Foresters Asset Management Inc.

Market Commentary

January 2017

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Glenn Paradis is head of equities at Foresters Asset Management (formerly Aegon Capital Management). Prior to joining FAM in 1998, Glenn came to Foresters from Acker Finley, where he was vice-president, portfolio management, and co-manager of QSA Canadian Equity Fund. Previous positions included vice-president and director at TD Quantitative Capital and portfolio manager at RT Investment Counsel.

Glenn graduated from the University of Windsor with an honours BA in economics in 1989, and earned the Chartered Financial Analyst (CFA) designation in 1995. Glenn also holds the Chartered Alternative Investment Analyst (CAIA) designation. The CAIA designation is the only educational standard uniquely designed for individuals specializing in alternative investments. Covering hedge funds, real estate, private equity, commodities and managed futures, the CAIA charter demonstrates a commitment to professionalism and a command of alternative investments' unique fundamentals.

Note: Glenn Paradis is the founder and Chief Investment Officer of Clairwood Capital Management, a sub-advisor to Foresters Asset Management Inc.

Foresters Financial

Head of Equities' review of 2016 and perspectives for 2017

2016 Highlights

As we look back on the topsy-turvy year of 2016, it's clear that the turmoil offered a bit of something for everyone. Stocks were down. Stocks were up. $7 trillion dollars of government debt sported negative yields. Crude oil first collapsed to $26 a barrel, then rallied to over $50 by the end of December.

Despite economic and interest rate concerns and a number of global political shocks, including the Brexit vote and the Trump win, the equity markets showed surprising resiliency. There were periods of both pessimistic and optimistic excesses, but 2016 can be summed up under three key story lines: The Federal Reserve ("Fed") policy, Brexit and the U.S. Presidential election.

The year began with expectations for the Fed to hike anywhere from 50 to 100 basis points during the upcoming months. However, as the seasons slid by, the Fed continued to hold interest rates steady due to ongoing concerns that risks to the economy were high enough, and growth and inflation were low enough, and that an accommodative policy was still needed. In fact, the 10-year U.S. Treasury Bond hit an all-time low of 1.37% in early July. It was not until December, that the Fed finally raised the Fed Funds rate for only the second time in ten years.

Equity markets started out the year lower on concerns about Chinese growth, plunging energy prices, negative bond yields and weak stock markets. This led to a sharp reversal in equity prices in January and February, as some of these fears subsided and investors began to hunt for bargains.

The equity rally was rudely interrupted in late June by a surprising YES vote in the Brexit referendum, as Britain voted to leave the European Union. It was an unexpected outcome, but an early indication of things to come, as populist narratives started to resonate with voters across Europe. The vote led to a sharp selloff in global stock markets, but was quickly reversed as Brexit came to be viewed as more of a process than an event.

The world watched as an increasingly acrimonious, and at times downright bizarre, U.S. Presidential election campaign unfolded in the world's foremost democracies. . As it limped into the final stretch of the campaign, it looked increasingly likely that Hillary Clinton would be the anointed winner. However, markets were weak as concerns about the outcome led many investors to reduce risk positions. In a

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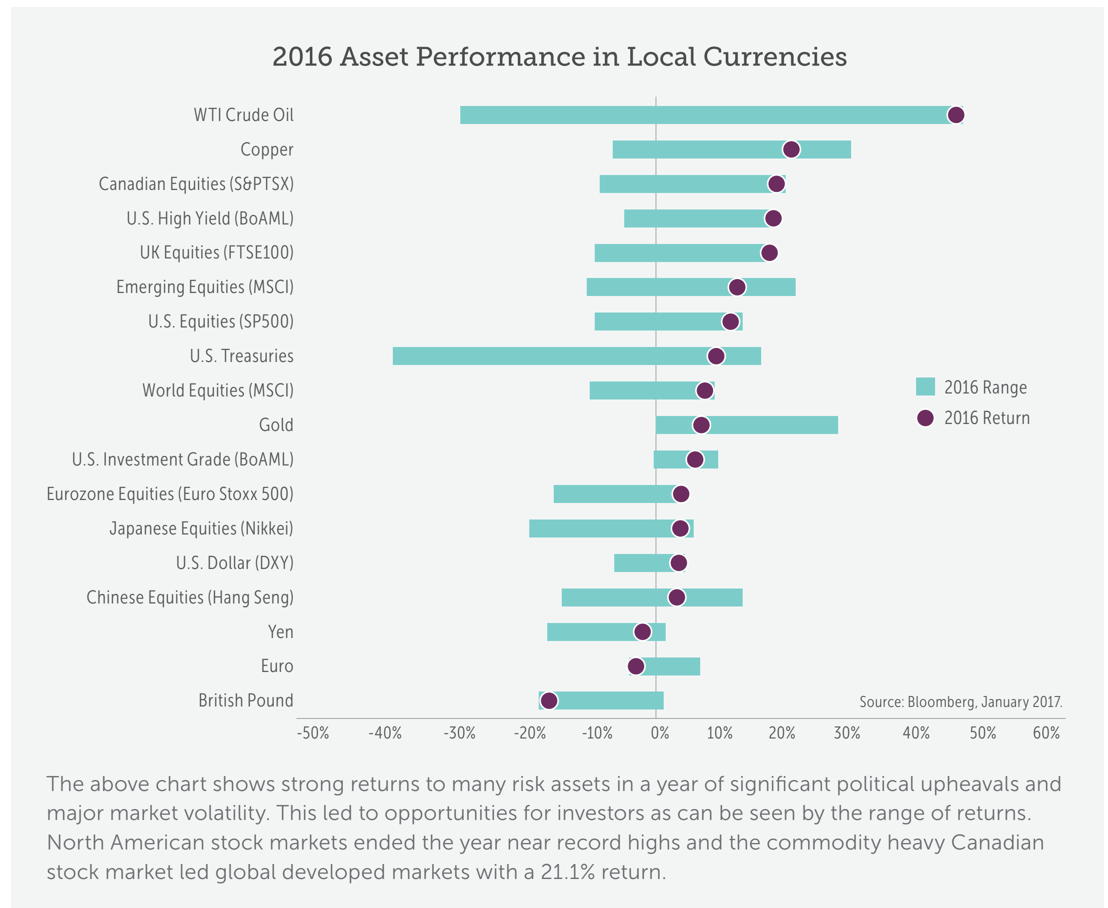
stunning election night upset, Donald Trump won the Presidency by winning the Electoral College vote, despite losing the popular vote by a wide margin. Trump's "Make America Great Again" campaign had targeted the status quo as being detrimental to the U.S. middle class, who felt they were being left behind in the rush to globalization.

U.S. equity markets, which had already been rebounding since Q1, surged to all-time highs after Trump's win, based on expectations that with significant tax reform, decreased regulation and a large infrastructure program would boost economic growth and push corporate profits higher. Canadian stocks also hit all-time highs post-election, as the stock rally spread globally.



The above chart shows strong returns to many risk assets in a year of significant political upheavals and major market volatility. This led to opportunities for investors as can be seen by the range of returns. North American stock markets ended the year near record highs and the commodity heavy Canadian stock market led global developed markets with a 21.1% return.

Outlook for 2017

On balance, our outlook for 2017 is positive, but that view comes with a fair number of caveats.

The world economy is starting off the year with positive momentum. Global GDP growth seems to be at an inflection point with the global Purchasing Manager's Index and leading economic indicators pointing to stronger growth in the coming months. The upturn appears widespread and globally synchronized for the first time since 2006, which will be positive for corporate profits. The International Monetary Fund ("IMF") currently forecasts global GDP growth of 3.4% for 2017.

In the U.S., there is substantial uncertainty regarding the details and timing of President-elect Trump's tax, infrastructure and trade policies. We feel, on balance, that the changes could be incrementally positive to U.S. GDP growth, but U.S. equities are already reflecting this. The Fed is likely to raise short term rates anywhere from one to three times in 2017, but will likely be cautious, as opposed to aggressive with monetary policy. While we don't expect blockbuster growth from the U.S., GDP growth should exceed the 2.1% average, that has been observed since the financial crisis, and could push beyond the 2.5% rate.

In Canada, there is still considerable slack in the economy, while we also have the burdens of all-time high consumer and mortgage debt concurrent with heightened risk in the country's two largest real estate markets, Vancouver and Toronto. Despite this, consumers have held up well, but we don't expect them to be able to carry the load in 2017 as weak job growth and debt issues will weigh on consumer spending. There have only been tentative signs of corporate Canada picking up investment and spending, and we expect that trend to continue until we see some clarity on Trump's trade policy. The weakness in the Canadian dollar has yet to translate into significantly stronger exports. On a more positive note, the continued rebound in oil prices should help the Western Canada provinces and repair the damage incurred during the bear market in energy. We expect Canada to generate positive economic growth of 1.9%, as rising commodity prices and a global upturn are supportive. We would expect the Bank of Canada to remain on hold for 2017 and perhaps into 2018. The Canadian dollar will remain somewhat range bound, as the competing forces of higher oil prices, and widening interest rate spreads with the U.S., keep it trading within a wide band.

European markets still face significant geopolitical risk and the resolution of Brexit is unlikely to be smooth. There are also numerous other political events that could cause significant volatility in European equities, but it can be argued that they are mostly priced into stock prices, given European stocks trade at a significant discount to U.S. equities.

With inflation, and perhaps more importantly, inflationary expectations starting to take hold, we believe that bond yields have likely seen their bottom, thus ending the longest bond bull market in history. This should continue to benefit cyclical and value stocks over bond proxies, which had been significant beneficiaries of the persistent decline in bond yields, that likely ended in July 2016.

We would expect this trend to continue in light of our economic and interest rate outlook and have tilted our equity imaxx portfolios to be more exposed to cyclical yield sectors (Industrials, Energy, Materials and Financials) than to bond proxy sectors (Utilities, Telecom and REITs). We may position more aggressively in cyclical yield sectors, if we continue to see signs of reflation and investment opportunities present themselves. We have a base case target for the S&P/TSX Composite of 16,000.

We continue to selectively own U.S. stocks, given the outlook for growth is better and we have the ability to diversify our portfolios into higher quality companies than is possible in Canada. Specifically, we like U.S. Banks, Healthcare and Technology sectors, all of which can provide an attractive yield and a growing dividend stream. Our base case projection for the S&P 500 is 2325 for 2017.

While we have painted a relatively optimistic outlook for 2017, we believe that returns in both stocks and bonds will be somewhat muted. Structural issues in the global economy, including an aging population, low productivity growth and significant debt overhangs have conspired to keep growth rates at lower levels than in previous cycles.

The markets will have to continue to deal with geopolitical events, shifting monetary and fiscal policies and potential trade wars in the coming year. With volatility comes opportunity, and we believe the equity markets will remain resilient in face of these issues supported by the improving global growth and corporate profit outlook. We intend to buy the dips and stay vigilant.

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