MERCATOR Financial *Awaken Your Wealth*

Advisor Comments

March 31, 2016

Stock Exchange	Year to date March 31, 2016
TSX (Toronto)	3.72%
DOW (U.S.)	1.49%
S&P (U.S.)	0.77%
NASDAQ (U.S.)	-2.75%
CAC (France)	-5.43%
FTSE 100 (London)	-1.08%
DAX (Germany)	-7.24%
NIKKEI (Japan)	-11.95%
HANG SENG (Hong Kong)	-5.19%

Rates as of March 31, 2016

Term	GICs
1 year	1.83%
2 Year	1.97%
3 Year	2.02%
4 Year	2.12%
5 Year	2.23%

* Rates subject to change

Daily Interest Account - 1.00%

Quarter Recap

Stock Exchange	Jan 31 2016	Feb 29 2016	Mar 31 2016
TSX (Toronto)	12,815	12,860	13,494
DOW (U.S.)	16,466	16,517	17,685
S&P (U.S.)	1,940	1,932	2,060
NASDAQ (u.S.)	4,614	4,558	4,870
CAC (France)	4,417	4,354	4,385
FTSE 100 (London)	6,084	6,097	6,175
DAX (Germany)	9,798	9,495	9,966
NIKKEI (Japan)	17,518	16,027	16,759
HANG SENG (Hong Kong)	19,683	19,112	20,777

Although the economy remains fragile, the Bank of Canada is expected to keep their interest rate policy on hold as the government provides fiscal stimulus as a means to stimulate growth. The low levels on the 10-year government bond yield reflect the state of the economy but should ultimately grind higher—so long as oil prices and the U.S. Federal Reserve co-operate.

Bond yields have confounded market participants over the last several years. The expected rise in yields has been elusive to say the least. In Canada, one simply needs to observe the price of oil to gain better understanding. These yields, especially in the 5-10 year maturities, are impacted by more than just central bank policy. With Canada's growth prospects increasingly tied to commodities, oil in particular, it comes as no surprise that the 10-year bond yield in Canada has closely mimicked the downturn in oil prices, which commenced around the summer of 2014. Given that the energy sector is a crucial driver of the economy, sustainability of higher oil prices are a prerequisite for both stronger GDP growth and for higher yields. The secondary factor influencing domestic yields will be that of the U.S. Federal Reserve.

Accordingly, we believe the 10-year yield in Canada should move higher from current levels of around 1.3% as of March 11 towards the 1.5% -1.8% range by year-end.

The modest rebound in oil prices thus far in 2016 has infused some life into domestic equities, especially since mid-January, making them amongst the top-performing regional asset classes globally year-to-date. While encouraging, this may partly be a reversion from oversold conditions in 2015. Regardless, we foresee the path forward will be turbulent, with oil prices holding the key.

The positive economic multiplier from a low Canadian dollar has yet to fully materialize, while the negative effects of the low price of oil continues to be problematic. Although monetary policy remains accommodative, we question what more can be done by the Bank of Canada to improve economic fundamentals.

More worrying has been the trend in the earnings cycle. Consensus earnings-per-share (EPS) growth estimates for 2016 at the start of the year were suspiciously high at around 10%. Although we anticipated earnings expectations would be revised lower, the pace of the

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Manulife Securities

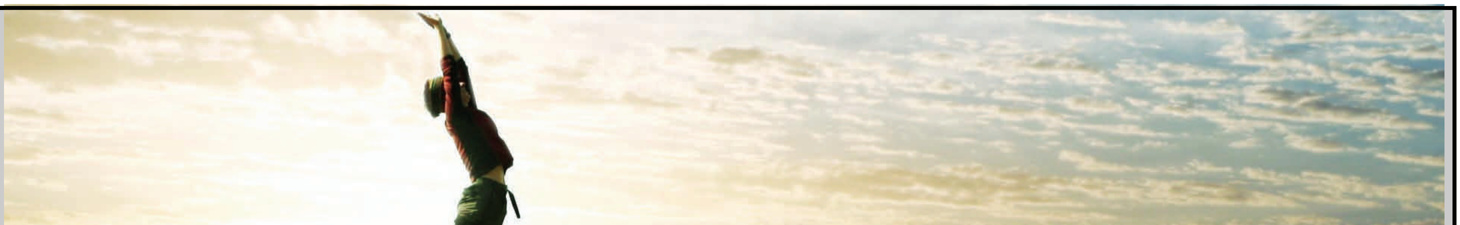
negative revisions over the past two months has been startling.

The forward price-to-earnings (PE) ratio at 16.3x on the S&P/TSX Composite Index is not as attractive now, considering the deterioration of the outlook for profits. The offset to this, however, is a reasonable dividend yield of roughly 3% and a price-to-book ratio sitting at its lowest level since the global financial crisis in 2008-09.

Canadian equities briefly entered 'bear market' territory in January of 2016 with cumulative declines of roughly 22% from previous 2015 highs. However, after rebounding roughly 10% from the January 20 lows, conditions are no longer as oversold.

Over a tactical horizon of a year, the business cycle and market sentiment have more influence on the direction of equity markets than valuations alone. With uncertainty regarding the economic cycle, and equities no longer firmly oversold, we remain broadly neutral towards Canadian equity.

(Information Source: Russell Investments Late Cycle volatility 2016 Global Market Outlook -Q2 Update.)



YOUR MORTGAGE. YOUR LIFE. MAKE THE MOST OF BOTH.

At Mercator Financial we work with you to help you get the things in life you desire. Every client has different goals and objectives, sometimes even the same households have different wish lists. One spouse may want to take a trip while the other may want a new car or they both want to renovate but it becomes a kitchen versus game room discussion.

Whatever your desire, our purpose is to find innovative ways to give you the freedom to choose what's right for you.

We encourage our client's to realize possibilities in life, but we also make sure any major spending is reviewed so as to not alter their life and retirement objectives. When considering a major expenditure we make sure a debt-elimination plan is consider as well. It doesn't have to be complicated, we work to find one that will allow you to do your renovations, travel or reach your investing goals.

Evidence shows that by managing your debt more effectively, people save money, become debt-free sooner and achieve more financial freedom.

Give us a call and we will explain how we can help you simplify your finances.

You can also check out this unique product http://manulifebankmortgages.ca/specialoffer/

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Risk Management: Life, Disability, Critical Illness - Mortgages Services (upon referral)

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