GP WEALTH MANAGEMENT

It's been an eventful time for financial markets and investors. In the early days of 2018, equities in many regions around the world continued the dizzying rise in valuations that had characterized most of 2017.

In the U.S., from the start of the year through to January 26, the S&P 500 index rose a jaw-dropping 5.6% — the biggest gain for a January since 1997. This was followed by a steep 10% drop, a rise in volatility and more losses. Like many other indexes, the S&P 500 now finds itself in correction territory.

What's behind the market volatility

The tailwinds for the recent surge in equity values were the big U.S. tax cuts, massive U.S. infrastructure spending plans, synchronized global growth and strong corporate earnings.

But investor optimism was shaken when a spike in average U.S. hourly wages was seen in the January payrolls report. This sparked fear that inflation could rise and bring about higher-than-expected interest rates.

More recently, fear of a global trade war caused by U.S. protectionism and concerns that privacy issues could undo some of the biggest players in the tech sector have caused further market swings.

These new headwinds have arrived at a time when the U.S. economic expansion shows signs of transitioning into the final stage of a historic bull run. The last time the U.S. stock market bottomed was March 2009. From that point through to late January of this year, the S&P 5000 gained 364%, generating a compound annual growth rate twice the historical average, with much lower-than-average volatility.

Canadian outlook mixed

By some measures, Canada's fundamentals appear to be solid. On the economic front, Canada is currently benefitting from buoyant commodity prices, which are the result of America's late-stage growth spurt and the synchronization of global growth. In February, the unemployment rate nudged down to 5.8 per cent. This matches the levels prior to 2008/09 recession. An unemployment level this low in Canada is so unusual we need to further go back to June 1974 to find previous similar levels.

However, a host of uncertainties persist for Canada, including the outcome of the NAFTA negotiations, the slowdown in housing activity and the potential for further interest rate hikes.

When it comes to markets, the lack of love for Canadian equities persists. The S&P/TSX Composite returned -5.19% in Q1 2018. That's the index's weakest quarter in two and a half years.

(Cont..)

400-5045 Orbitor Drive, Building 11, Mississauga, On L4W 4V4 | T: 416.622.9969 | E: info@gpwealth.ca | W: gpwealth.ca

GP WEALTH MANAGEMENT

U.S. growth continues

Although the bull market south of the border is extended, the growth in the economy is broad based, suggesting a low probability of recession. Additionally, profit growth and credit trends have yet to show signs of significant deterioration, which typically occurs during the late stage of the business cycle.

Still, the tight labour market could lead to further wage increases. If this happens, the Fed will be inclined to further raise interest rates, putting a restraint on profits and investor enthusiasm.

Global markets steady

Across the major economies, expansion continues and remains relatively synchronized. Most major economies are in the mid-to-late stages of the business cycle and exhibit low recession risk. Across Europe, most regions continue to experience above-trend growth. In China, the economy continues to expand, with some softening, and now policy-makers must grapple with a potential trade war against the United States.

Broadly speaking, the global expansion is on firm ground. However, with most economies crossing into the mature phase of the business cycle, activity levels are at risk of peaking and inflationary pressures are starting to build.

What lies ahead

As should be expected in the later stages of a business cycle, stock valuations are high, which increases the risk of prices falling in the future. At the same time, the economic fundamentals that have supported one of the longest market rallies in history haven't changed that much. In the end, stock prices generally follow earnings, and earnings are rising. This earnings momentum could lead to further price gains and help limit losses as valuations reset.

Getting Advice

Are you looking for additional perspective on the financial markets and how they might affect your portfolio? We encourage you to talk to us. Speak to your Financial Advisor or contact investor services at **1 800 608 7707**.

*As of March 30, 2018

MARKET MONITOR

MARKET INDICATORS	MARKET CLOSE*	2017 RETURN	2018 Q1	2018 RETURN
S&P/TSX Composite	15,367.29	+6.03%	-5.197%	-5.197%
Dow Jones	24,103.11	+24.39%	-2.49%	-2.49%
MSCI World	2,066.845	+22.40	-1.28%	-1.28%

400-5045 Orbitor Drive, Building 11, Mississauga, On L4W 4V4 | T: 416.622.9969 | E: info@gpwealth.ca | W: gpwealth.ca