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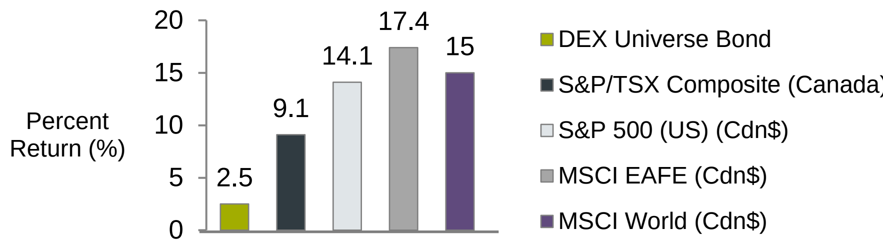
2017 Economic Review and Future Forecast

2017 started with uncertainty regarding how the markets would react to the newly elected U.S. president and potential policy changes, and many investors breathed a sigh of relief as the markets responded positively.

A year that exceeded expectations

Investors saw strong performance in financial markets around the world. The volatility that can occur following a change of political leadership did not occur in 2017 as expected. The accompanying graph (right) indicates one-year returns of major market indices, as of December 31, 2017.



Canadian stock market and bond performance

Several factors contributed to a year of robust returns, including an increase in oil prices, low unemployment, and a solid Gross Domestic Product (GDP) of 3%. Due to an increase in interest rates, bonds saw a slight decline and were challenged during the year, but by the third quarter had recovered due to a pause in increased interest rates.

U.S. record highs

The U.S. market realized the second longest period of growth in the last century, fuelled by strong corporate earnings and consumer strength. Future U.S. policy changes and their potential future impacts – including higher inflation, continued government spending, tax and regulatory changes – provided a foundation for analysts to forecast potential future areas of growth.

However, analysts were divided in 2017 on whether U.S. earnings valuations were too high and if investors should expect a market correction. Another cause of concern has been and continues to be the effect of interest rate hikes on consumers with high debt levels – mortgages and lines of credit – as well as on bond returns.

2018 forecast - continued market volatility

The recent global market correction started at the end of January and magnified during the first two weeks of February: U.S. stocks declined the most in 6 ½ years, the Dow Jones Industrial average dropped more than 1,100 points, and the S&P 500 Index declined by 4.1%, erasing its gain from January 2018. This was followed by a partial rebound with some investors taking advantage of the buying opportunity, resulting in financial markets seeing large swings in valuations.

Concern that inflation will lead to higher interest rates is seen as fuelling the sell-off. Uncertainty regarding the North America Free Trade Agreement (NAFTA) talks and the impact on Canada and the value of the Canadian dollar contribute to negative investor sentiment.

With the potential for continued volatility, investors are reminded to not react to short-term market fluctuations, as selling an investment when it is down in value locks-in losses. We recommend that investors ensure their portfolios are diversified and match their risk tolerance and timeframe until retirement.

You are encouraged to work with your financial advisor or Reuter Benefits' team of licensed professionals to keep a disciplined focus as you review your investments.

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