Market Matters

JANUARY 2017 HIGHLIGHTS

- Equity markets had a good start to the year, which stands in stark contrast to last year's abysmal stock market beginnings.
- The Materials sector stole the show in North America as rising gold and base metal prices pushed stocks higher.
- Fixed income markets ended the month near flat, as all but short term Canadian bond yields rose modestly. The extra income kicked off by corporate bonds helped to keep investment grade and high-yield corporate bond returns in the black.
- The headlines thus far in 2017 have been dominated by the new Trump administration. US events quickly became global events and executive orders were met with shock, confusion and protest.
- Central banks took a break from any major policy action, though commentary from central bankers pointed to upgraded economic outlooks and tended to note the considerable uncertainty brought on by the unchartered landscape of President Trump's unconventional approach to governing the nation.
- The International Monetary Fund maintained its global GDP forecast at 3.4% for 2017, but upgraded its forecast for advanced economies to 1.9% GDP growth, from 1.8% in its previous forecast for 2017.

AMERICA FIRST

President Trump took quick action in the early days following his swearing in. Swift and broad executive orders addressed many campaign pledges, which led to domestic and global reactions in the form of protests, court actions, and later, growing uncertainty for markets and political leaders alike. The events kept "America First" in media coverage around the globe.

Market watchers initially focused on the potential for stimulatory economic policies of the new US administration, supporting investor confidence. This was helped by promising economic data (e.g. improving global growth GDP forecasts, strong employment and leading indicators). Later in the month, while the improving economic backdrop remained intact, initial enthusiasm gave way to growing angst about protectionist and closed-door policies, the disruption of trade agreements, and the increasingly troublesome rhetoric coming from within the White House walls. The US dollar, already coming off its strong post-election rally, was further weighed down by those worries.

Table 1
Summary of major market developments

Market returns*	January	2016
S&P/TSX Composite	0.6%	17.5%
S&P 500	1.8%	9.5%
- in Canadian dollars	***-1.3%***	***6.5%***
MSCI EAFE	0.1%	2.3%
- in Canadian dollars	***-0.3%***	***-4.6%***
MSCI Emerging Markets	3.9%	7.1%
FTSE TMX Canada Universe Bond Index**	-0.1%	1.7%
FTSE TMX Canada all corporate bond index **	0.4%	3.7%

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

Table 2
Other price levels/change

	Level	January	2016
CAD per USD exchange rate	$0.767	3.2%	3.0%
Oil (West Texas)*	$52.81	-1.7%	45.0%
Gold*	$1,211	5.0%	8.1%
Reuters/Jefferies CRB Index*	$192.04	-0.2%	9.3%

*U.S. dollars

Table 3
Sector level results for the Canadian market

S&P/TSX Composite sector returns*	January	2016
S&P/TSX Composite	0.6%	17.5%
Energy	-5.6%	31.2%
Materials	9.3%	39.0%
Industrials	0.5%	20.7%
Consumer discretionary	-0.6%	8.2%
Consumer staples	-1.5%	6.1%
Health care	-3.5%	-78.6%
Financials	1.9%	19.3%
Information technology	0.3%	4.4%
Telecommunication services	2.7%	9.9%
Utilities	1.2%	12.7%
Real Estate	-0.5%	4.1%

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

Through the fog, equity markets are receiving strong corporate earnings reports serving as a solid footing upon which to build. So far in the fourth quarter 2016 reporting cycle, corporate earnings have surprised to the upside, with corporate executives serving up a hopeful outlook (with a side order of 'wait and see' caveats attached to the new political landscape).

Globally the Materials sector led the way with rising gold and base metal prices boosting share values. Gold bullion prices strengthened on a number of factors, including:

- The attractive nature of gold as an inflationary hedge during periods of rising global growth and inflation expectations.
- A safety trade in light of some of the uncertainty related to the unconventional governing approach of the Trump team and looming European elections.
- A weaker US dollar (noting that globally commodities trade in US dollars).

Base metal prices for zinc and copper are also up. This too reflects an improving global growth picture, along with worries over possible supply/demand disruptions for copper, and high inventory levels for zinc. While the infrastructure stimulus focus has played less of a role in recent government rhetoric, it remains in the backdrop and should bode well for the materials sector in general.

The energy sector didn't fare as well as had been hoped in January. Natural gas prices have suffered due to the warmer weather conditions this winter and, while oil prices remained solidly above $50/barrel USD, higher rig counts (a strong indicator of greater production capacity) are offsetting the OPEC deal to curb production and global supply. Canadian energy companies were hit harder than their American counterparts in response to the threat of a border adjustment tax and the potential for trade agreements, like NAFTA, to be renegotiated

FIXED INCOME

Canadian and US yields hit their highs of the month midway through President Trump's first week in the Oval Office then later succumbed to the same 'is this really happening?' angst we've already touched on in relation to Trump's policies and executive orders. Yields turned lower half-way through the month mitigating the losses in bond markets and left returns in a better place than had been initially expected. Canadian bond market results were a mixed bag, differing across credit quality and maturity In the end, January's FTSE TMX Canada Universe Bond Index returned -0.12%, with longer dated provincial bonds lagging and shorter term corporate bonds performing best. Corporate bonds in general benefited from the extra income they kick off, keeping investment grade and high-yield corporate bond returns in the black and outperforming their government peers.

KEEPING UP WITH THE JONES'

On January 25th, 2017 the Dow Jones Industrial Average (DJIA) index hit a new milestone when it crossed the 20,000 mark. Here are some interesting facts about the iconic American index:

- The index is over 120 years old. It was launched on May 26, 1896.
- It opened with twelve stocks at a value of 40.94. Other milestones for the index include 1000 on November 14, 1972 and 10,000 on March 29, 1999.
- It is comprised of just 30 companies, represents only a fraction of the value of the entire US stock market, and in spite of the name, it holds only five industrial companies.
- It is a price-weighted index, and therefore does not account for the size of companies in relation to the market as a whole. Therefore a $1 change in the price of a $120 stock in the index will have the same effect on the DJIA as a $1 change in the price of a $20 stock, even though the former stock may have changed by only 0.8% and the later stock changed by 5%.

While the media still tends to report on the DJIA, it's not considered very relevant and is rarely used as a benchmark by active managers like GLC because of its limited scope and price-weighted versus market-weighted approach. So while we don't see this market event as a worthwhile trading signal, we do acknowledge that milestones such as this can cause us to reflect and remark on how far we've come, creating an excellent psychological trigger to encourage us to review our long-term investment plans. And there is something nostalgic to celebrate when we take stock (pun intended) and say 'you've come a long way, baby!'