2016 Economic Review and Future Forecast

For many reasons, 2016 will be remembered as a year of surprises for investors, including Brexit, the U.S. election, uncertainty regarding interest rates, and global market concerns.

A Bumpy Start

The year started on a negative note as major global equity markets realized a decline in January and February. Of note was the U.S. S&P 500 Index's ten-day period of declining valuations. During this time, oil prices continued their 18-month decreasing trend to below $27 U.S. per barrel. The U.S. S&P 500 Index suffered a decline of -7.3%; our S&P/TSX Composite Index's decline was -0.7% by the end of February.

While the U.S. Federal Reserve postponed an interest-rate hike, international bond markets struggled as 10-year Japanese and German bonds returned negative yields. Here at home, the Government of Canada 10-year bond yields were less than 1%. Investors then turned their gaze to gold as a currency option, resulting in a significant increase in gold valuations. This increase in gold prices contributed significantly to Canada's S&P/TSX Composite Index's 9.1% increase from March until the end of June. For the same period, the U.S. S&P 500 Index rebounded by 4.9%.

Mid-Year Turnaround

In June, United Kingdom citizens voted to leave the European Union (Brexit) which caused short-term volatility – with investors reacting by selling – followed by a short, swift market recovery. Signs of global economic recovery helped fuel a longer-term recovery.

Fall Turn of the Tide

Prior to the U.S. election, markets began their shift away from defensive, yield-focused market stocks into a cyclical, growth-oriented focus. Many sectors that had underperformed in the first half of the year, such as consumer discretionary, financials and information technology, rallied in the second half. Fuelling this momentum was the surprising U.S. election win by President Trump. Anticipated future policy changes and their potential impacts -- including higher inflation, growth, government spending, tax and regulatory changes -- provided a foundation for analysts to forecast future areas of growth.

2016 Outcome

Overall the year was a positive one for equity investors, with Canadian equity markets realizing a 21.1% return. The stars of this market included energy, industrials and materials. Canadian bonds did not fare as well with a 1.7% return. The U.S. S&P 500 Index increased by 8.6%, with 7 out of 10 main sectors posting double digit returns, and the MSCI World Index increased by 4.9%.

2017 Future Outlook

2017 is anticipated to provide modest growth and inflation with a hoped-for rise in energy stocks here and in the U.S. Fixed income managers will continue to face challenges in the current environment. The coming year will likely see many policy announcements from the U.S., as well as continued political global uncertainty, and investors are as always advised not to react to short-term events but to keep their long-term focus. You are encouraged to work with your financial advisor or Reuter Benefits' team of licensed professionals to keep this focus as you review your investments.

15 Sheldon Drive, Unit 4, Cambridge Ontario N1R 6R8
TF 1.800.666.0142 - F 1.888.634.0591
retire@reuterbenefits.com - www.reuterbenefits.com