What Happened in 2017?

For the year ended of December 31st, 2017

Brett Slutker, CFP. CPCA, CCS
Branch Manager

Last Year in the Markets – January 1st - December 31st, 2017

	TSX	S&P 500	DOW	NASDAQ	CAD/USD	GOLD (USD)	OIL (USD)
Month - End	**16,209.13**	**2,647.58**	**24,719.22**	**6,903.39**	**79.86 ¢**	**$1,306.70**	**$ 60.09**
2017 +/-	+ 921.54	+ 434.78	+ 4,956.62	+ 1,520.27	+ 5.46 ¢	+ $ 155.00	+ $ 6.37
2017 +/- %	+ 6.03%	+ 19.42%	+ 25.08%	+ 28.24%	+ 7.34%	+ 13.46%	+ 11.86%
52 wk HIGH	16,232	2,695	24,876	7.004	82.90 ¢	$1,366	$ 60.51
52 wk LOW	14,916	2,234	19,678	5,372	72.50 ¢	$1,169	$ 43.76

(source: Bloomberg https://www.bloomberg.com/markets)

What happened in 2017 and what's ahead for 2018?

The positive market performance of last year was delivered in spite of a tremendous amount of turmoil swirling around the world, and especially in the United States. As we are all painfully aware, much of it was created, maintained and amplified by President Trump.

His actions and statements included international relations that offended allies and riled renegade regimes, domestic interim elections that had him endorsing candidates with dubious credentials and tarnished reputations, and little legislative success until the Republican-sponsored tax reforms were passed.

At home, it was a very Canadian year. The stock market, measured by the TSX, performed more modestly than our American cousins. The North American Free Trade Agreement renegotiations continued with a reasoned and firm approach aimed at achieving a mutually beneficial solution versus the American approach to 'stall and take a stance'.

As we move into 2018, there is growing concern that even more drama will be created due to President Trump's legislative failures and the continuing investigation into Russian interference in the election. In late 2017 as the rhetoric regarding North Korea became more subdued, decisions and statements regarding Jerusalem and Iran became more combative. This seems to foreshadow an increase in Trump's appetite for misdirection and obfuscation.

Back to the markets . . .

In 2017 the TSX delivered solid returns, but were significantly overshadowed by the three main U.S. equity indices; the Dow, the S&P 500 and the NASDAQ.

Following a year of strong returns, like 2017, it is typical to think that the following year will give back the previous year's gains, or stagnate. After a year of 20% or more in returns, the following year's returns average 12.4%. However, the markets have priced-in an optimistic outlook already, and have done so over the past year with little volatility. As always, maintaining a vigilant monitoring stance is crucial to achieve long-term success.

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2017 was the type of year that could lull investors into false sense of security. The level of volatility last year was nearly non-existent. The S&P 500 that gained each and every month of 2017 also only had eight days with a change of 1% or more. Out of 250 trading days, only 8 days saw significant gains or drops.

As each of the indices has grown in nominal amounts, the Dow is now at 25,000 points. The daily gains and losses will be larger numbers than we have been familiar with in the past. Therefore, watching the percentage gains and losses will become more important than the points; at least until we all become familiar with the size of these numbers.

The Canadian and American economies continue to grow nicely with favorable monetary policy from central banks, tax cuts from the U.S. for corporations and individuals, and job creation and unemployment levels at near record positives.

Unemployment rates in Canada and the U.S. are at their lowest levels in two decades and wage growth will be the natural next effect. Increasing wages drives consumer spending, which contributes to Gross Domestic Product growth; all of which can lead to inflation.

2018 is expected to fall short of 2017's economic performance but the momentum of last year will not dissipate quickly or completely.

As a result of the expected slight slowing of the economies in North America, the amount and frequency of interest rate increases is expected to slow as well. The Bank of Canada has trailed the U.S. in its rate-hike strategy and that trend will likely not change in 2018.

Two interest rate increases are widely predicted for the U.S. in 2018, as the Federal Reserve also reduces its bond holdings significantly during the year. As the Fed reduces the size of its balance sheet by selling off these assets, it will be accomplished in a measured fashion to avoid any shocks to the bond markets. This can be achieved under the current conditions of solid GDP growth, low inflation, and a strong jobs market.

2018 is expected to be another strong year for equities, based on the historical performance following 20%-plus years; but stay vigilant, as always.