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WORLDSOURCE FINANCIAL MANAGEMENT INC.
MUTUAL FUND DEALER

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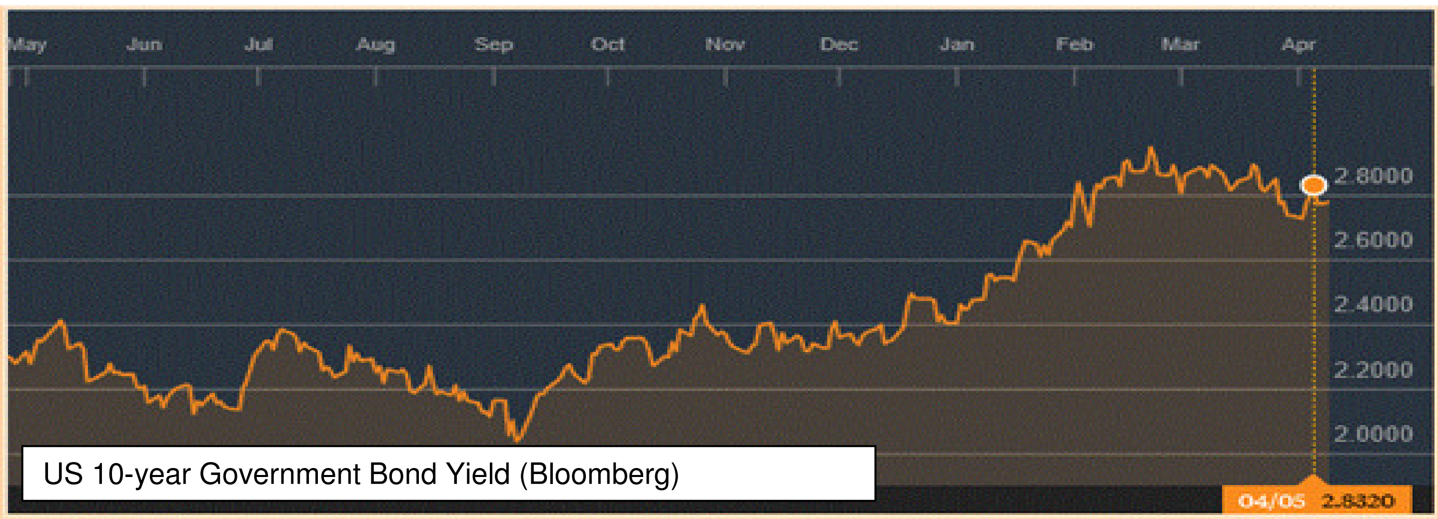
In This Issue: Interest Rate Outlook and Investment Market Commentary

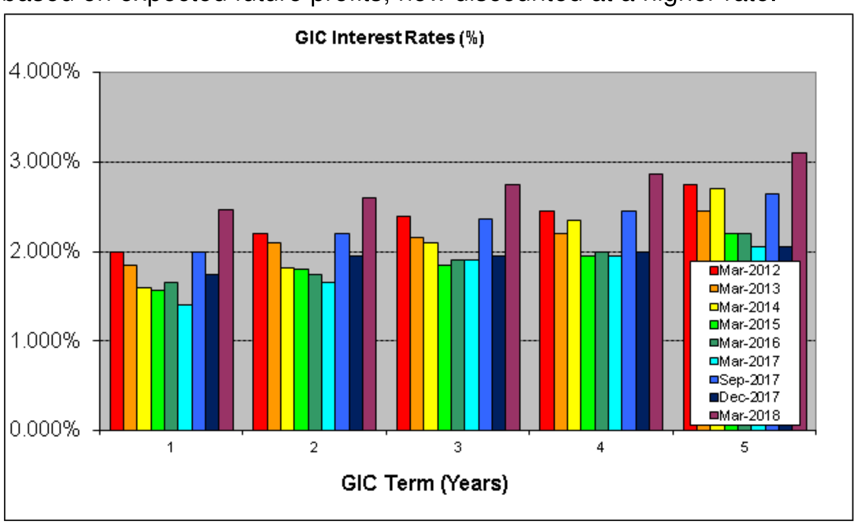
Interest Rate Outlook

The US Federal Reserve hiked its overnight interest rate 3 times in 2017, by 0.25% each time, with the last change coming in December. It was widely expected that we would see 3 or even 4 more such increases in 2018, and the first one came in late March on continued job creation amid low unemployment and a slight increase in expected inflation as a result. Note also that the longer end of the yield curve also saw increases in the quarter, with the 10 year US government bond yield peaking at almost 3% in late February, up from a 2017 average under 2.4%.



US 10-year Government Bond Yield (Bloomberg)

This change in yields is expected to move mortgage and GIC rates higher, and perhaps contributed to recent declines in asset prices, especially stocks, whose value is based on expected future profits, now discounted at a higher rate.



The Bank of Canada (BoC), in contrast, held firm on its overnight rate so far this year, not yet confident that job creation is reliable enough and wanting to keep the monetary stimulus of low rates in place.

It is expected the BoC will eventually follow the Fed by hiking its overnight rate, but is not expected to hike by as much during the year.

GIC rates did respond to the rising bond yields across all terms, with the 5-year rate over 3% for the first time since 2011. (GIC rates per Cannex.)

Investment Market Commentary

2018 started with a surge in US and international stock prices, which then reverted to a correction: a 10% drop in market value from its peak. After a bit of recovery in February, markets sold off again in March and have started April weakly as well. The volatility we've seen so far this year is not unusual. In fact, it's a return to normal volatility after a 2017 that saw much lower volatility than the historical average. US stocks finished the quarter holding onto a 2% gain for the year, while international equities were up 1.2% for the year. Canada was the loser again with a loss of 4.5% for the quarter after lagging the other markets in 2017.

On any given day, we could point to a number of factors which may have moved markets higher or lower, and usually it would be a combination of factors. But it seems that much of the volatility of the past couple of months has followed on the heels of some announcement on trade issues. Much of the rhetoric has been from US President Trump on both the ongoing NAFTA negotiations, as well as his surprise announcement of import duties on steel and aluminum entering the USA, a move some fear could lead to a trade war.

What's a trade war anyway? It's what results when countries put up obstacles to each other's main exports, thereby causing both to suffer a loss of trade revenue. If that's the definition, then the war may already be on, with a Chinese response to the US steel and aluminum tariffs targeting the same number of dollars in trade, but focused on US products largely produced in regions that were strong Republican voters. Few analysts would argue that restricted trade is in any country's best interest, so we may expect that these volleys are just part of a negotiation playing out in the media, and that rational agreements will follow in due course.

Earnings season gets underway in the US toward the end of April as major companies report on 1st quarter sales and profits, and provide guidance on their expectations for the future, including the impact of the tax reform just completed at the New Year. This will likely be a welcome return to evaluating stock prices based on actual data rather than the recent seesaw of market prices due to trade deal rhetoric.

The Facebook data-sharing 'scandal' began to break in the last week of March. The technology sector had been a major contributor to the US market's strong growth in 2017, including social media companies like Facebook, Google (Alphabet), and online retailer Amazon. The entire sector took a hit in the final week of the quarter as analysts tried to extrapolate the likely responses to the data security issue.

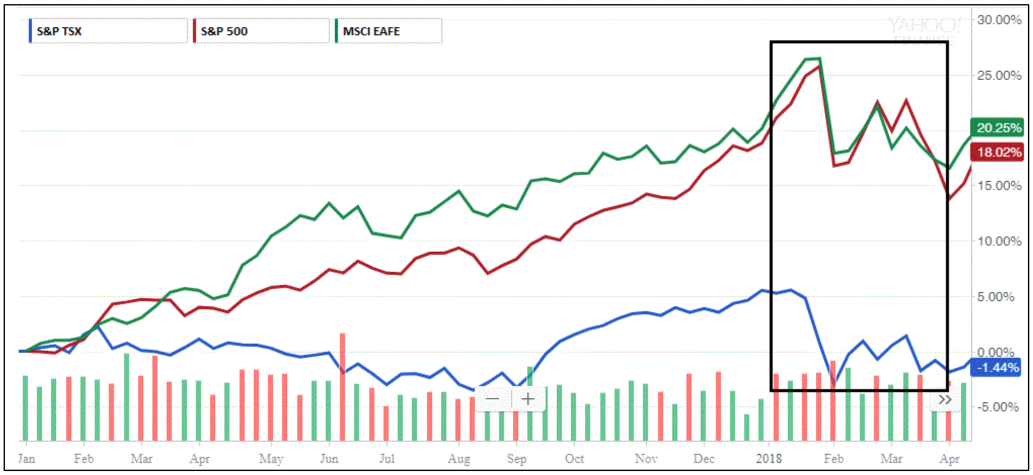
In other technology news, an Uber test vehicle in auto-driving mode struck and killed a pedestrian in the first ever case of a computer program that could be charged with manslaughter. The sponsor immediately suspended further testing of the autonomous driving system on public roadways, and other companies also developing similar systems quickly followed suit. No doubt all are closely watching what happens in this case and what that may mean to their possible liability in any future deaths.

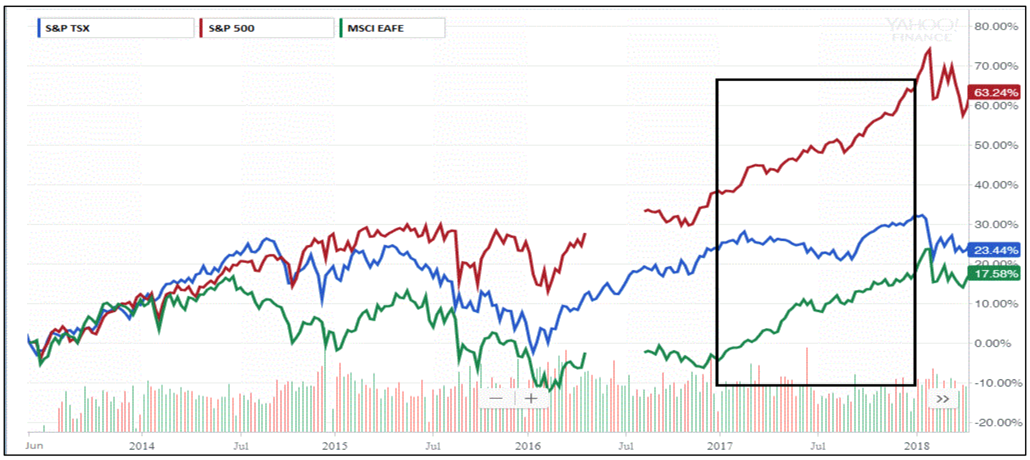
The economic outlook in both the US and international markets looks positive overall. US employment surged in February by over 300,000 positions, and in March added another 100,000, with unemployment generally unchanged at a historic low of 4.1%. Even in Canada unemployment is back down to the lowest level since the measures began in 1976: a loss of part time jobs in January had interrupted the job creation machine here, but February added 15,000 positions, and March saw a net gain of over 30,000 jobs, most of them full-time.

Both central banks are watching for signs of wage inflation as a result of low unemployment numbers. Inflation in general has been inching upward recently, and is now above the 2% target on both sides of the border. Rising inflation can encourage central banks to raise their overnight lending rates, and may cause bond investors to bid less for longer-term bonds to increase the yield to cover expected inflation.

The expected gentle rise in interest rates should cool economic growth through higher borrowing costs, and may result in a downward re-pricing of income-producing assets such as income trusts, utilities and other mature industries.

Benchmark Returns





The graphs at left show the price values of three different equity indices over the past 1 year (with 2018Q1 in the box) and 5 years (with 2017 in the box) periods.

The S&P TSX (Canada) is in blue, S&P500 (USA) is in red, and the MSCI EAFE (International) in green. US and international are shown in US dollars.

Canada had lagged through most of 2017, and missed the January surge of the other two benchmarks, but was still caught in the drawdown at the end of January.

The table below shows the cumulative return of these and several other benchmarks in Canadian Dollars and includes reinvested dividends.

Source: Yahoo Finance

Canadian Dollar ($US/$CA)	*-0.65%*	*-2.70%*	*3.23%*	*0.30%*	*-0.55%*	*-3.78%*	*-4.66%*	*-2.24%*	*0.87%*	*0.47%*	*-0.10%*
Returns to 2018Mar31 in $CAD	**1M**	**3M**	**1Y**	**2Y**	**3Y**	**4Y**	**5Y**	**10Y**	**15Y**	**20Y**	**25Y%**
Canada											
Canadian Fixed Income ($CA)											
91-day Tbills	0.11%	3.00%	0.76%	0.62%	0.58%	0.67%	0.74%	0.92%	-	-	-
FTSE TMX Short Term Bond	0.16%	0.22%	-0.37%	0.45%	0.67%	1.47%	1.56%	2.85%	-	-	-
FTSE TMX Universe	0.75%	0.10%	1.36%	1.43%	1.21%	3.40%	2.89%	4.37%	-	-	-
FTSE TMX High Yield	0.66%	1.47%	8.10%	13.68%	7.41%	5.50%	5.95%	7.23%	-	-	-
Major Canadian Indices ($CA)											
S&P/TSX Composite	-0.16%	-4.52%	1.71%	9.84%	4.07%	4.78%	6.93%	4.47%	8.95%	6.12%	8.50%
S&P/TSX SmallCap	-1.24%	-7.73%	-6.57%	9.99%	4.49%	0.73%	3.51%	1.99%	5.50%	-	-
S&P/TSX Composite Dividend	-0.06%	-4.68%	1.51%	10.09%	5.69%	5.79%	7.75%	-	-	-	-
U.S.											
Major U.S. Indices - S&P ($CA)											
S&P 500 (LargeCap)	-1.90%	1.99%	10.42%	15.23%	11.39%	15.63%	18.84%	12.00%	9.15%	5.96%	9.58%
Russell 2000 (Small Cap)	1.96%	2.69%	8.29%	18.43%	8.98%	12.59%	16.92%	12.36%	10.53%	6.87%	9.46%
International & Other											
World (Net)	-1.54%	1.46%	10.03%	13.84%	8.56%	11.70%	15.07%	8.33%	8.20%	4.74%	7.51%
EAFE (Net)	-1.16%	1.20%	11.20%	12.89%	6.14%	7.97%	11.70%	5.09%	7.67%	3.96%	6.00%
EM (Emerging Markets)	-1.19%	4.28%	21.44%	21.09%	9.81%	11.24%	10.52%	5.73%	12.27%	7.34%	7.92%

Source: Guardian Capital Advisors

What's in a Benchmark?

A market benchmark is an index that tracks the performance of some stock or bond market, or sector thereof. These may serve as a guide to both the overall health of that particular market or sector over some time period, and to what a reasonable return on investment was in that market sector over that time period.

The media also refer to such benchmarks when they report on daily market performance. For the US stock market, the Dow Jones Industrial Average (DJIA or Dow) is the most commonly quoted index. However, we believe the S&P500 is a better indicator of the broader US market. Why? It all comes down to what the rules are for which stocks are included in the value of the index and how the returns of those stocks are weighted.

The value of the DJIA is based on the share prices of 30 North American blue chip stocks selected by the editors of The Wall Street Journal, whose parent company is Dow Jones & Co. Despite the name "Industrial," stocks in this index are from all the major sectors except utilities and transportation. They include household names such as Johnson & Johnson, Coca Cola and McDonald's. The index purports to represent the health of the broad US stock market, but has 3 shortcomings. First, it ignores 2 significant economic sectors. Second, the index is an average of the share prices of its components, so it over-represents price movements in companies with high prices per share. Finally, criteria on which stocks to replace and when are rather vague.

In contrast, the S&P500 is an index based on the stocks of 500 large publicly traded American stocks. The stocks in this index are from all sectors of the economy and are selected by a committee at S&P, which is owned by McGraw Hill Financial. The rules on which companies remain in the index are quite clear: stocks must have a market cap of $5.3 billion or more, have a public float of at least 50%, have positive earnings for the most recent four quarters and have adequate liquidity as measured by price and volume. Stocks in the S&P 500 are weighted by their market value rather than their stock prices, so price moves in larger companies have a greater impact on the index than smaller firms that happen to have higher share prices. Because this index contains a larger sample of stocks, covers all economic sectors, and is weighted based on capitalization rather than share-price, we believe it better represents the overall capital markets in the US than the Dow.

Since one of the goals of portfolio design is to diversify across markets and sectors, it is unlikely that any one index could serve as an appropriate benchmark against which to compare the performance of your own portfolio. More likely, a suitable benchmark would be the weighted-average return of several different stock and bond market indices, using a similar asset allocation to the target allocation of your own portfolio. For example, below are three different model benchmark portfolios and their performance. Generally, higher equity weights are expected to produce higher long term returns, but with more volatility in the short term.

Portfolio	% Equity	3mo Return	1yr Return	3yr Return	5yr Return	10yr Return
Conservative	40%	-0.57%	2.00%	1.80%	4.59%	3.29%
Balanced	60%	-0.56%	3.86%	3.47%	6.63%	4.18%
Growth	80%	-0.57%	5.30%	4.80%	8.38%	4.83%

Source: Portfolio Benchmark Calculation, Page and Associates – Worldsource Financial Management Inc.
Please see further details at www.askpage.com/index_files/documents/Index_Benchmark_2018Mar31.pdf

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