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French journalist Jean-Baptiste Alphonse Karr from the 1800's frequently used the term "plus ça change, plus c'est la même chose". Translation, "the more things change, the more they stay the same". After sitting down with 1,000 of my closest friends for the Economic Club of Canada's annual forecast breakfast on January 5th, I came away with the sense that although many things seem to be changing on a global basis, the economic forecast for the global economy and most countries that make it up will remain similar to what it was in 2015. The U.S. economy will remain the best of a bad lot with growth estimated in the 2.5% range, Canada will continue to lag the U.S. with GDP estimated below 2% and uneven growth across the country with weaker growth in the energy exposed provinces. China's growth, while still strong on an absolute basis with GDP estimated in the 6+% range will continue to decelerate, and Europe will plod along with growth estimated in the 1 to 1.5% range.

Not to sound too flippant, but it seems to me that in my 23+ years of being employed in the financial industry, consensus is rarely often achieved, especially that derived by economists. But time will tell. That being said, I myself must choke on a bit of humble pie and admit how wrong my forecast was for equity markets for the last few months of 2015. After the depths of August were reached post China devaluing their currency versus the U.S. dollar, my expectation was for a rally into year-end on better economic data out of the U.S. as well as the market finally getting some closure in mid-December on when Janet Yellen and the Federal Reserve would raise the overnight interest rate for the first time since 2006. Although October started out with a bang, with the S&P 500 Index rallying 8.3%, such was not the case. The S&P 500 Index for the last two months of 2015 was down 1.3% while the S&P/TSX Composite Index declined another 3.3% bringing the year to date return to -11.1%, ranking it the 5th worst performing developed equity market in 2015.

Other markets across the globe were also mixed over the same period with the DAX 30 Index in Germany declining 1.0%, the CAC 40 (France) down 4.5%, the Shanghai SE A Share market (China) rising 5.6% and the NIKKEI 225 (Japan) relatively flat down 0.2%. In December, seven out of the ten sectors in Canada declined with the Telecommunication Services and Consumer Discretionary sectors leading to the downside with returns of -7.7% and -5.7% respectively. The three major Telecom companies in Canada were all down 7% or more with Telus down 9.8% on concerns it would be affected the most from a competitive perspective after Shaw Communications announced it was acquiring Wind Mobile for \$1.6 billion. Healthcare (Valeant) bounced 14.5% after declining over 45% in October and flat lining in November. In the U.S., six of ten sectors within the S&P 500 Index posted negative performance, with the Energy sector declining the most, down 10% as energy prices continued to decline. The defensive Consumer Staples and Utilities sectors led the way, up 2.5% and 1.9% respectively.

After a couple of head fakes in the past few meetings, the U.S. Federal Reserve made good on their word that they would start to raise interest rates in 2015. They did just that in the December FOMC meeting by raising the overnight rate by 25 basis to currently sit at 0.5%. The question now is how quickly the U.S. Federal Reserve will continue to raise rates on a go forward basis, possibly supporting a further rise in the U.S. dollar at the expense of other currencies and global growth. The FED dot plot currently shows 4-6 rate hikes in 2016 while the Fed Fund futures are pricing in 2-4 hikes. Our expectation is closer to the latter but we will continue to monitor for any signs that global growth is picking up again so that we can change our view accordingly.

Commodity prices were mostly down in December as the two major benchmarks for crude oil, WTI and Brent, made new cycle lows with prices down 8.2% and 19.1% respectively to end the year at US\$37.13/bbl and US\$35.70/bbl. Meanwhile Natural Gas prices bounced 10.5% in the month to end 2015 at US\$2.31/mmbtu. The Canadian dollar also continued it's descent along with energy prices and declined another 3.5% in December to end the year at US\$0.7225. Just to put it into context, the Canadian dollar declined 16% in 2015 and is back at levels not seen since 2003.

As of the time of writing, 2016 has started off with blood on the streets as the first week of 2016 was the worst on record for the Dow Jones dating back to 1926 on concerns surrounding China's slowdown and yuan devaluation and the potential impacts on global growth. Add in the uncertainty of U.S. Federal Reserve interest rate policy against a backdrop of most other central banks cutting rates and employing quantitative easing measures, and you have a recipe for what we expect will be increased equity volatility going forward, which should in turn lead to greater call option premiums for our Funds.

Forward Looking Information and Disclaimer

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