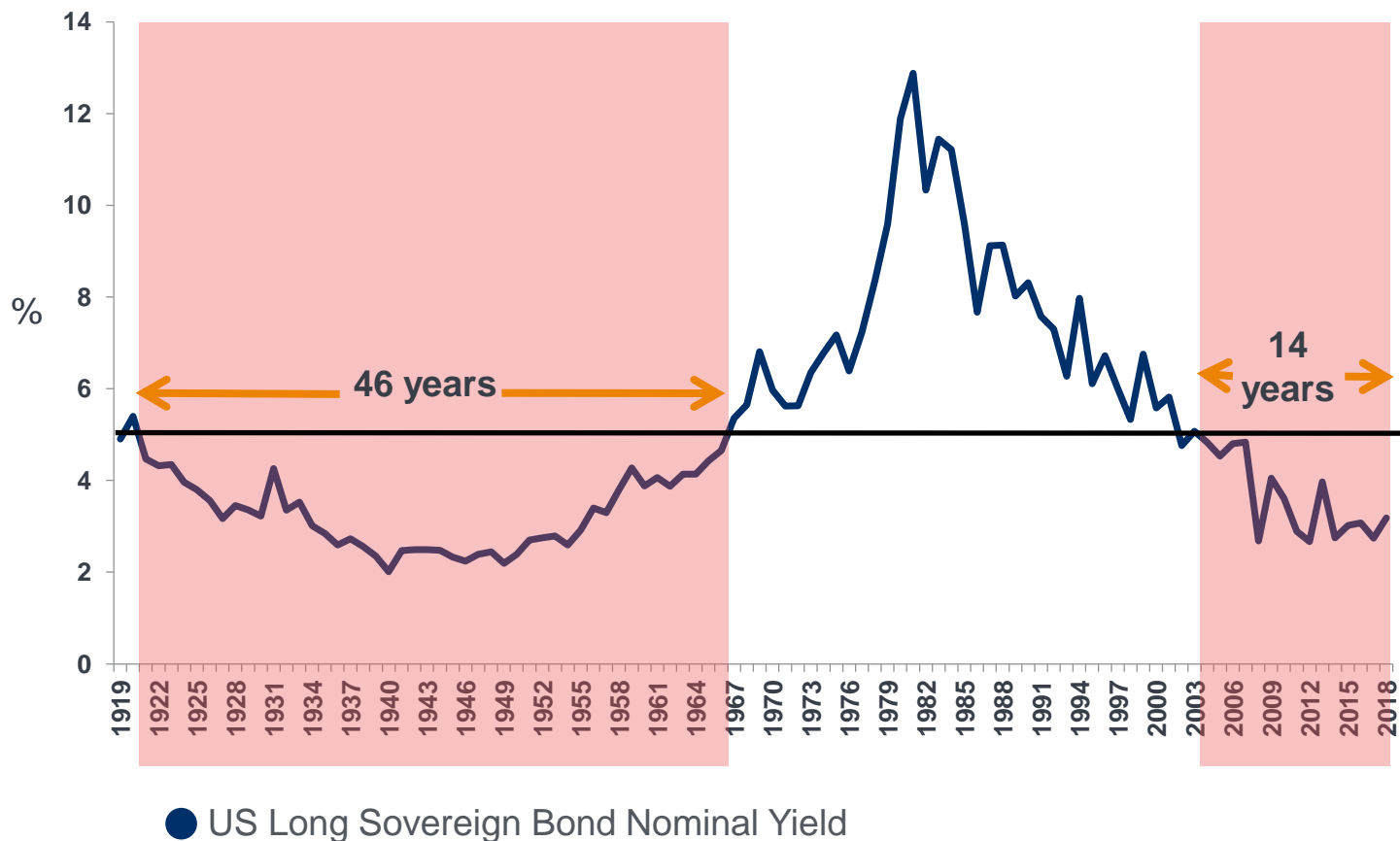
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Fundamentals of Long-term Capital Market Returns



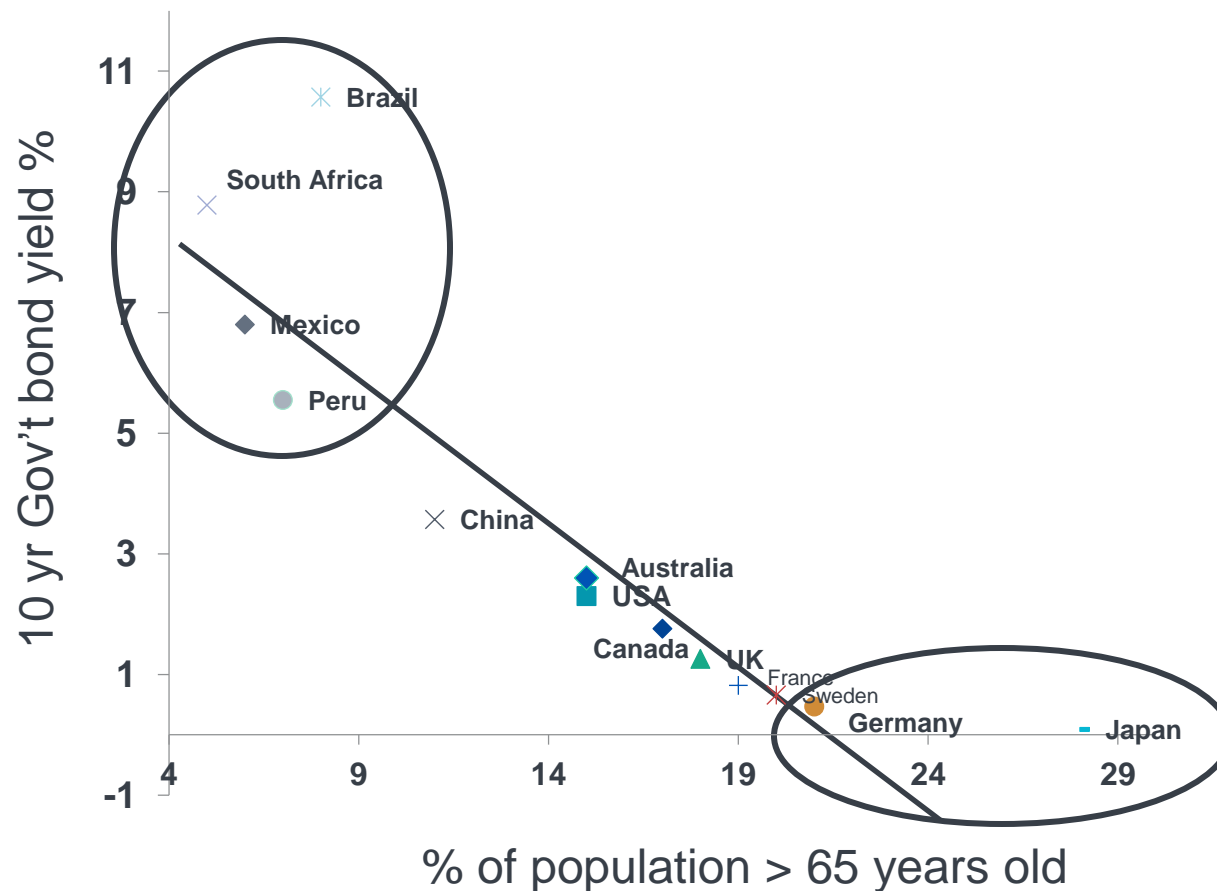
A Long Look At Interest Rates

Sub-5% is more the norm, but what is the new normal?



Demographics Drive Down Yields

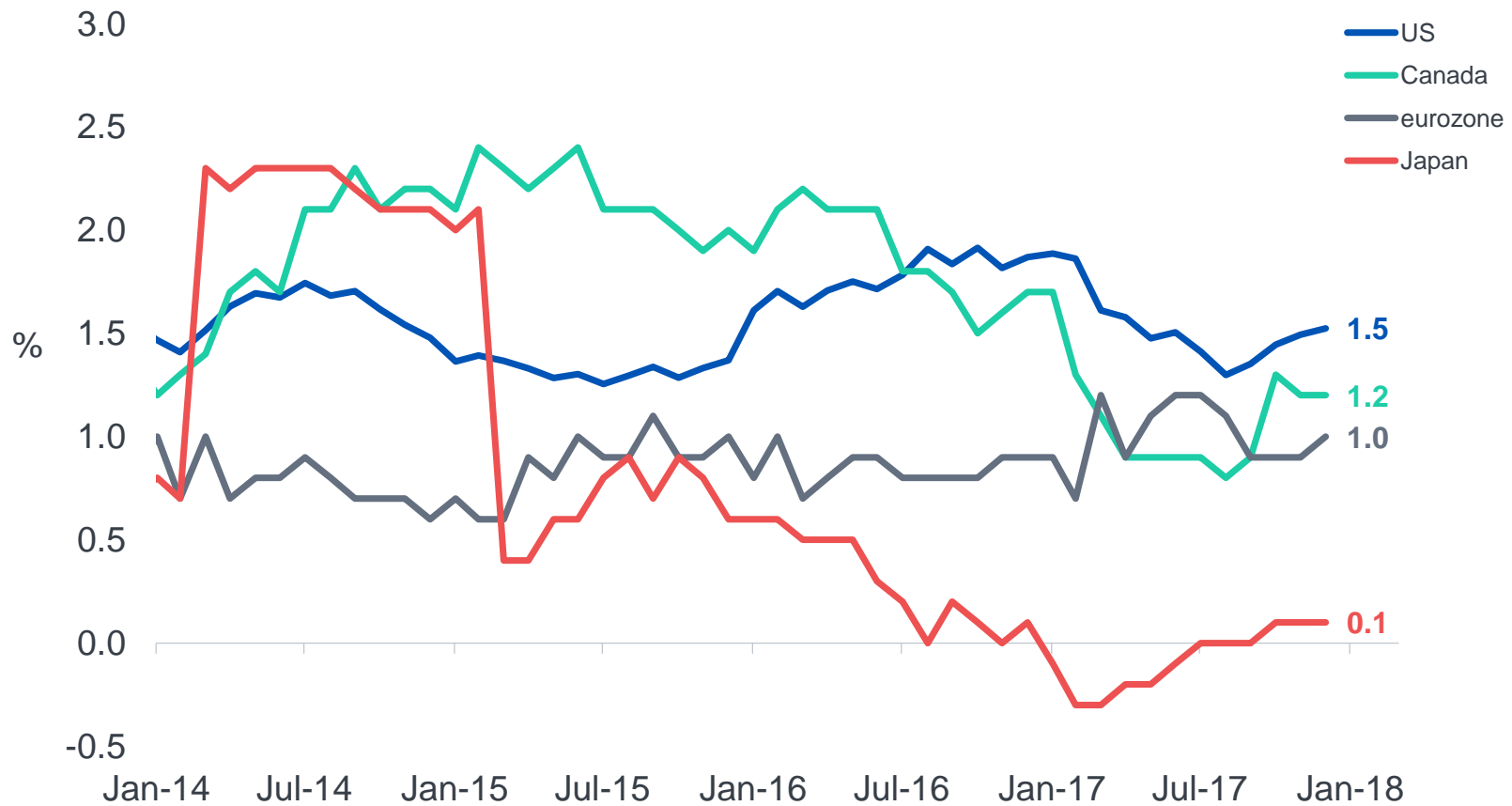
% of population > 65 years old
vs. 10-yr Government bond yield



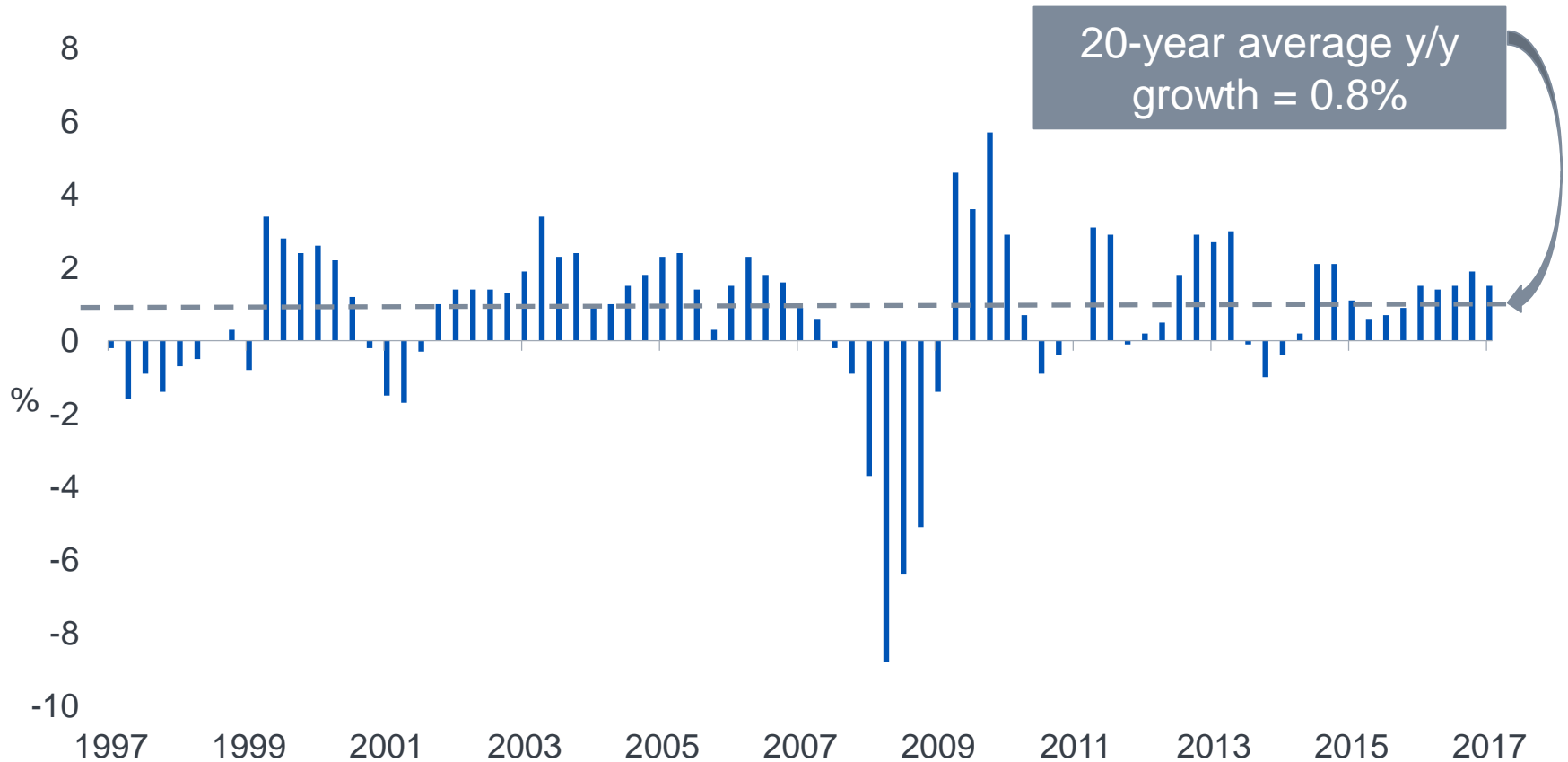
Source: Bond yields: Bloomberg June 30, 2017, population data: Population Reference Bureau August 2017

Global Inflation Rates

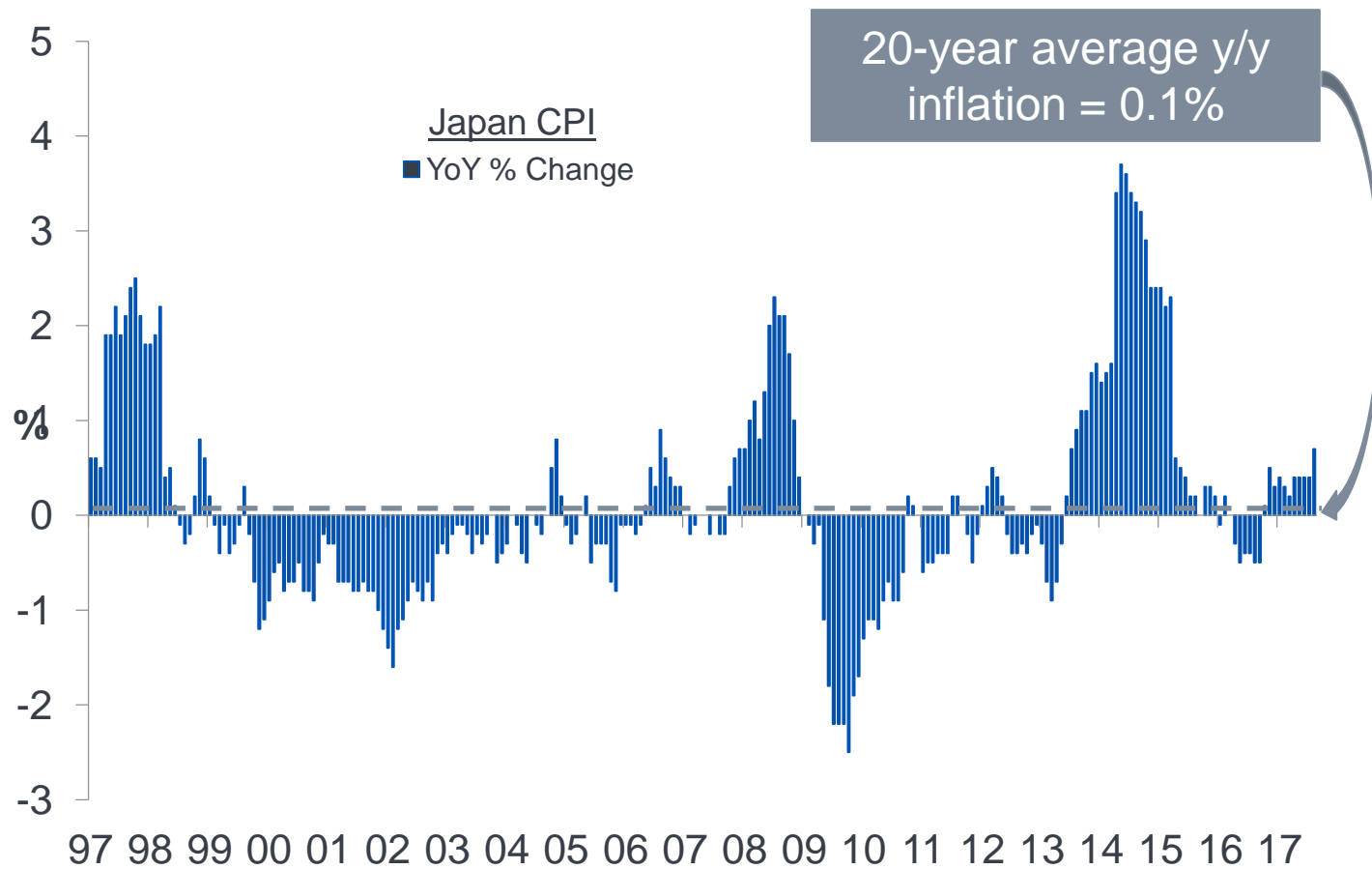
Stubbornly low inflation world-wide



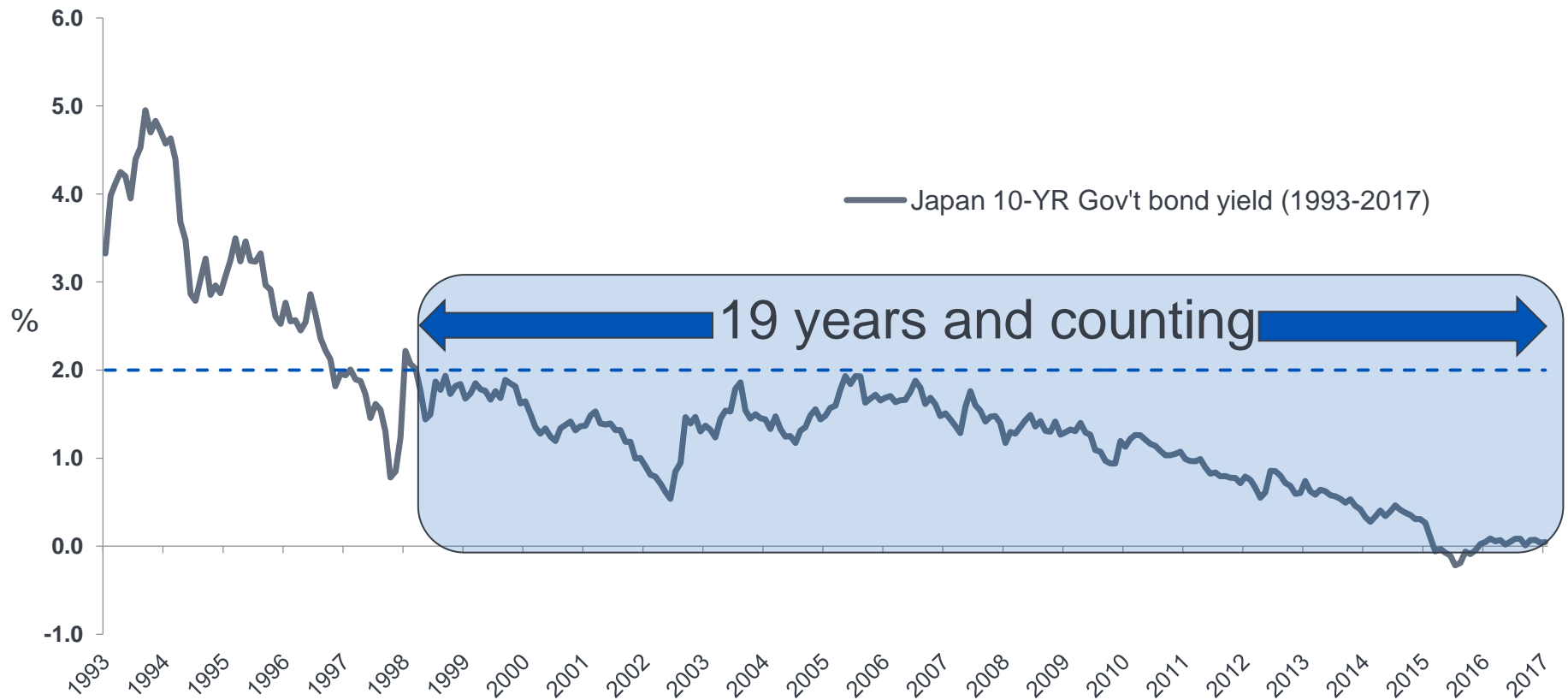
Japan Real GDP Growth



Japan Inflation



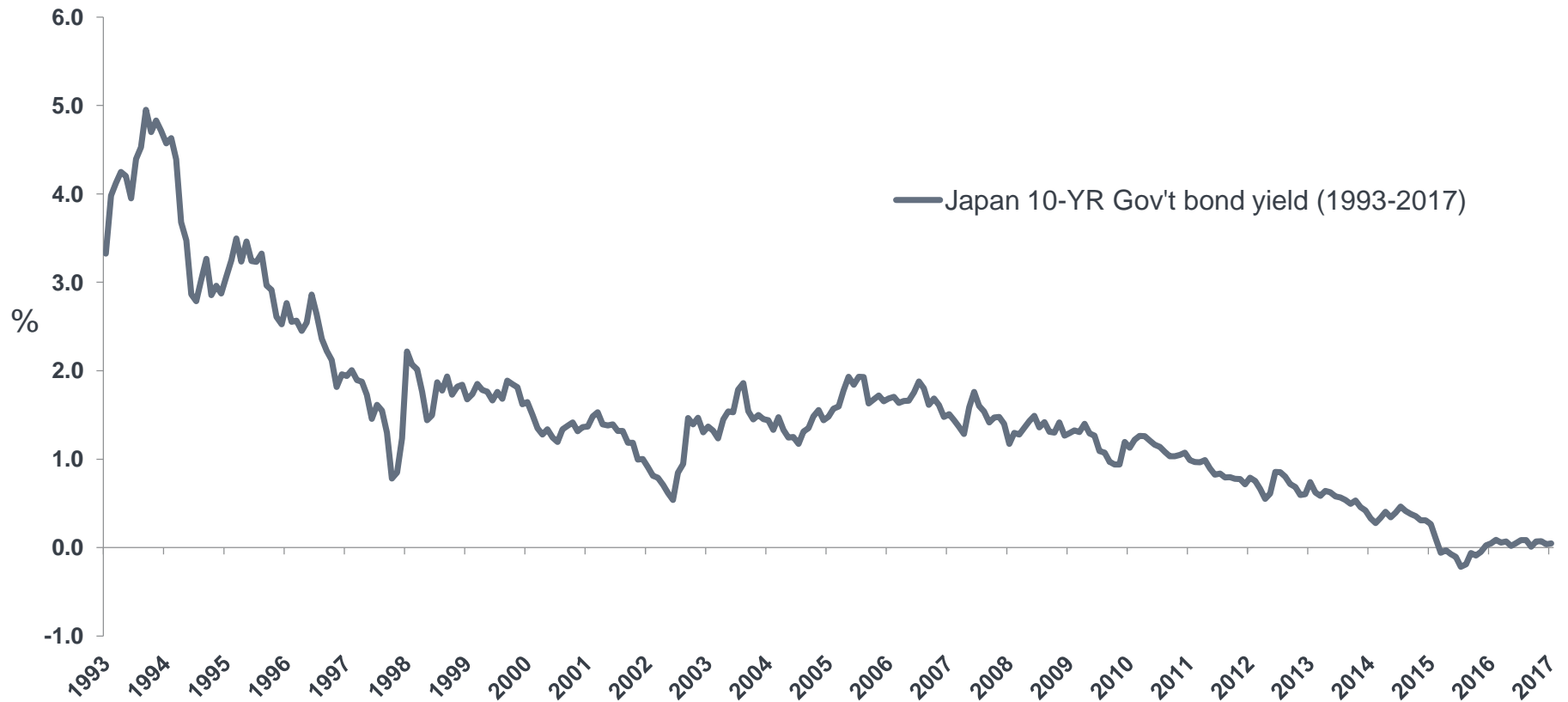
Japan Government Bond Yields



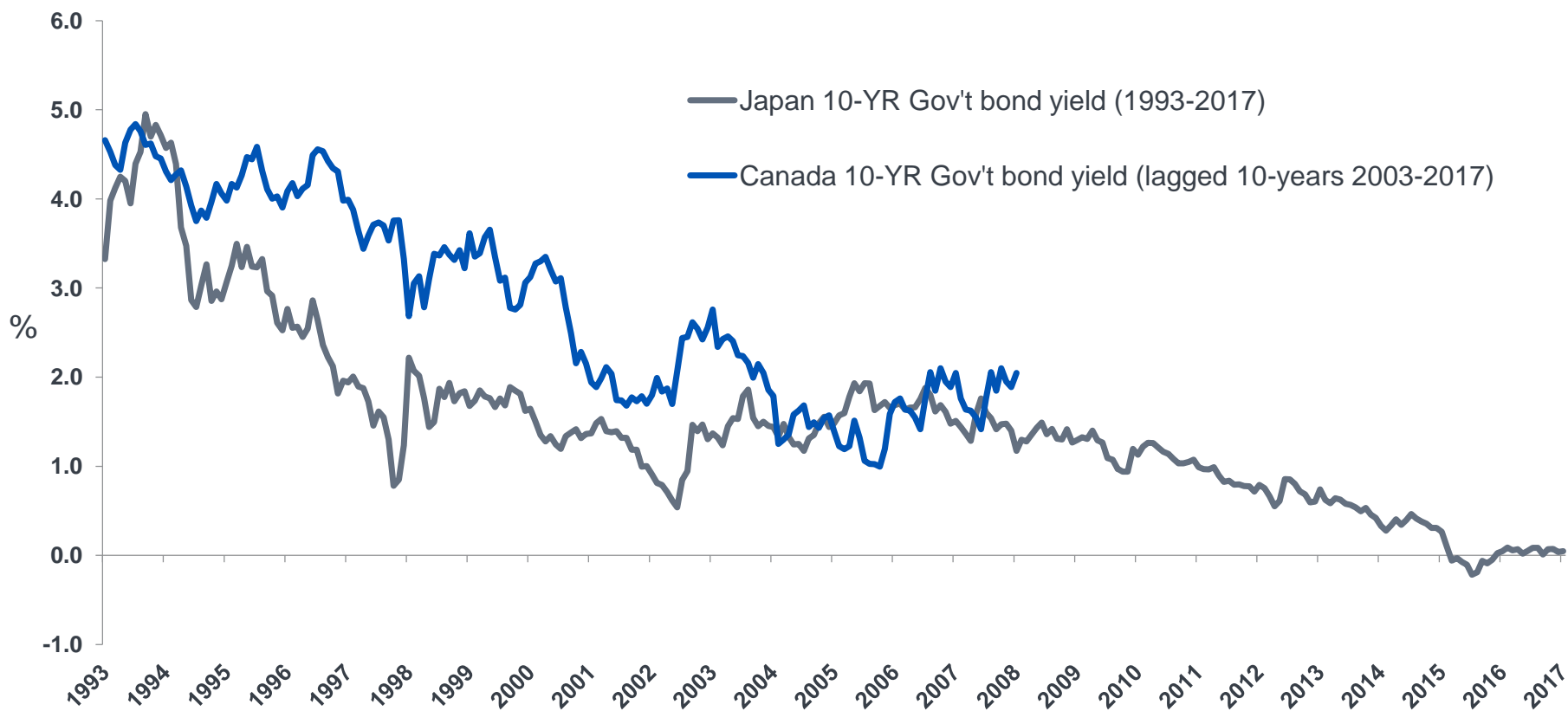
Japanese Bond Market Returns



Japan Government Bond Yields

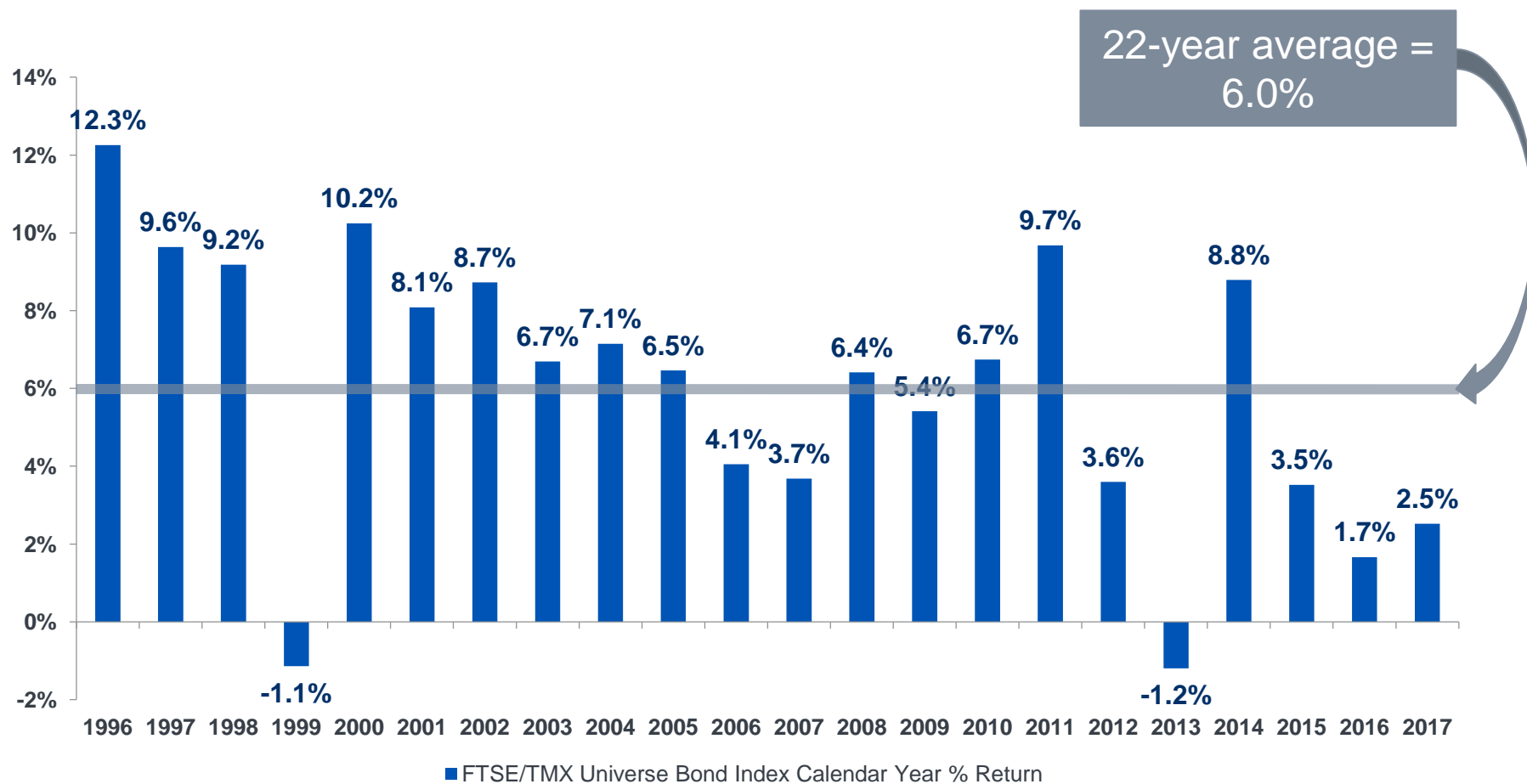


Japanese & Canadian Government Bond Yields



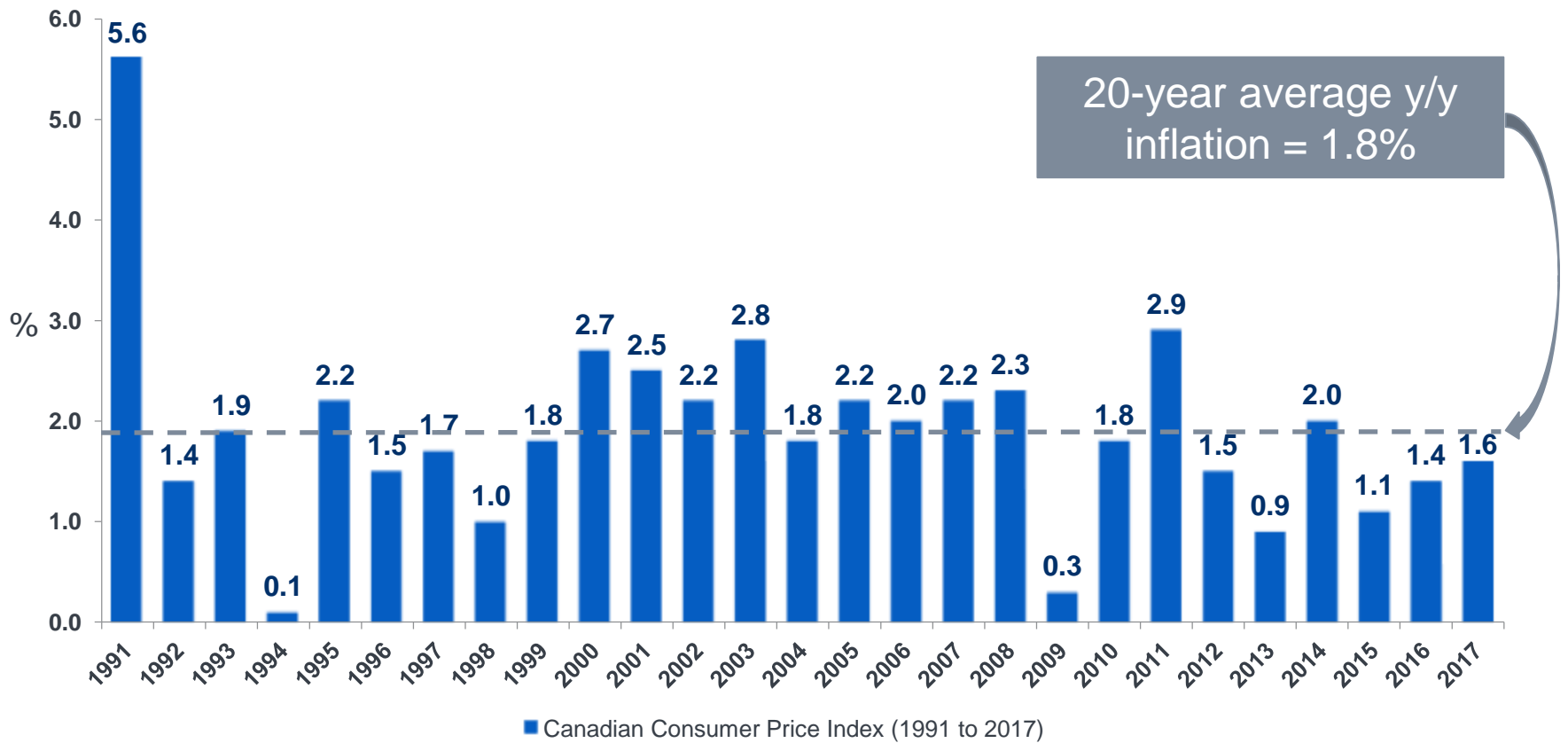
Canadian Bond Market Calendar Year Returns

Tough adjustment in the near-term

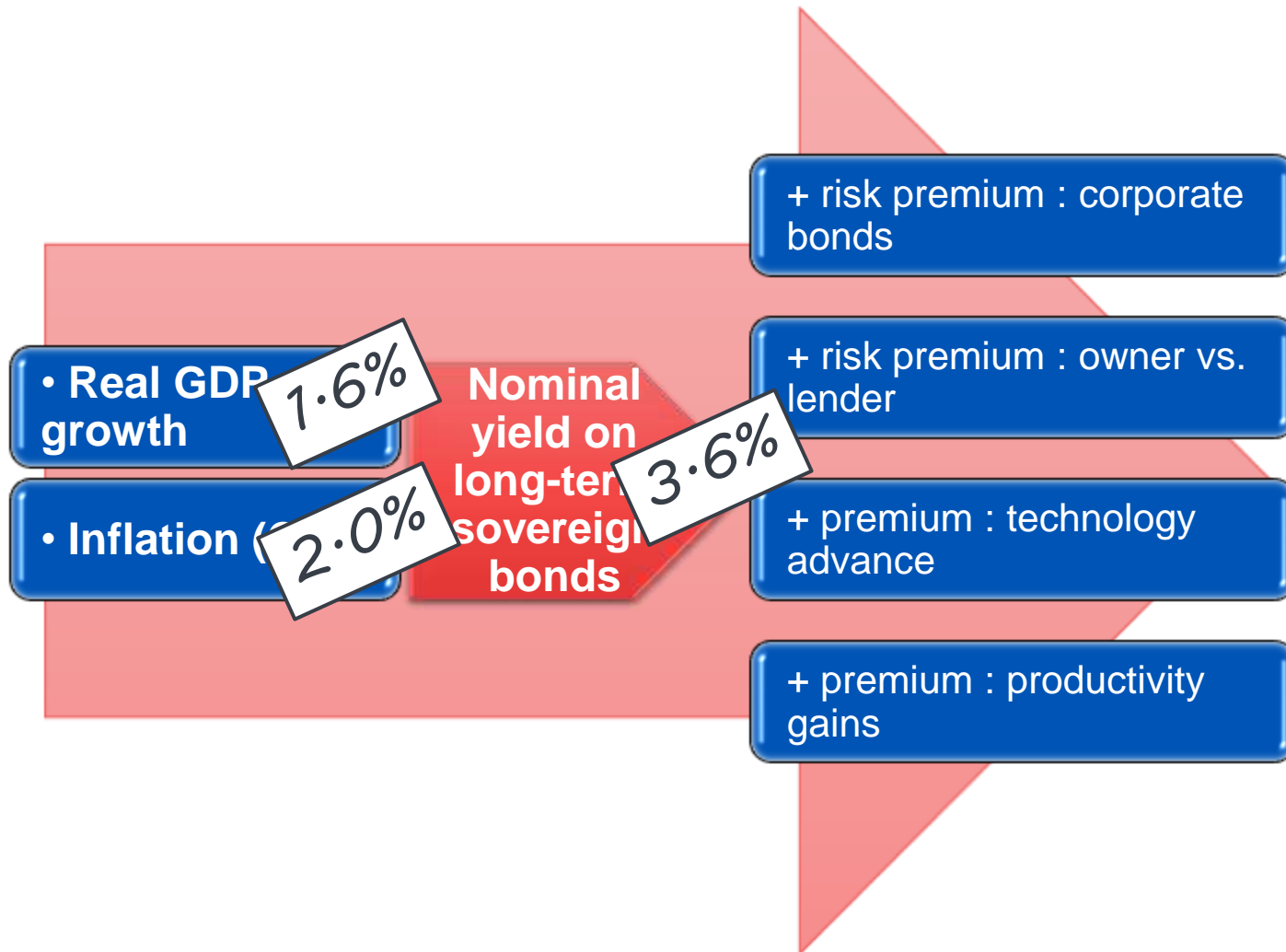


Canadian Inflation

Structurally higher than Japan



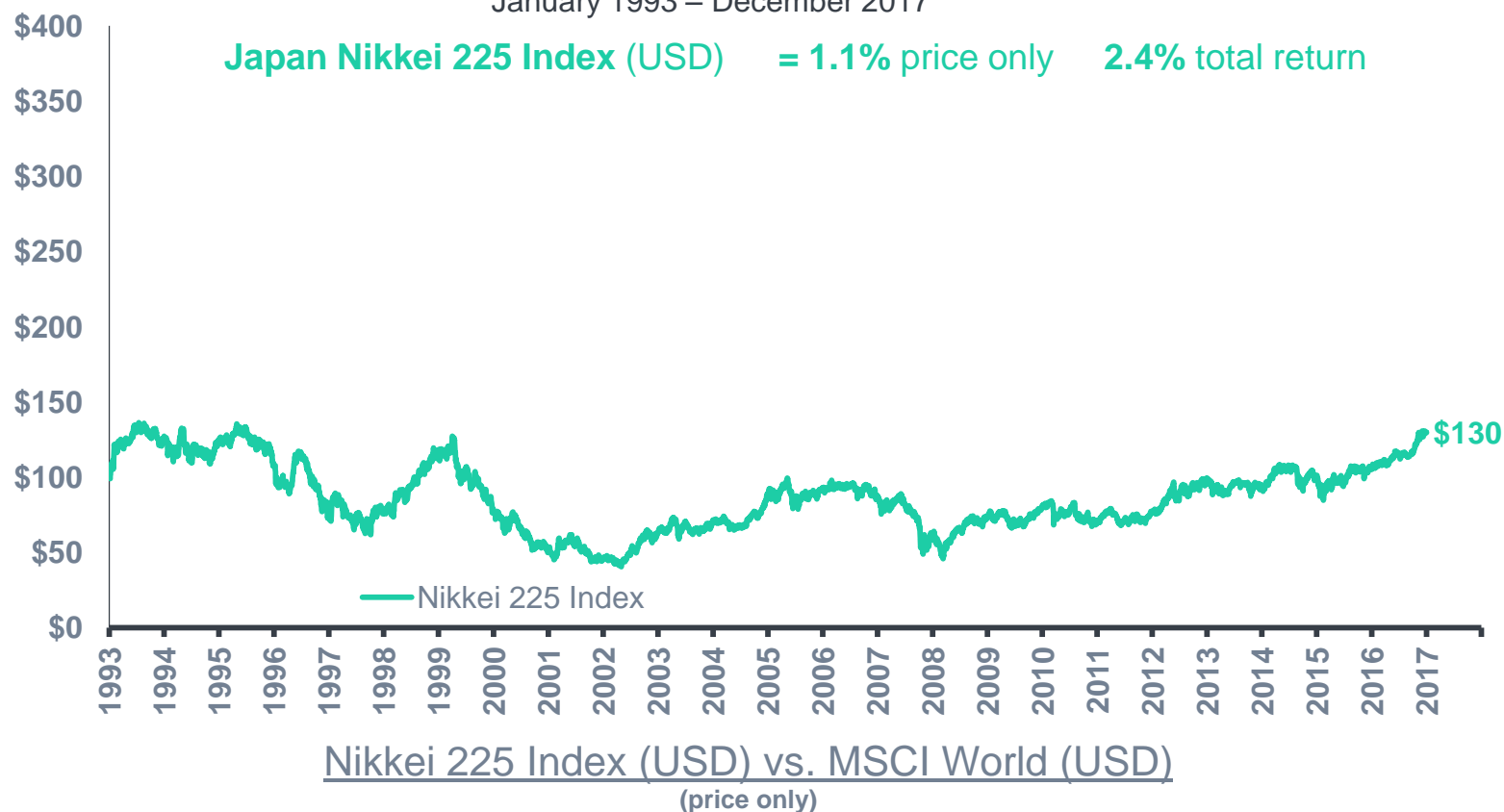
Fundamentals of Long-term Capital Market Returns



Japanese Equities

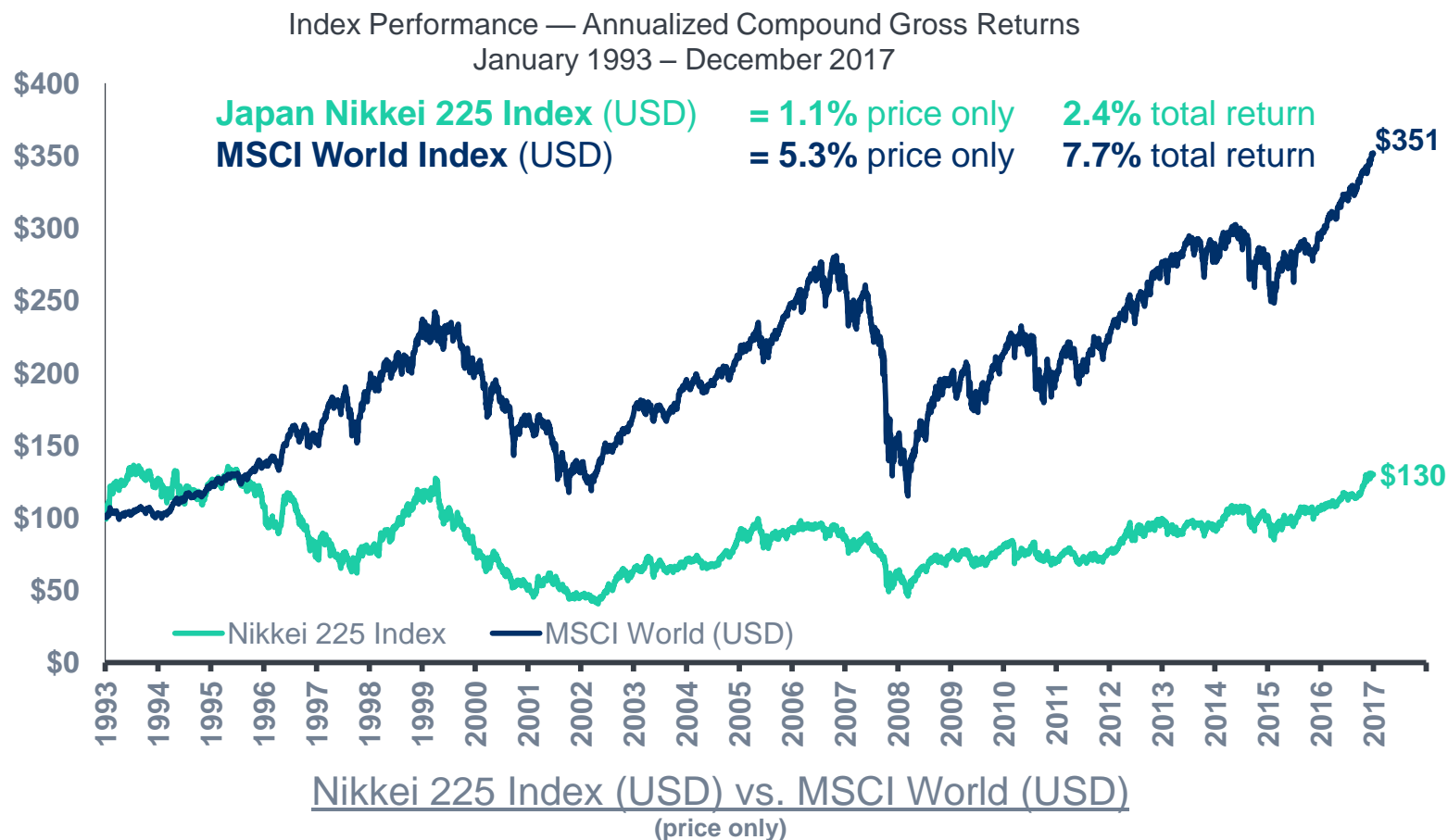
25-years of effectively no return

Index Performance — Annualized Compound Gross Returns
January 1993 – December 2017



Japanese Equities

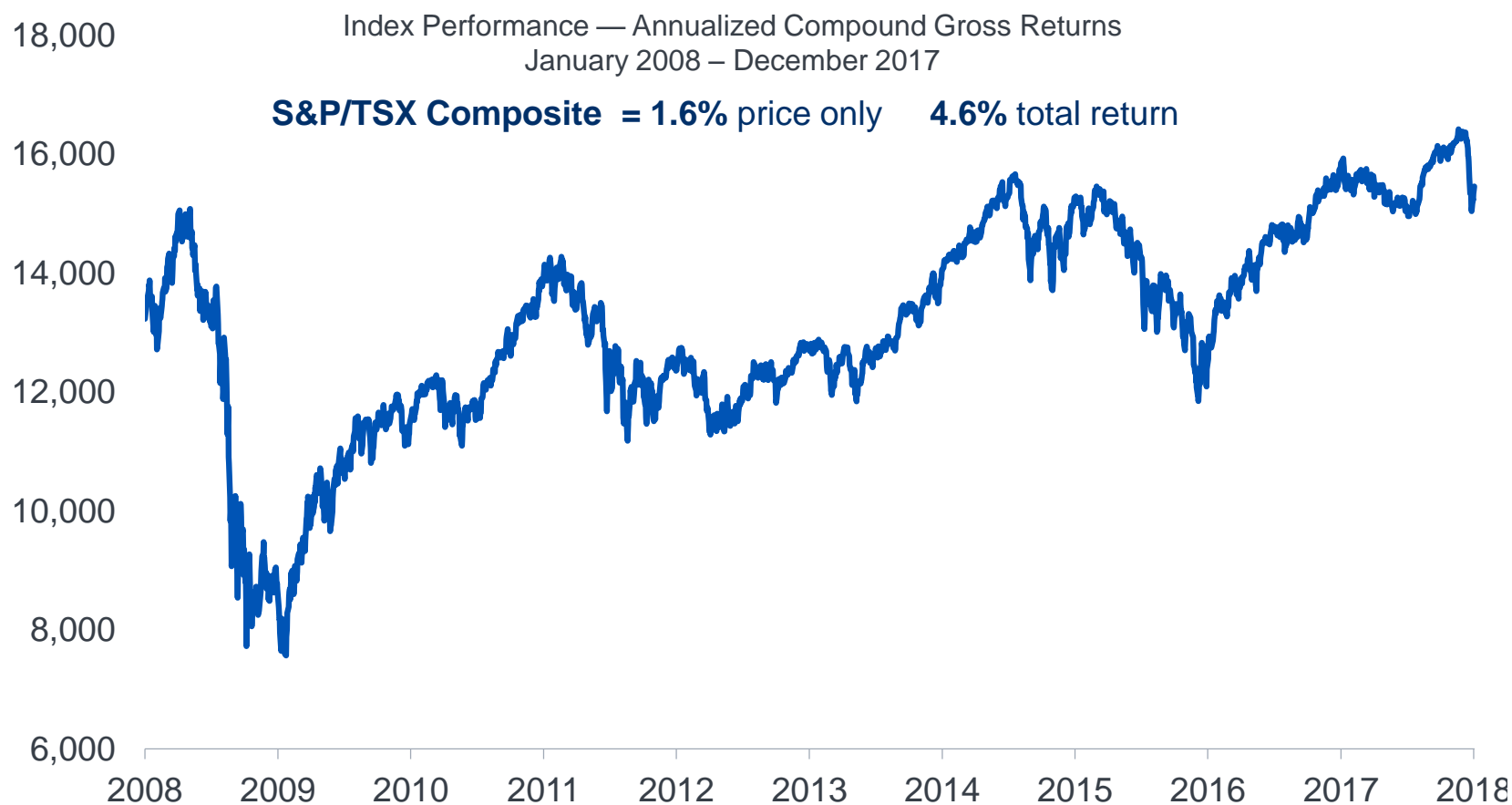
25-years of effectively no return



S&P/TSX Composite Index

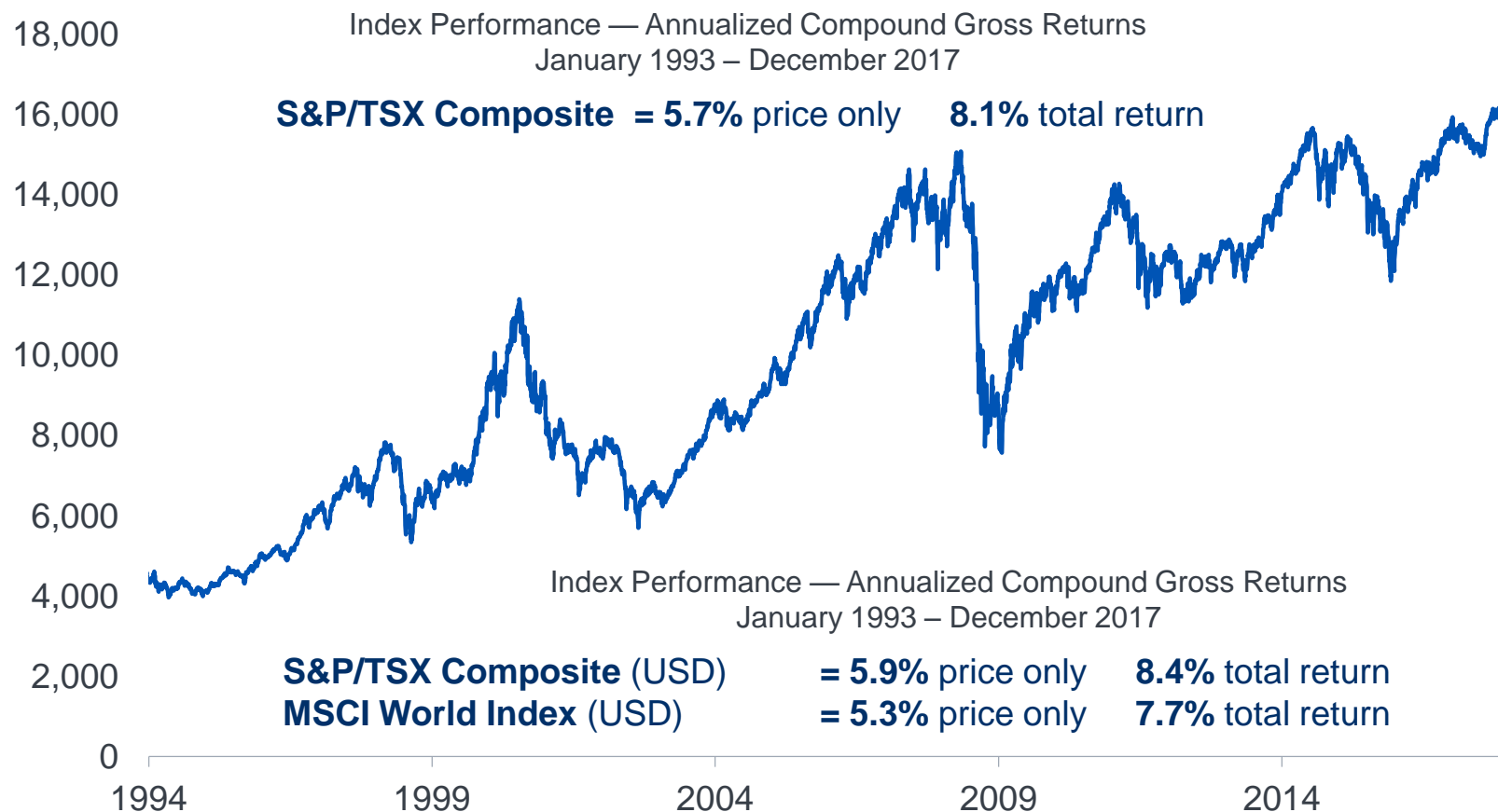
10-Years Price Only

Our own lost decade?



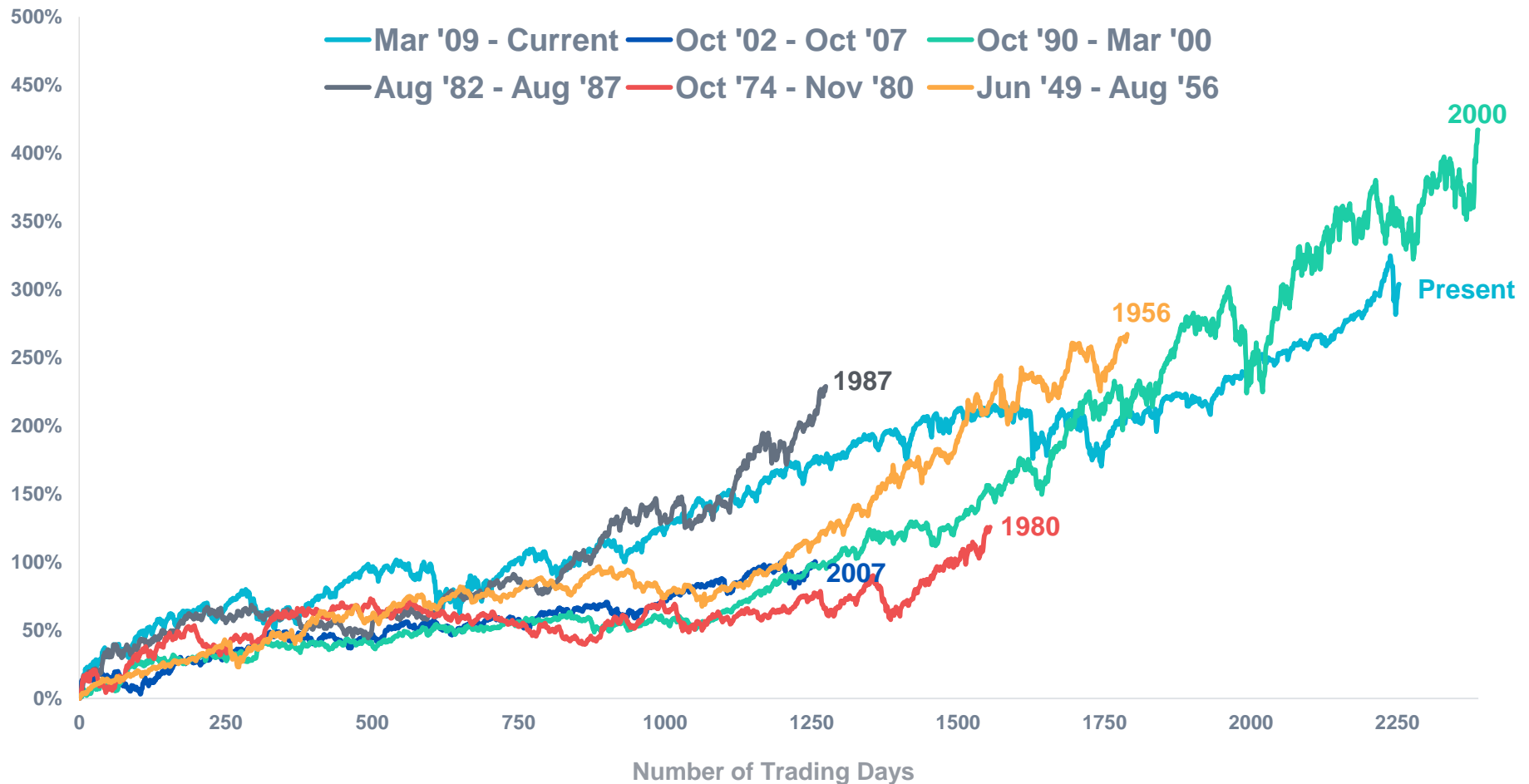
S&P/TSX Composite Index 25-Years Price Only

But not a lost ¼ century



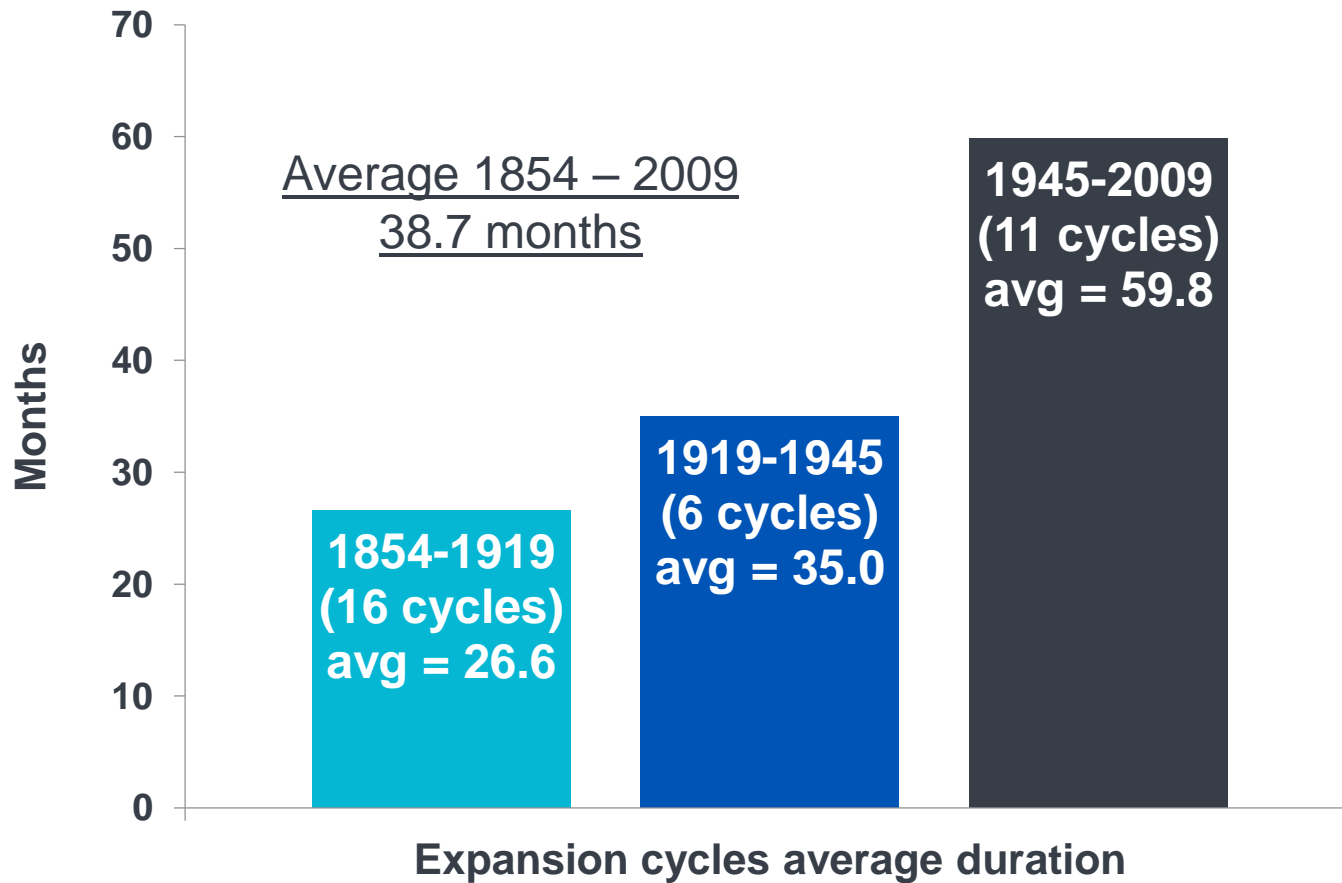
Longest S&P 500 Bull Markets Since WWII

Current 107 month old bull market is second longest on record



US Business Cycle Expansions

Does longevity matter?



Post WWII US Business Cycles

Does longevity matter?

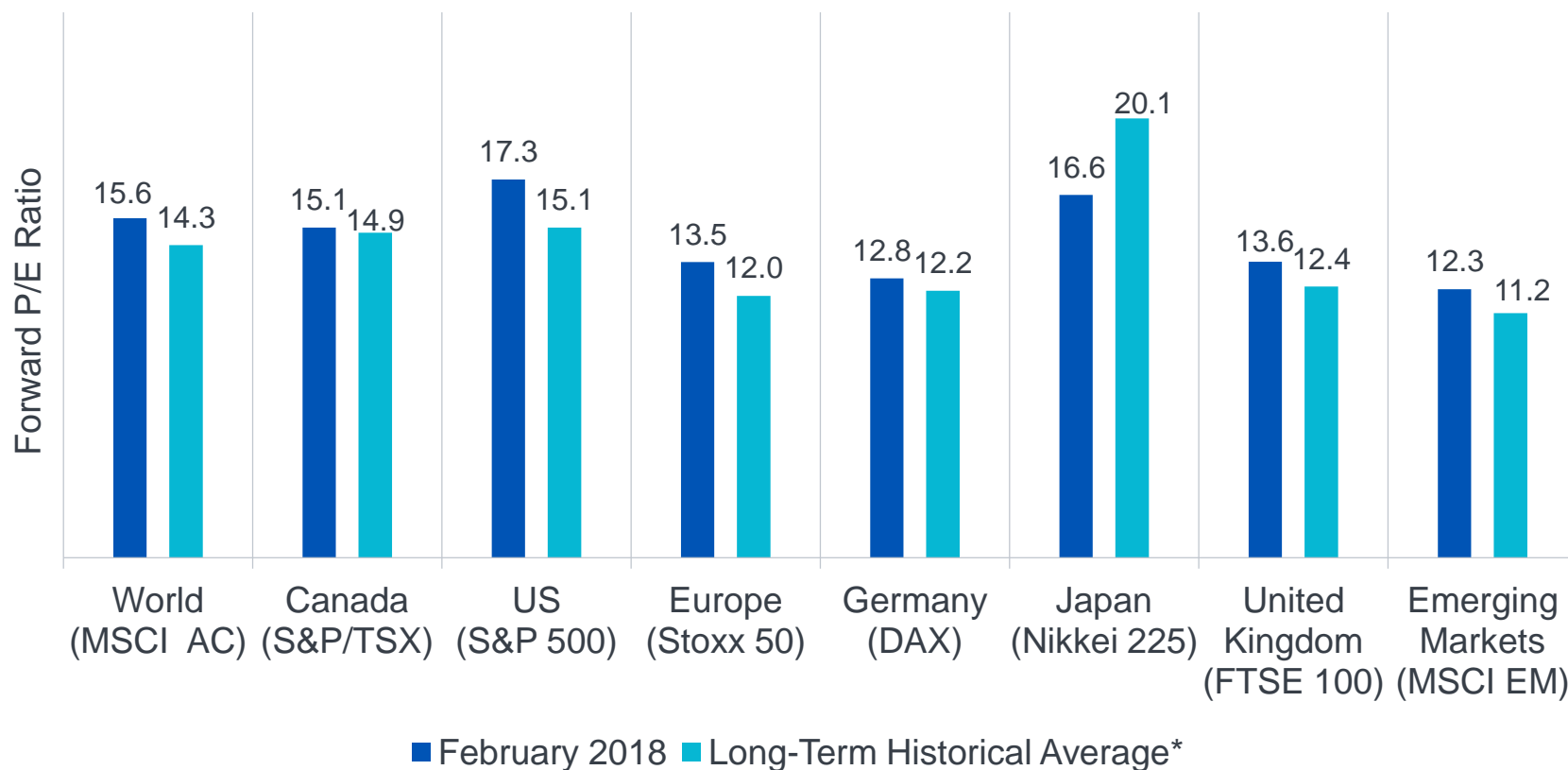
		Expansion	Contraction
		<i>Trough to Peak</i>	<i>Previous Peak to Trough</i>
Trough	Peak	Duration in Months	
October 1945	November 1948	37	8
October 1949	July 1953	45	11
May 1954	August 1957	39	10
April 1958	April 1960	24	8
February 1961	December 1969	106	10
November 1970	November 1973	36	11
March 1975	January 1980	58	16
July 1980	July 1981	12	6
November 1982	July 1990	92	16
March 1991	March 2001	120	8
November 2001	December 2007	73	8
June 2009	???	103	18

Global Equity Valuations

12-month Forward Price/Earnings Ratios

Starting point does matter

Not much is 'cheap'



*Historical Averages: S&P 500, S&P/TSX, Nikkei 225, MSCI AC 15 years; EuroStoxx 50, DAX, FTSE 100 & MSCI EM since 2005

Source: Bloomberg February 16, 2018

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Valuations and Return Expectations

Average returns for different trailing P/E levels since 1994

S&P/TSX

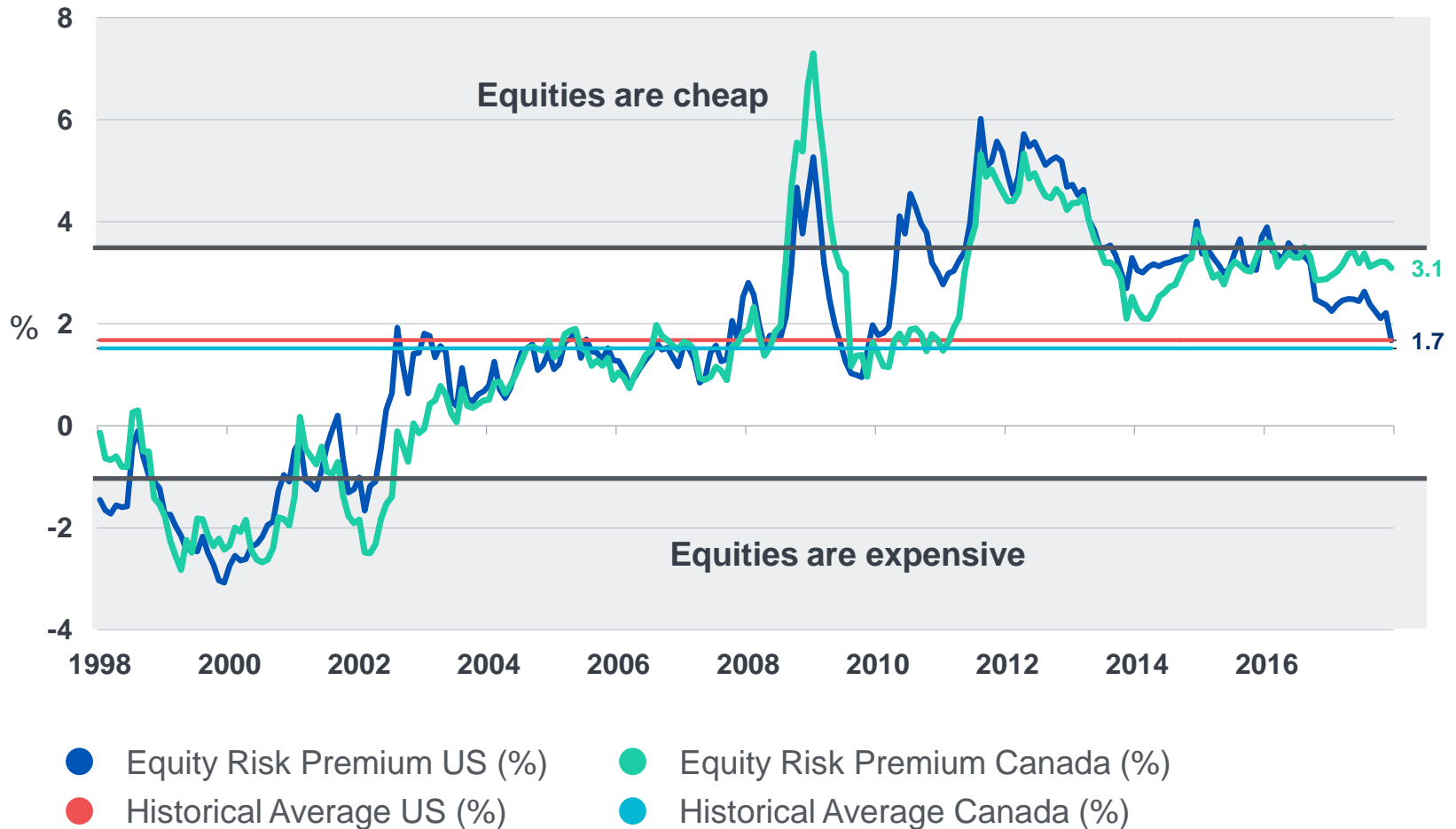
P/E level	1 yr forward return	2 yr forward return	3 yr forward return	5 yr forward return	10 yr forward return
<17	13.6%	12.5%	9.9%	7.6%	7.9%
>=17	4.5%	3.2%	3.7%	4.3%	4.3%
>=18	3.7%	3.5%	3.5%	4.8%	4.5%
>=19	4.4%	3.6%	3.5%	5.3%	4.4%
>=20	4.8%	2.3%	2.9%	5.6%	4.5%
>=21	3.5%	1.5%	1.4%	5.3%	4.2%
>=22	3.1%	-0.3%	0.8%	6.1%	3.9%

Average returns for different trailing P/E levels since 1954

S&P 500

P/E level	1 yr forward return	2 yr forward return	3 yr forward return	5 yr forward return	10 yr forward return
<17	11.6%	9.9%	9.1%	8.7%	9.2%
>=17	4.9%	4.8%	4.9%	5.0%	3.9%
>=18	5.1%	5.0%	5.3%	5.4%	4.0%
>=19	3.1%	4.4%	4.9%	5.4%	4.0%
>=20	2.1%	4.5%	4.8%	5.6%	3.9%
>=21	0.5%	2.6%	3.2%	5.3%	3.1%
>=22	0.1%	1.3%	2.0%	5.4%	2.8%

Equity Risk Premiums



Fundamentals of Long-term Capital Market Returns

3% for a diversified bond portfolio

7% for equities

5% for a 50/50 balanced portfolio

• Real GDP growth

1.6%

• Inflation (CPI)

2.0%

Nominal yield on long-term sovereign bonds

3.6%

+ risk premium : corporate bonds

5.1%

+ risk premium : owner vs. lender

5.6%

+ premium : technology advance

7.1%

+ premium : productivity gains

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