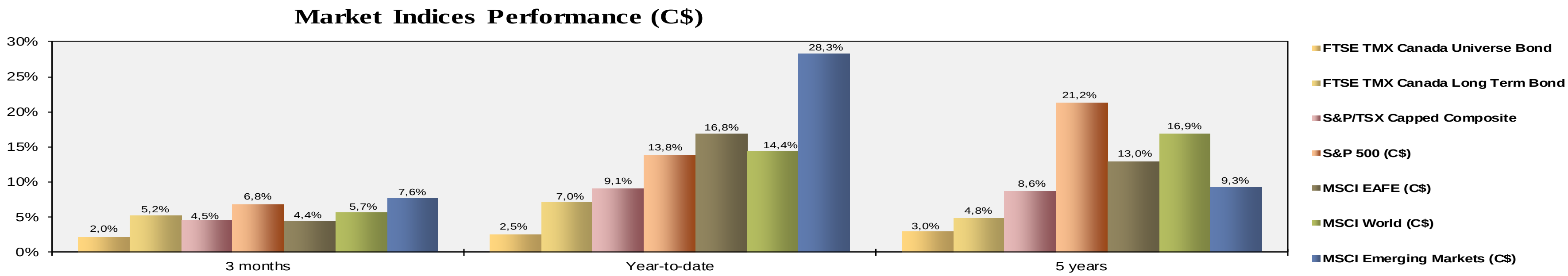
MARKET COMMENTARY AS AT DECEMBER 31, 2017

Values in the right place



Economic environment is propelling share prices to new heights

Stock markets performed well in the fourth quarter of 2017 as growth continued in all the main global stock markets, including in Canada, where the main index (S&P/TSX Composite) finished up 4.5%. Emerging markets were all the rage last quarter as well as last year as MSCI Emerging Market Index posted an annual return of 28.3%, thanks primarily to sharply higher corporate profits in those countries.

A number of indexes worldwide hit new heights, spurred by an equity-friendly economic environment driven by synchronized (and accelerating) global growth, higher corporate profits, tax cuts in the United States, accommodating monetary policies, low interest rates and moderate inflation. The fine performance of the main global stock indexes and their low volatility also prompted investors to boost their equity allocations. South of the border, the U.S.'s fine economic performance forced the Fed to pursue interest rate normalization by another increase in its key rate, closing out the year with three increases.

The big news this past quarter was the adoption of tax reform in the U.S. One notable effect of those changes was the drop in the federal corporate tax rate from 35% to 21%. In the coming months, we should see the effects of this reform, which although temporary, is expected to stimulate the economy in the short term. Much has been written about the NAFTA negotiations and it will continue to be a hot topic in 2018. If the U.S. withdraws from this agreement, the Bank of Canada could be forced to be much more cautious in its approach to increase rates, particularly when high debt levels of Canadian consumers are taken into account, as this remains an area of concern.

Across the Atlantic, the European Central Bank (ECB) plans to scale back its anti-crisis program by cutting in half its asset buying between January and September 2018. The ECB plans to raise its key rate, currently at 0%, only after the end of its asset-buying program. This cautiousness is attributable to a growing but still fragile economy that is facing numerous risks, including uncertainty over the U.K.'s decision to leave the EU, aka Brexit.

In the Canadian bond market, short and medium-term interest rates were up although long-term rates were down, which partly explains the FTSE TMX Canada Universe index's positive quarterly return (2.02%).

During the quarter, gold (spot price) closed the quarter up slightly (+0.6%) at US$1,291 an ounce. In the oil sector, a barrel of Brent crude was up 16.2% to finish the quarter at US$66.86. West Texas Intermediate (WTI) was up 16.9% while Western Canada Select (WCS) was down -14.8%, finishing the quarter at US$60.42 and US$34.42 respectively.

The U.S. economy added 587,000 jobs in the fourth quarter of 2017 and nearly 2.13 million for the year. North of the border, job creation was outstanding, with 193,400 jobs created during the quarter and 422,500 in 2017. Unemployment was down yet again, falling from 4.2% to 4.1% in the U.S. and from 6.2% to 5.7% in Canada.

In the U.S. residential real estate market, the most recent data from the S&P CoreLogic Case-Shiller index (October 2017) shows a +6.4% variation for the past 12 months, while the Teranet/National Bank house price index, which gauges Canadian residential real estate, shows a variation of +10% for the same period.

	Canada	United States
GDP Growth (y/y)	3.4%	3.2%
Inflation (y/y growth)	2.1%	2.1%
Core Inflation (y/y)*	1.8%	1.8%
Job Creation (QTD)	193,400	587,000
Job Creation (y/y growth)	422,500	2,126,000
Unemployment Rate	5.7%	4.1%

Core inflation, excluding food and energy

Most recent data as of January 15th, 2018

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SSQ Financial Group
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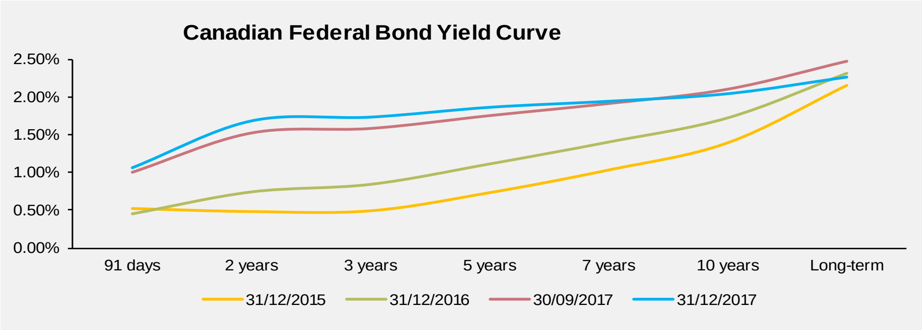
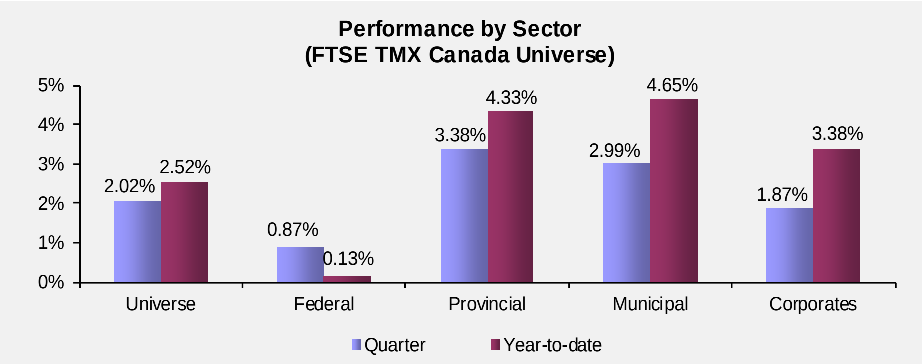
Canadian bond market

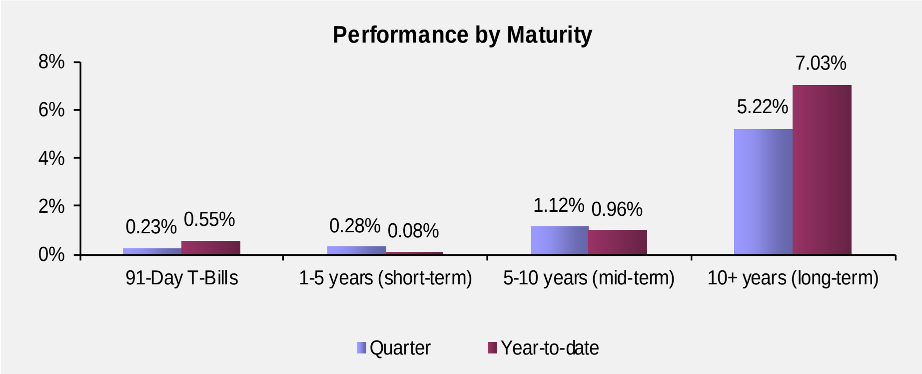
During the quarter, the yields to maturity for Canadian bonds increased on the "less than 10 years" portion of the curve and dropped on the 10-year+ portion. The Canadian economy's fine performance accounts for the increase in short-term yields, although the yields for 10-year+ bonds, which are more influenced by the inflationary outlook, dropped on news of Canadian inflation, which remains moderate. The net result was a flattening of the curve.



During the period, the FTSE TMX Canada Universe index posted a return of 2.02%, due to narrower credit spreads for provincial and municipal bonds. In addition, the yield to maturity for long-term Canadian bonds fell, which had a positive impact on the return. Provincial bonds, which make up a major part of the long-term portion of the FTSE TMX Canada Universe index, turned in the best performance; federal bonds were the worst.

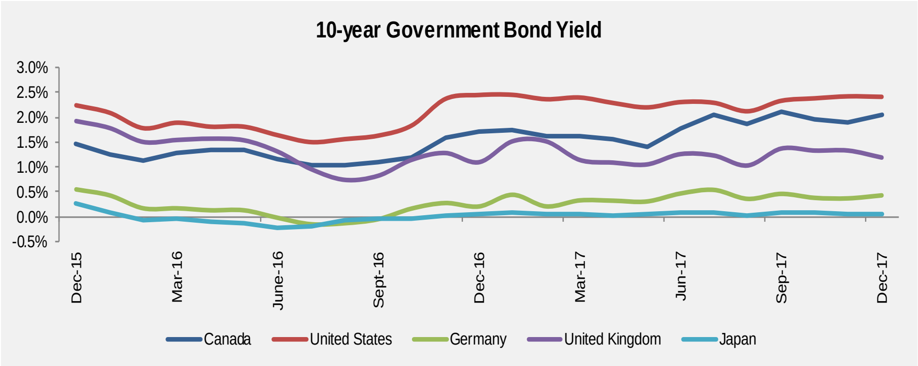


Long-term bonds posted the best return this quarter (+5.22%) thanks to the lower long-term yield. With a return of 0.23%, 91-day Treasury bills were the worst performers this quarter. Federal bonds (2-year, 10-year and 30-year) finished the quarter with yields to maturity of 1.68%, 2.04% and 2.26% respectively, while 91-day Treasury bills posted a yield of 1.06%.



Global bond markets

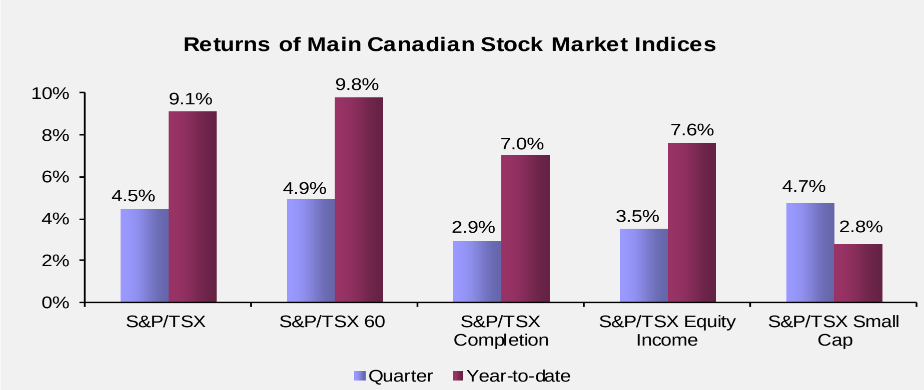
Except for the U.S., the yield-to-maturity for 10-year government bonds dropped slightly. Global inflation increased more slowly than expected, which explains the drop in the 10-year rates.



Canadian stock market

The Canadian stock market, as measured by the S&P/TSX, finished the quarter with a return of 4.5%. All sectors except Energy contributed to the index's strong performance, which was helped by corporate earnings growth and the robust global economy. More specifically, gains were driven by the excellent performance of the Financials and Materials sectors, which together represent more than 45% of the index. The Financials sector benefited from higher interest rates, while Materials did well following higher demand for commodities amid solid global economic growth.

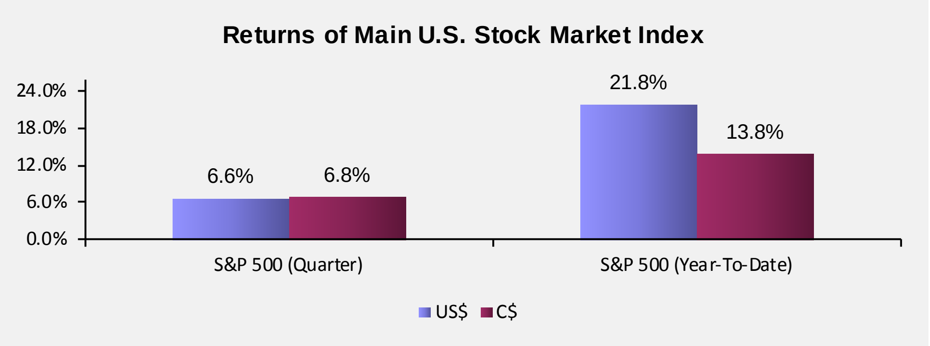
Canada's main indexes all posted positive returns during the quarter, ranging from 2.9% to 4.9%. Small and large caps did better than medium caps in Canada, with the best performance coming from the S&P/TSX 60, a large cap index (+4.9%). Meanwhile, the Canadian Small Cap index finished the quarter up 4.7%, fuelled by the strong performance of the Materials and Industrials sectors.



U.S. stock market

During the quarter, the S&P 500 posted a return of 6.6% in U.S. dollars. The differential between the Canadian and U.S. dollars had a minimal impact this quarter. The return in Canadian dollars was 6.8% for Canadian investors.

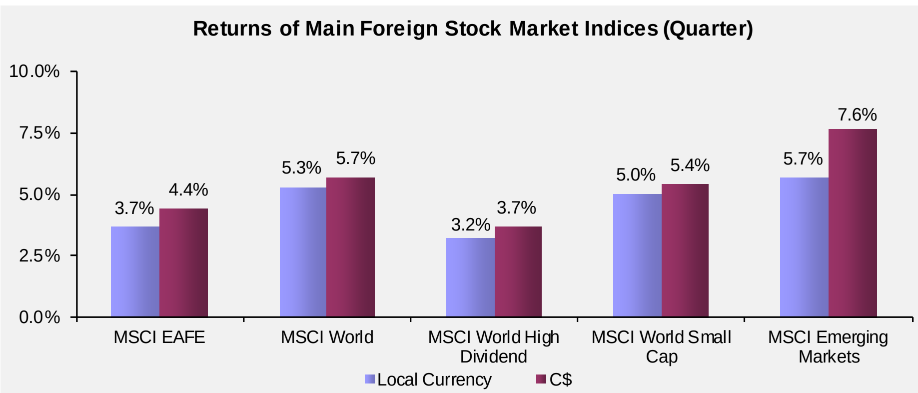
"Growth" style stocks were in favour during the quarter, compared with "value" style. The Russell 1000 Growth index generated a return of 7.9%, surpassing the Russell 1000 Value index (+5.3%). As regard market capitalization, small caps (Russell 2000) underperformed medium (S&P 400) and large caps (S&P 500).

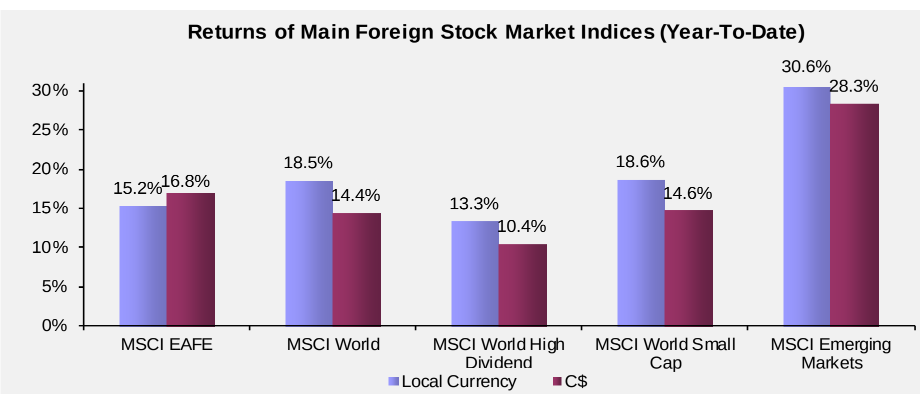


Foreign stock markets

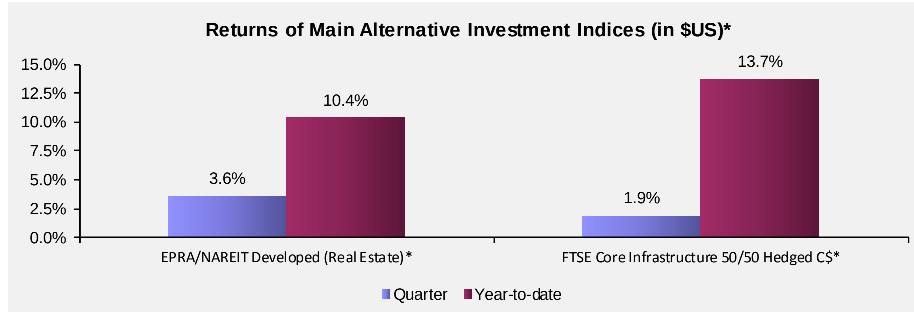
In the fourth quarter of 2017, the main foreign stock indexes posted positive returns in local currencies as well as in Canadian dollars for a second quarter in a row. These same indexes continued to benefit from the solid global economic performance and strong corporate earnings growth.

Among the indexes shown below, MSCI Emerging Markets had the best quarterly performance in local currencies (+5.7%). Strong corporate earnings growth in those countries and their attractive valuations are prompting investors to boost their weightings in those stocks. The other indexes also generated positive returns, ranging from 3.2% to 5.3% in local currencies.





Alternative investments and currencies



Returns in C$ **		
Quarter	3.8%	1.9%
YTD	3.1%	13.7%

* FTSE in local currency hedged to C$ and the other in in US$.

** Return of FTSE in local currency hedged to C$ and the other in C$.

In the fourth quarter, commodities once again came in first among the alternative investment indexes, up 6.2% (hedged in US$). Despite a positive return, the infrastructure index had the lowest quarterly return (1.9% in C$) for the second quarter in a row. This asset class nevertheless achieved the best annual performance, due to an excellent first half of the year. The global real estate index posted a quarterly return of 3.6% in US$.