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ECONOMIC REVIEW AND FORECAST | JANUARY 2020

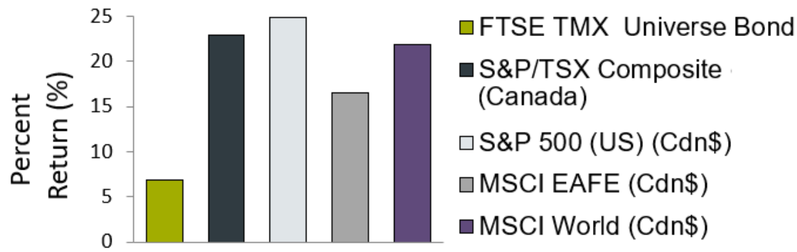
2019 Economic Review and 2020 Forecast

2019 will be remembered as the year of record-breaking returns in most stock exchanges around the world. The U.S. stock market was the best performer, with the S&P 500 Index realizing a rate of return of 24.8%. This period of U.S. market growth signifies the longest business cycle of growth – the longest bull market - in recent economic history.

Canada's stock market was not far behind with the S&P/TSX Composite Index posting a 22.9% return.

The FTSE TMX Universe Bond Index realized a 6.9% return.

International markets showed a 16.5% return for the MSCI EAFE Index, and the global equity benchmark, the MSCI World Index, posted a 21.9% return.



The accompanying graph (right) indicates the one-year returns of these major market indices, as of December 31, 2019.

Factors affecting 2019 financial markets

Interest Rates: The Bank of Canada did not change rates in 2019 and is not expected to do so in 2020.

In the U.S., the U.S. Federal Reserve lowered interest rates three times and is not expected to make rate changes in 2020. Several other countries reduced their rates in 2019 as well.

Bond markets: Bond markets continued to provide investors with excellent returns, benefitting from past rate reductions. It is anticipated that lower returns will be realized in bond markets in 2020.

Canadian economy: Canada had a strong year with housing starts and job creation, with one of the best years for job creation in almost 20 years. Increased real estate values have helped offset the high level of household debt.

U.S. economic climate: The U.S. economy enjoyed strong economic data, including strong manufacturing numbers, low interest rates, reduced household debt and increased savings. Market volatility was mostly due to worries over the trade talks between the U.S. and China. The potential for signing the Phase 1 trade deal in January 2020 contributed to positive investor sentiment at the end of the year.

Global markets: While most markets continued to enjoy solid growth, Germany's economic difficulties continued in 2019 with a slowdown of its manufacturing purchases, which is one measure of its economic health. China did realize a slight rebound in growth, supported by fiscal policy and monetary stimulus. China is very important to global markets and economic cycles, as they are responsible for approximately 30% of global growth.

2020 forecast

Due to high market levels, with a focus on U.S. markets, there has been speculation that we could be approaching the end of this business cycle and approaching a market correction. While the expectation that the results of the 2020 U.S. election will have a muted market impact, many analysts are not predicting a market correction this year.

However, in January 2020, the U.S. assassination of Iran's Major-General Qassem Soleimani has caused anti-U.S. sentiment by the Iranian people. It is still unknown what the impact, if any, could be on global tensions and markets.

Your Portfolio Review

While all types of investments did show positive returns in 2019, we suggest you work with your financial advisor or Reuter Benefits' team of licensed professionals to periodically review your investment portfolio to ensure you have the correct level of risk that is well positioned to withstand any market volatility. Reuter Benefits can be reached at 1-800-666-0142 or via email at retire@reuterbenefits.com.

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