Davidson Professional Wealth Management

of RBC Dominion Securities

Your Money, Well Managed

Winter Market Commentary

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Market Recap

The past quarter was generally positive for equity investors. The US and Canadian equity markets benefited from the view that newly crowned President Trump would pursue his platform of increased spending to stimulate economic growth. His trade protectionist rhetoric weighed heavily however on many emerging market economies, sending both their currencies and equity markets into a spiral once elections results were clear.

Interest rates, particularly in the US, surged higher as inflation expectations were recalibrated. The US 10 year treasury yield jumped from 1.37% in mid July to 2.45% in the weeks following Mr. Trump's election victory. Conservative fixed income investors saw their bonds decline in value as interest rates and bond prices are inversely correlated.

While the election has removed one element of uncertainty it has replaced it with several others. Mr. Trump's election campaign was not a traditional one and so it remains to be seen what form his policies will take. Furthermore through his preferred method of communication via Twitter he has put a number of companies in the crosshairs, changing the dynamic between the government and corporate America.

We are well positioned for the current market volatility and continue to focus on good quality companies that have a strong commitment to shareholders. As such we continue to favour dividend paying and growing equities and tactical management of cash levels.

Clients within our Private Investment Management program (PIM) and Third Party Pension Management program should receive their quarterly update and personalized portfolio reports within the next few days.

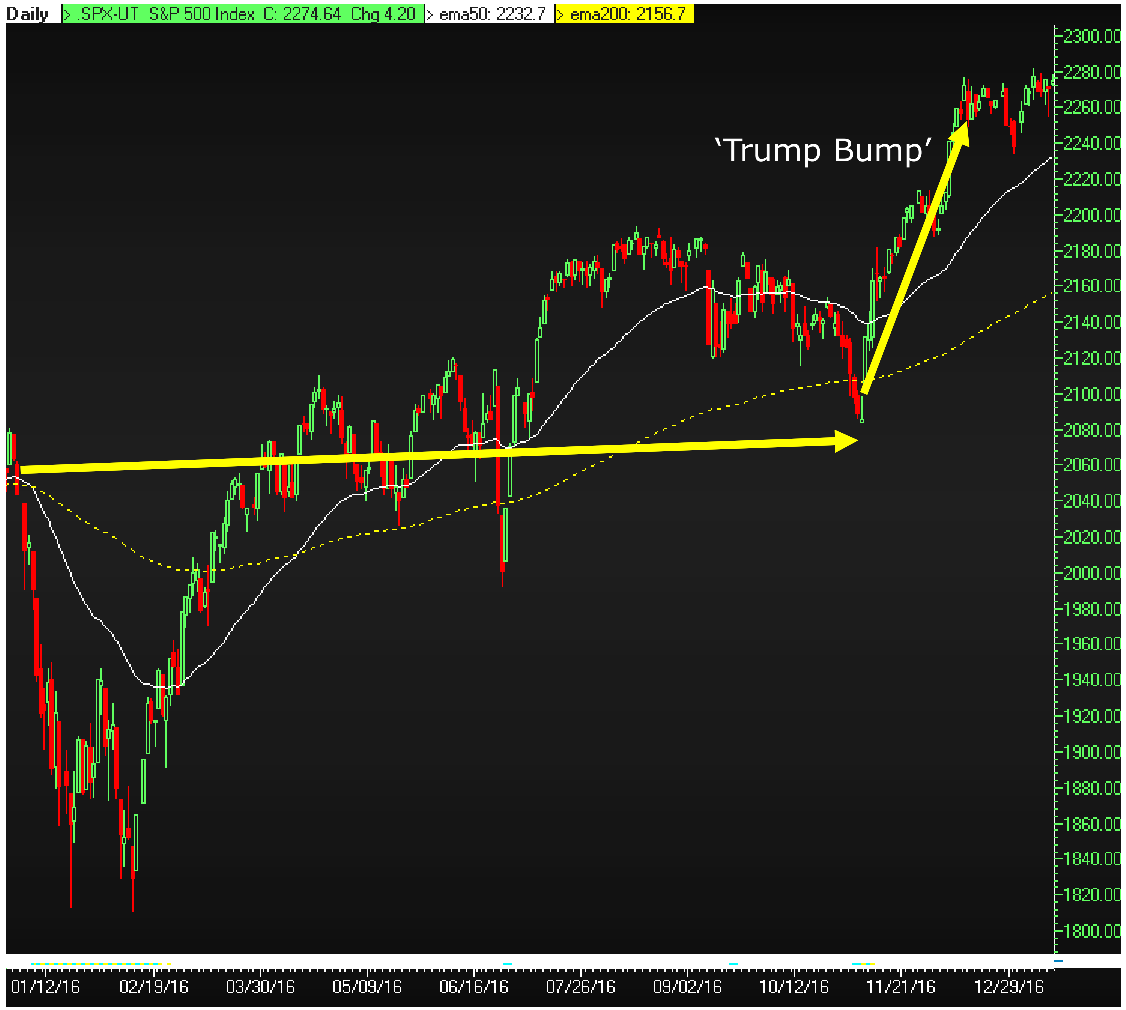
The Trump Effect-Surprise rally in North American equities

- The US equity markets were basically treading water up to the week before the election on November 8th after recovering from January's selloff

- Once election week hit equity markets in the US and Canada surged higher on the so called 'Trump Bump' as illustrated at right with the S&P 500 chart for 2016

- This ended a 2 year period of consolidation in US equities that started back in late 2014 as the major US market indices have moved on to all time highs

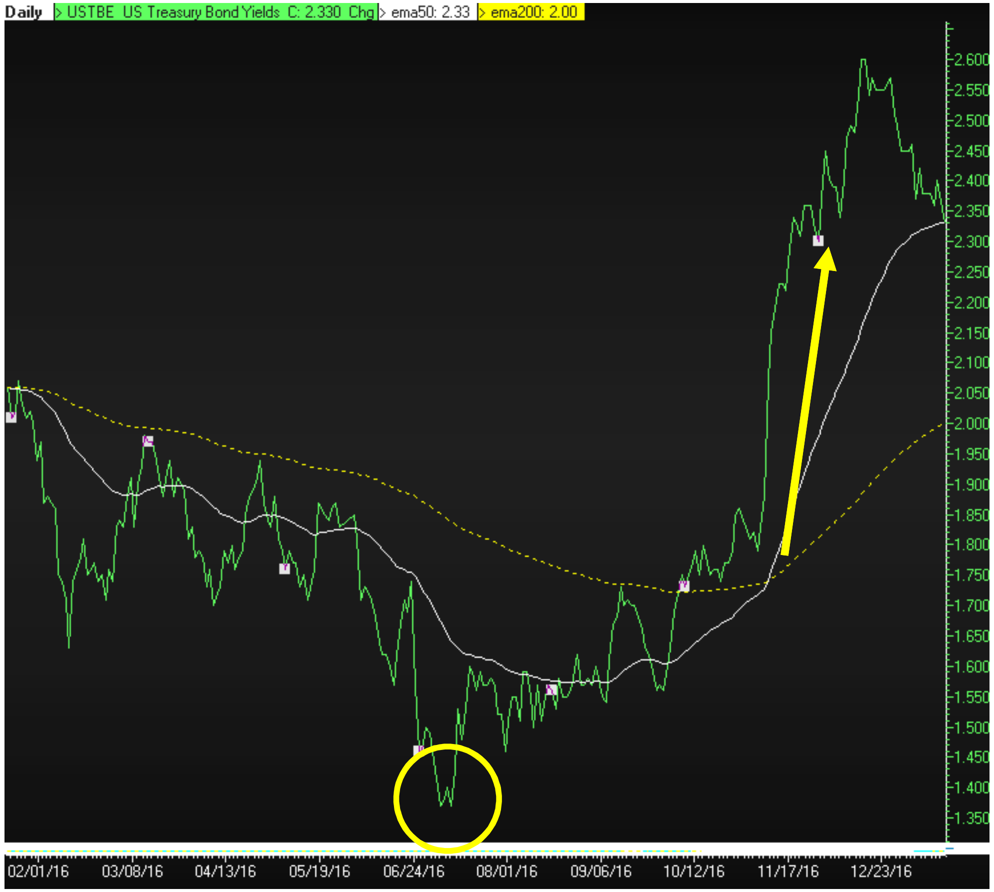
- Investors are now wondering whether the recent breakout is real or if the Trump effect will subside and lead markets back down to their previous range



Source: Thomson Reuters

Interest rates- The US 10 Year yield spikes

- The yield on the 10 year US treasury note reached an all time low earlier this year, closing below 1.40% for the first time on record
- This reflected investor pessimism about future economic growth prospects as well as a benign outlook for inflation
- More positive economic sentiment began to pick up through the summer and early fall sending yields higher
- Once the election results were in yields spiked sharply on the assumption that president Trump's proposed spending would stimulate economic growth and inflation would follow



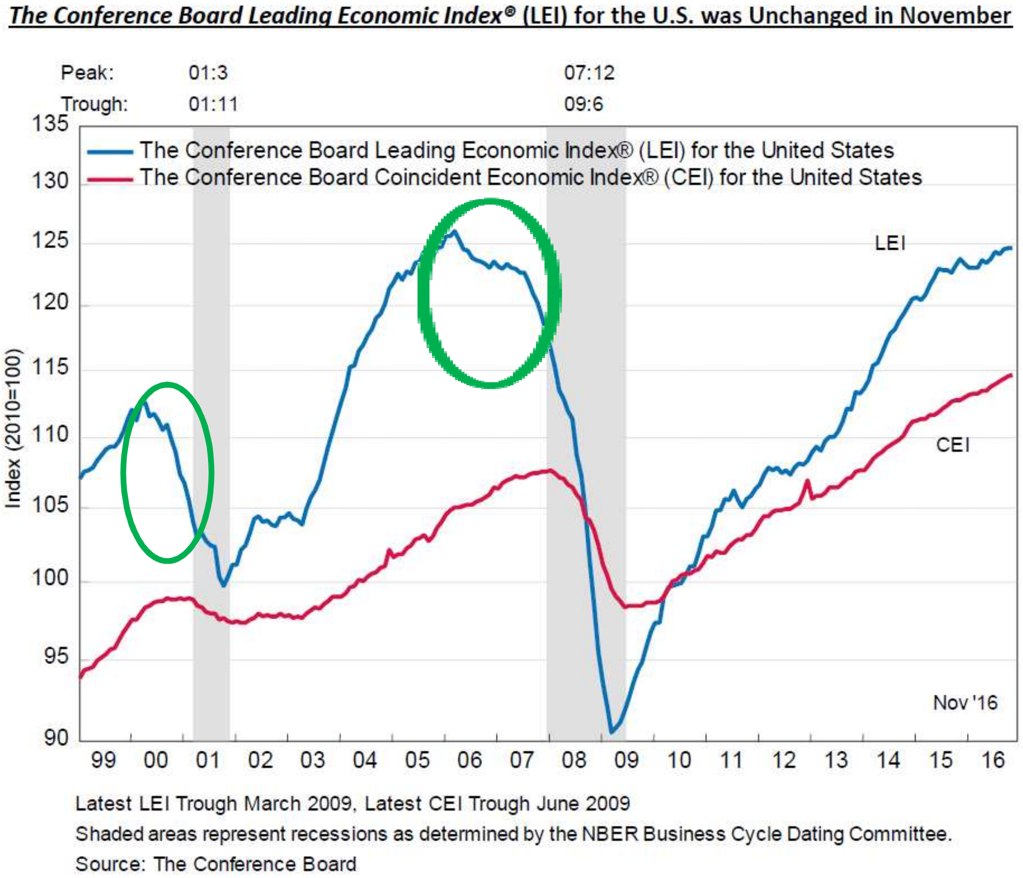
Source: Thomson Reuters

Leading Economic Indicators

•Indicators can be used to gauge various factors of economic growth. They can be broadly allocated to three separate categories: Leading, Coincident and Lagging. We are particularly focused on the Leading indicators as they are useful to anticipate the future trajectory of the economy.

•The Leading Economic Index turned down well in advance of both the 2001 recession as well as the 2008 recession. As a result we pay very close attention to this monthly release.

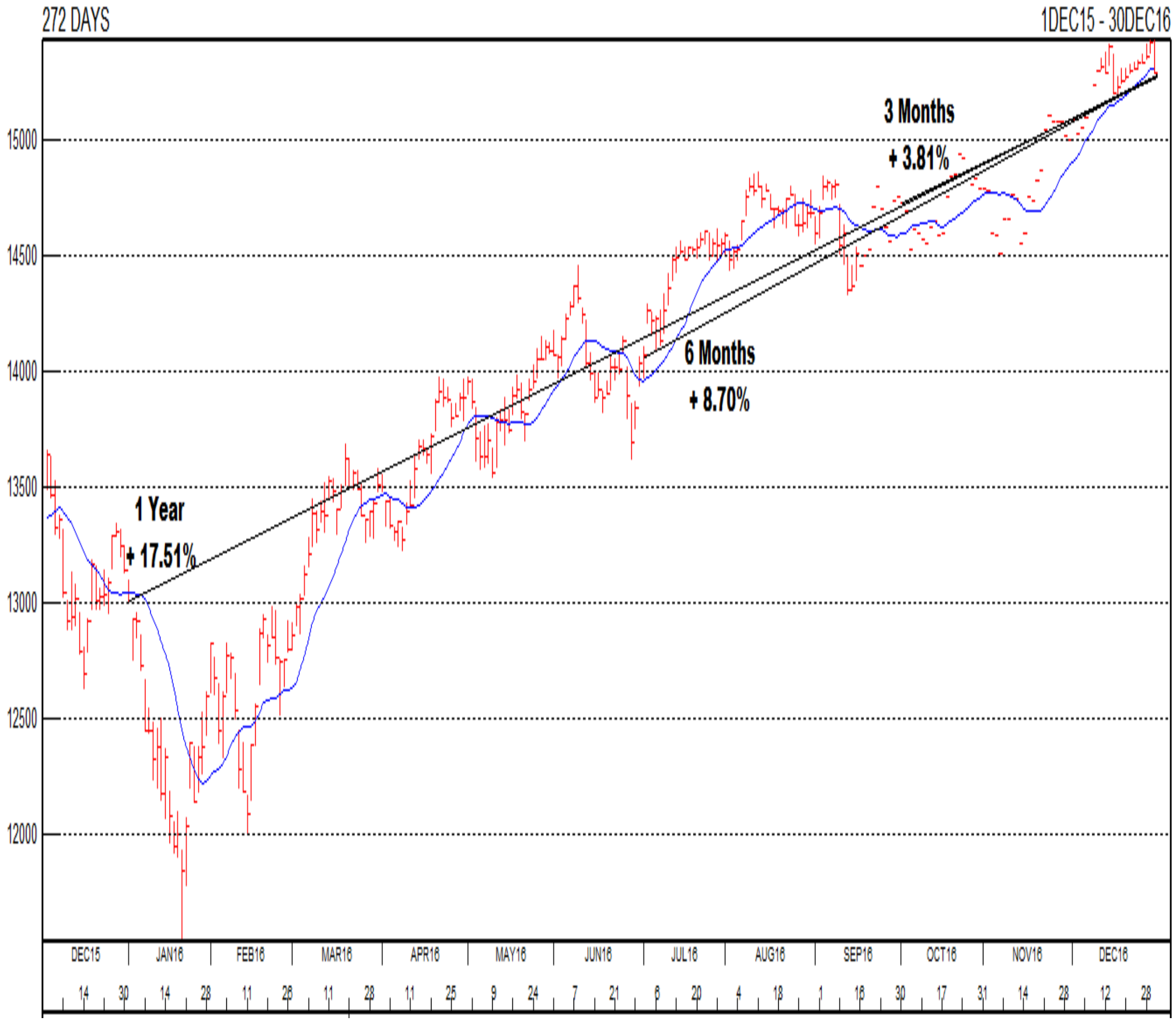
•Currently the LEI remains positively sloped and so expectations remain positive for economic growth. It does not forecast market corrections but can help us to determine the difference between a short term pullback and outright recession



Source: The Conference Board

TSX Performance: Annual, YTD & 3 Months

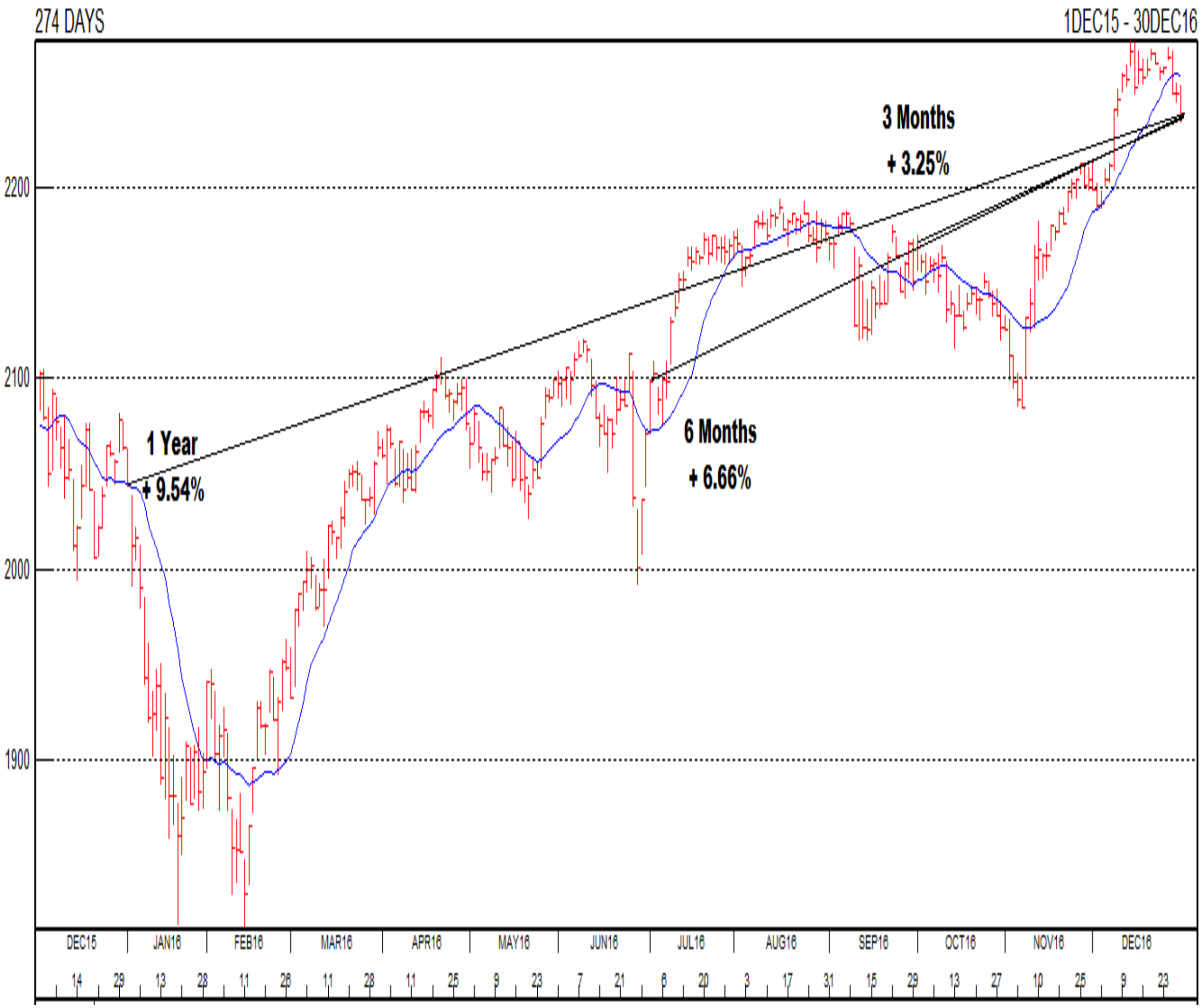
- The final three months capped off a strong year in Canadian equities
- Few investors would have forecasted a double digit return year in January when many headlines were suggesting a return to the levels of the great recession
- The positive experience was shared across most sectors but the cyclicals benefitted most, propelled by President Trump's pro growth message
- By year end the TSX was within a few percentage points of its all time high established back in 2014



Data Source: Trend & Cycle

S&P Performance: Annual, YTD & 3 Months

- The US equity market experienced a strong post election rally
- Prior to the election the US market was only marginally positive, having endured a weak start to 2016
- As results began rolling in on election night the futures market turned decidedly negative, foreshadowing a pessimistic view of a Trump Presidency
- By the time the market opened the following day sentiment had improved and the equities embarked on a strong rally to year end



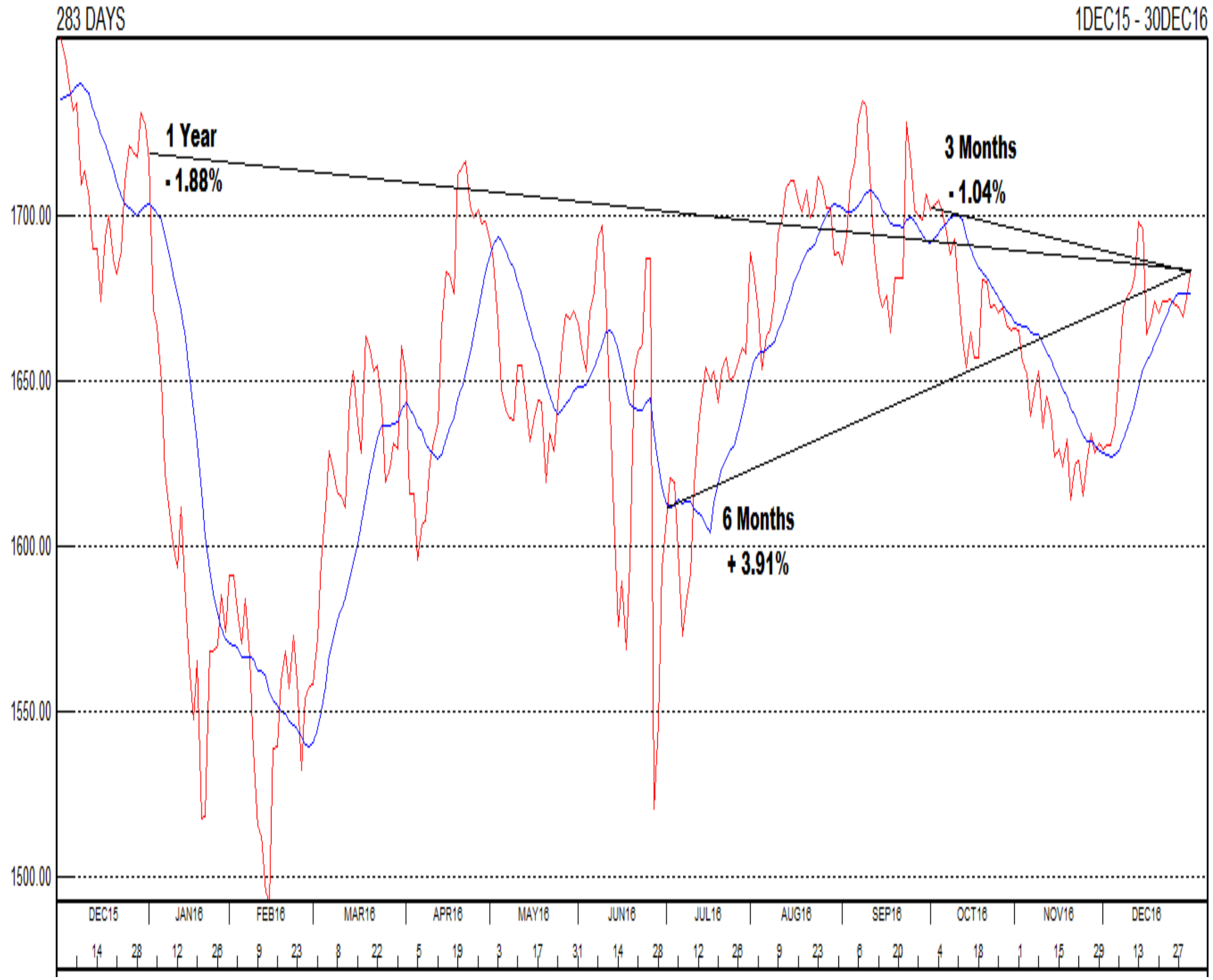
Data Source: Trend & Cycle

EAFE Performance: Annual, 6 & 3 Months

- International equity markets came under pressure post election as President Trumps comments on trade and tariffs weighed on investor sentiment overseas

- The UK continues to work through their post Brexit travails although President Trump has appeared eager to partner with them

- The EAFE markets have been chronic underperformers over the past few years as pessimism over growth, trade and EU breakup and migration keeps valuations at low levels



Data Source: Trend & Cycle

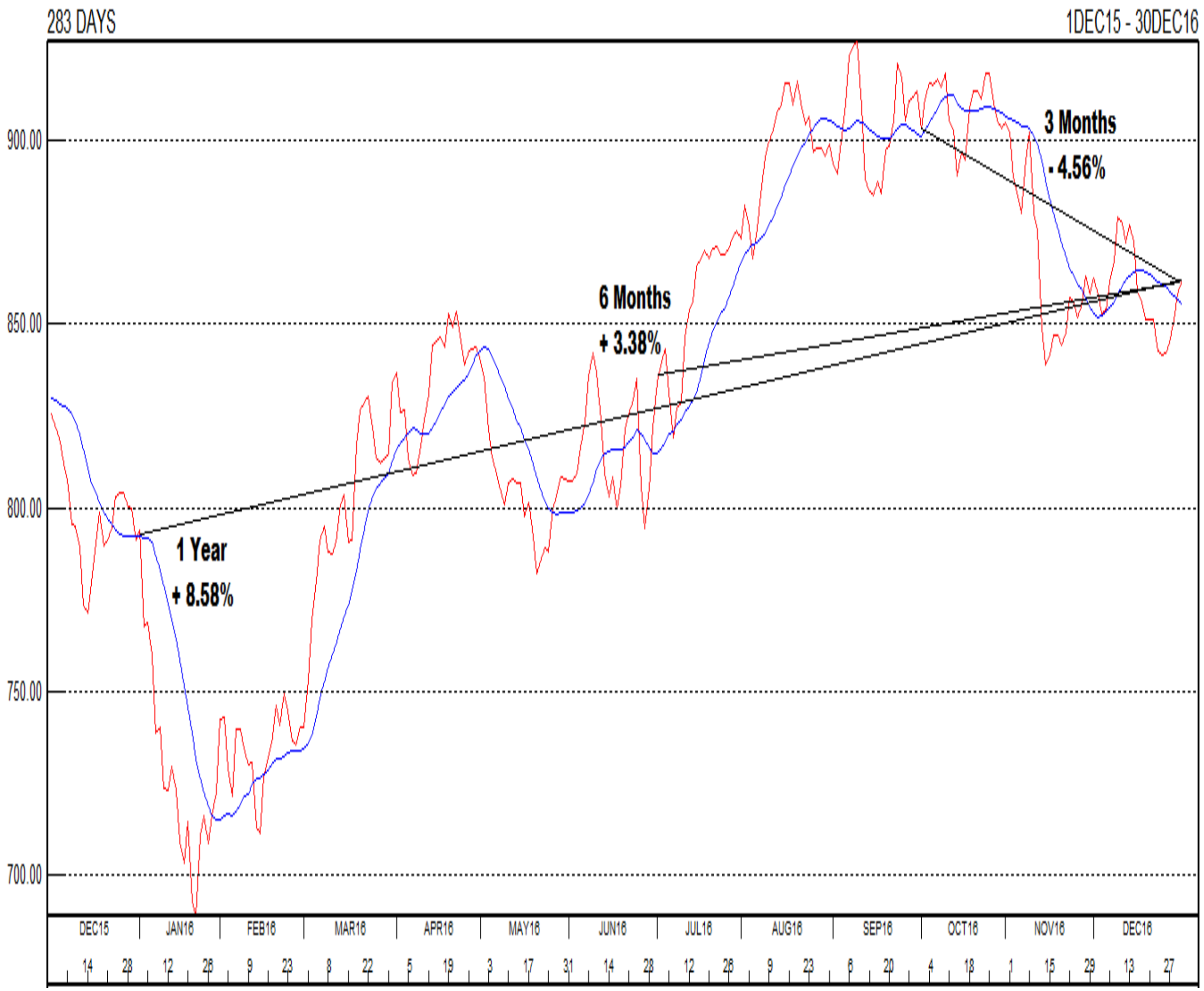
EAFE = Europe, Australasia, and Far East Developed Markets

Emerging Markets Performance: Annual, YTD & 3 Months

- Emerging markets had a positive year overall but the election took some of the lustre off in the last three months

- Many emerging market equities and their currencies came under pressure post election as fears of US trade protectionism came to the forefront

- Mexican equities in particular felt the pain as the incoming president promoted his 'Made in America' agenda



Data Source: Trend & Cycle