Market Matters

FEBRUARY 2017 HIGHLIGHTS

- Global equity markets rallied in February.
- US equity markets led the way with the S&P 500 hitting nine new all-time highs the month.
- The S&P/TSX Composite also hit six new market highs in the month, but a strong US dollar created a headwind for the commodity-based sectors, and the Canadian market lagged its peers for month-end results.
- Emerging markets continued their strong run in 2017, making up ground after a lack-luster fourth quarter in 2016.
- Bond markets moved steadily forward, with longer-term bonds performing best as yields inched lower in the month.
- Corporate earnings results were strong across most developed countries, including Japan, Europe, Canada and the US.
- A string of positive economic data helped boost investor optimism and increased odds of a US Federal Reserve rate hike coming as soon as March.

Table 1
Summary of major market developments

Market returns*	February	YTD
S&P/TSX Composite	0.1%	0.7%
S&P 500	3.7%	5.6%
- in Canadian dollars	***5.6%***	***4.2%***
MSCI EAFE	1.9%	2.0%
- in Canadian dollars	***3.1%***	***2.8%***
MSCI Emerging Markets	1.6%	5.6%
FTSE TMX Canada Universe Bond Index**	1.0%	0.8%
FTSE TMX Canada all corporate bond index **	1.0%	1.4%

*Local currency (unless specified); price only
**Total return, Canadian bonds

HOPE RALLY

News out of the US continued to dominate headlines. Coined 'The Trump Hope Rally', the anticipation of Trump's business-friendly policies has been enough to brighten the sentiment of investors and create a tailwind for equity markets. Canadian and US equity markets hit all-time highs in February, but the Canadian market gave back its early-month gains as weakness in the resource sectors weighed on the S&P/TSX Composite results. Meanwhile Canada's Real Estate sector (a highly interest rate sensitive sector) benefitted from the drop in interest rates in February. Emerging markets are playing a bit of catch up after a relatively lack-luster end to 2016 and have bested their developed market peers thus far in 2017.

Over the course of the month bond yields drifted slightly lower. Fears of Trump's disruptive economic policies and an inflation spike have eased. February's modest bond market gains brought solace to fixed income investors after a chilly start to the year.

Table 2
Other price levels/change

	Level	February	YTD
CAD per USD exchange rate	$0.752	-2.0%	1.1%
Oil (West Texas)*	$54.01	2.3%	0.5%
Gold*	$1,256	3.8%	9.0%
Reuters/Jefferies CRB Index*	$190.62	-0.7%	-1.0%

*U.S. dollars

SUNNY WAYS

Improving economic and corporate earnings results have contributed positively to market results.

Corporate earnings are looking sunny across much of the developed world. Fourth quarter 2016 corporate earnings reports saw marked improvement in the US, Canada, Europe and Japan.

Table 3
Sector level results for the Canadian market

S&P/TSX Composite sector returns*	February	YTD
S&P/TSX Composite	0.1%	0.7%
Energy	-1.4%	-6.9%
Materials	-3.8%	5.1%
Industrials	1.6%	2.1%
Consumer discretionary	3.6%	2.9%
Consumer staples	-0.7%	-2.1%
Health care	4.8%	1.1%
Financials	1.1%	3.0%
Information technology	1.3%	1.6%
Telecommunication services	-0.9%	1.8%
Utilities	0.0%	1.2%
Real Estate	4.4%	3.9%

*Price only
Source: Bloomberg, MSCI Barra, NB Financial, FTSE TMX Global Debt Capital Markets Inc.

Results from the manufacturing Purchasing Managers' Index (PMI - an indicator of the economic health of the manufacturing sector) saw a sixth straight monthly gain in February for the US, and the strongest result since November 2014 for Canada. Canadian and US housing and employment figures also continue to improve. To further confirm the brighter outlook for the economy, both business and consumer confidence measures moved higher.

CENTRAL BANK TALK – A WHOLE LOT OF YELLEN.

The US Federal Reserve left rates unchanged during their February meeting. At that time Janet Yellen, Chair of the Board of Governors of the US Federal Reserve, said that rates would increase “fairly soon,” but gave the sense that they were pulling back from the mid-March meeting as the trigger date, causing interest rates to decline during the month. Then, late in the month, two U.S. Fed speakers made hawkish comments and a mid-March rate hike came back on the table as a reasonable possibility. The Bank of Canada did not have a scheduled February rate meeting, and no rate change is expected in the near term.

Of interest, the Bank of England left its interest rate unchanged (at 0.25%) and its bond program unchanged, stating expectations for faster economic growth over the next few years. To highlight global rate discrepancies (and commensurate risks), Brazil's central bank lowered its interest rate to 12.25% from 13.0% - its fourth cut in five months.

POLITICAL TIES

Politics are expected to continue to play a big role in affecting global markets in March. In the US, policy and legislation in Congress will start to take hold. While the Obamacare debate is first up, the US budget and debt limit are also coming due, and will likely bring with it some market volatility. Looking across the pond, March will bring the UK's official notice to the EU on leaving the union. The upcoming French elections on April 23, 2017 will also begin to draw more attention. Protectionist views continue to be a focus of political debate across much of the developed world. Expectations are that market volatility will pick up as US policy is released and political jockeying continues across the globe.

CAN AN OLD BULL LEARN NEW TRICKS? ABSOLUTELY!

The following are brief excerpts from the recent GLC's Insight - Can an old bull learn new tricks? by Brent Joyce, GLC's Chief Investment Strategist, and can be found in full on GLC's website and LinkedIn page.

S&P 500 bull market turns eight years old on March 9, 2017, the current expansionary phase of the US business cycle is only a few months behind, and Canadian and US equity indices continue to reach record highs. Do longevity and all-time highs signal worry for equity markets? No. We don't see either economic growth or bull markets ending for the sake of these arbitrary expiration dates. Equity markets have made great strides over the last several years, and there are good fundamental reasons why. Even with the length of the current bull market, longer-term measures of equity market performance remain well below historic norms.

We believe the best approach for today's markets is to stick to a disciplined long term investment plan that is tailored to your needs and avoid being tempted into making rash decisions based on the emotions associated with arbitrary numbers and dates being reported in the media. It is as important now as ever to ensure that you have rebalanced your asset mix and that it continues to suit your needs.

As professional portfolio managers, we take the same advice – choosing good companies to invest in based on weighing the evidence on hand and not reacting to arbitrary time markers. It's a proven and disciplined approach to long term investing that has withstood the test of time.