Steve Stavridis
Senior Vice-President,
Senior Investment Advisor

T:416.867.6084
F: 416.947.8210
TF: 1.800.382.9280
Steve.Stavridis@canaccord.com

Drew Sutherland
Associate Investment Advisor

T: 416.867.2036
Drew.Sutherland@canaccord.com

What happened?

Global economy – cruising along. While momentum in global growth is leveling off, economic and industrial data received in July confirm a broadening in world economic activity. For example, most rail companies reported a marked pick-up in intermodal traffic in Q2. Also, machinery equipment maker Caterpillar upped its annual earnings and revenue guidance significantly. Last, port activity globally keeps improving with traffic expanding concurrently at Panama, Suez, China and US ports. With many central banks telegraphing less accommodative monetary policies, the recovery in global trade could become at risk. The reality, however, is that central banks around the world have performed 43 rate cuts vs. 20 rate hikes so far this year. The bulk of the rate cuts come from emerging market central banks which enjoy currency appreciation despite the Fed tightening cycle, a rare positive occurrence.

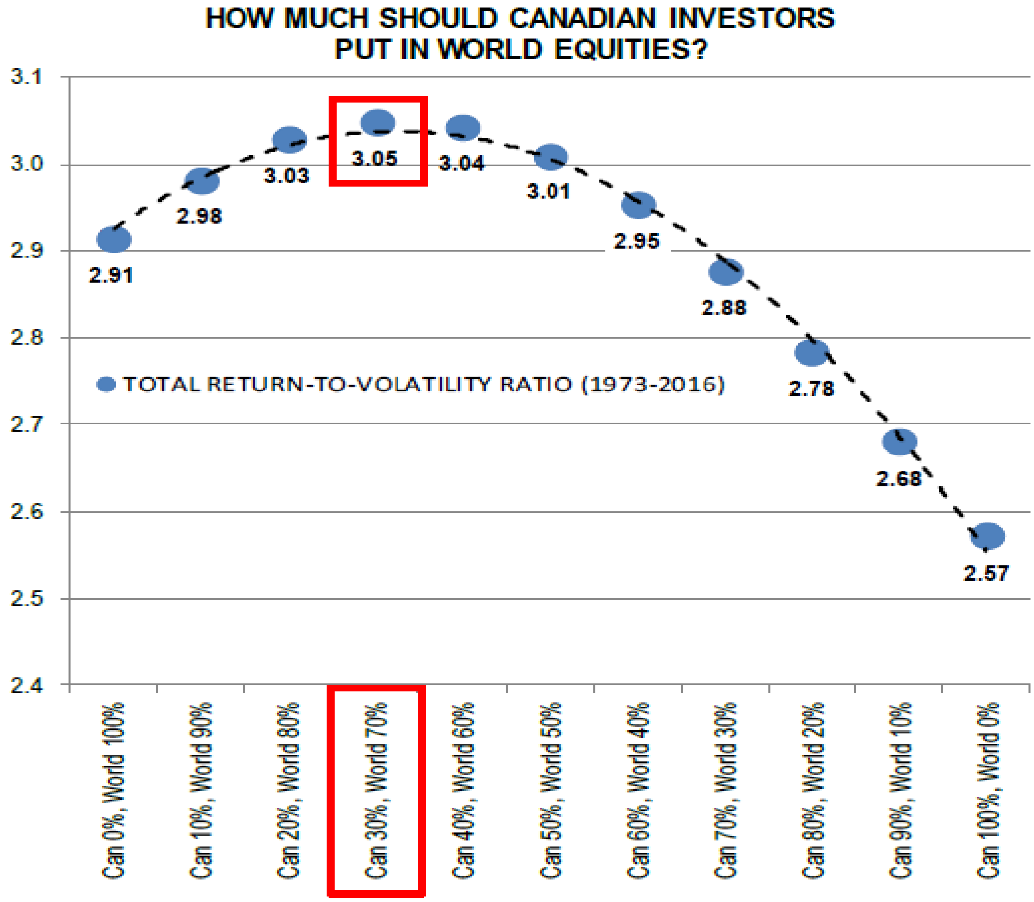
CAN Equity	YE 2016	Wk-end	Chg this wk	Chg in 2017
S&P/TSX Comp	15288	15258	0.90%	0.20%
S&P Total Return	49501	50210	0.90%	1.40%
S&P TSX 60	900	901	1.30%	0.10%
US Equity				
S&P 500	2239	2477	0.20%	10.60%
S&P Total Return	4279	4789	0.20%	11.90%
Nasdaq	5383	6352	-0.40%	18.00%
International Equity				
MSCI World	1364	1489	0.80%	9.20%
MSCI EAFE	1684	1948	0.50%	15.70%
MSCI Emerg. Mkts.	47651	56697	0.60%	19.00%
FTSE 100	7143	7512	1.90%	5.20%
DAX 30	11481	12298	1.10%	7.00%

What to do?

Adapt to a Global perspective on equities. North American (NA) equities are going through a classic tug-of-war between rising policy rates and accelerating earnings growth. For now, our tactical market-timing indicators are still flashing red due to slowing economic momentum, high-yield bonds' underperformance and eroding market breath. Market uncertainty is being compounded by the Fed and the PBoC tightening cycles. Our tactical underweight equity stance reflects these short-term risks and a nontrivial correction probability. Such a correction may be needed to change market leadership and extend the equity bull market. Another cyclical advance remains our medium-term view. We believe non-NA equity markets provide better risk-adjusted returns to investors. We have been very vocal on this call lately and this month we revisit the merits of adopting a global approach when it comes to managing equity exposure. We believe the optimal mix for a Canadian-based investor is 30% Canadian and 70% foreign equities, reflecting our view that this proportion maximizes the return-to-risk ratio. Last, we explain where diversification benefits come from and how retail investors can build a global equity portfolio using **sector ETFs**.
To read further, click here:

More thoughts, from Canadian perspective:

Canada is our home base and the S&P/TSX is our primary market. As such, we understand how painful a commodity-led correction can be. Unfortunately, seasoned investors know the "uncle point" comes when the rest of the market comes down and market breadth collapses. Many believe the S&P/TSX has become too cheap on a relative P/E basis and is due for a catch-up. However, as we explained in prior wires, the boom in corporate debt is such that the S&P/TSX EV/EBITDA and EV/Sales ratios remain near all-time highs relative to other world bourses. As such, Canadian investors should use the recent strengthening in the CDN$ to diversify globally. As our *Chart of the Week* shows, for Canadian investors, the optimal equity mix is 30% Canada/70% World.



Source: Thomson Reuters Datatream, Canaccord Genuity estimates

For every Canadian Investor: Coverage on the banks initiated….

Canadians love their banks- it's no surprise since they are the companies that dictate whether the S&P/TSX sinks or swims. While we reiterate our views on taking a global perspective, it's important to know how the street views your investments. Most Canadians have bank exposure, and as such we've initiated coverage on the banks to help provide insight into opportunity and risk. Please contact us directly to access the full note.

*Please let us know if you think there is someone in your network who would benefit from this note. We are always happy to include them on the list. You are our best source of referrals.