Highlights

Global equity markets produced strong gains in 2017	Equity volatility was historically low, especially in the US
Despite a hot streak for the Canadian economy, Canadian equities were one of the weaker performing markets in 2017	Tightening credit spreads boosted fixed income results

This edition of GLC's Market Matters contains excerpts from both GLC's 2017 Market Review, and GLC's 2018 Capital Market Outlook. These special GLC reports can be found in full on GLC's website and LinkedIn page.

Stocks, bonds and the economy beat expectations in 2017

Equity markets were buoyed by synchronized global economic growth and modest inflation that propelled robust corporate earnings growth, and capital market returns that exceeded expectations set out at the start of 2017.

Dominant themes

Two dominant (often opposing) themes pushed and pulled on both equity and bond markets. On one side was the 'reflation trade': market moves based on the view that the world economy is in synchronized economic expansion that will bring firming inflation and normalizing monetary policy. Expectations for the reflation trade were boosted by expansionary fiscal policy in the US. When this theme ruled (most notably in the last four months of the year), bond yields rose and cyclically-oriented equity sectors (financials, energy, materials and industrials) benefited. Markets like Canada and emerging markets were beneficiaries of the reflation trade.

On the other side was a view that economic growth would fade, inflation would remain elusive, and US fiscal stimulus policies wouldn't see the light of day. When this view was in vogue (most notably between March and August), bond yields fell, and investors looked for secular growth stories such as companies with unique growth prospects that are not predicated solely on robust underlying economic growth. These stocks are found predominately in the information technology and health care sectors.

Market Summary

Canadian Fixed Income[1]	MTH	QTR	YTD
FTSE TMX Canada Universe Bond Index	-0.4%	2.0%	2.5%
FTSE TMX Canada All Corporate Bond Index	-0.4%	1.9%	3.4%

Canadian Equities[2]	MTH	QTR	YTD
S&P/TSX Composite	0.9%	3.7%	6.0%

	MTH		QTR		YTD	
Global Equities[2]	Local	CAD	Local	CAD	Local	CAD
S&P 500	1.0%	-1.5%	6.1%	7.0%	19.4%	11.7%
MSCI EAFE	1.1%	-1.0%	3.3%	4.8%	12.2%	13.9%
MSCI Emerging Markets	2.3%	0.8%	5.3%	8.0%	27.8%	25.7%

Currencies and Commodities (in USD)	Level	MTD	QTD	YTD
CDN $	$0.795	2.6%	-0.8%	6.9%
Oil (West Texas)	$60.42	5.3%	16.9%	12.5%
Gold	$1,306.22	2.7%	1.8%	13.3%
Reuters/Jeffries CRB Index	$193.86	2.5%	5.9%	0.7%

Canadian Sector Performance[2]	MTH	QTR	YTD
Consumer Discretionary	-0.7%	4.1%	20.4%
Consumer Staples	-0.2%	5.8%	6.4%
Energy	0.8%	-0.2%	-10.0%
Financials	0.4%	4.7%	9.4%
Health Care	24.1%	46.3%	32.7%
Industrials	2.0%	3.9%	17.9%
Information Technology	0.3%	3.3%	16.2%
Materials	3.4%	4.6%	6.3%
Real Estate	0.5%	4.7%	5.8%
Telecom	-2.1%	3.2%	9.9%
Utilities	-1.2%	1.5%	6.2%

Local currency unless otherwise stated. | [1]Total return [2]Price only return
Source: Bloomberg, FTSE TMX Global Debt Capital Markets Inc.

A positive return for fixed income markets

The year's positive return was slightly above our 2017 forecast as September's highs for Government of Canada 10-year bond yields were unable to hold into year-end, and overall index results received a bigger boost from credit spread tightening.

The Federal Reserve (Fed) hiked rates three times, while the Bank of Canada (BoC) hiked twice. Central bank moves pushed short term yields higher, while longer term bond yields failed to get the same lift as inflation remained moderate, effectively flattening the yield curve.

Canadian equities muddled along for much of 2017

Canadian equities muddled along for much of 2017 before responding to the 'reflation' trade and higher oil prices in the last four months of the year. The S&P/TSX Composite's relative under performance stems largely from its sector weightings. The energy and financial sectors account for more than half of the index (each underperforming their US counterparts), while the year's darling sectors of information technology and health care combined are a scant 4% weight of the S&P/TSX Composite versus 38% weight in the S&P 500.

Oil ultimately ended the year up 12.5%, but it wasn't a straight line. Crude entered bear market territory in June, before rallying 42% to the end of the year.

US equities continued to climb higher in 2017

The 106 month bull market is now the second longest on record and the S&P 500 racked up an impressive 62 new all-time highs in 2017.

The US economy continues to be in good shape. Measures of business and consumer confidence hit record high levels during the year. Megacap technology-related names Amazon, Facebook, Apple, Microsoft and Alphabet were leading contributors on the secular growth trade.

International equities were focused on synchronized global growth and secular growth themes

Outside of North America, strong economic growth and continued easy monetary policy supported European and Japanese stock markets. Emerging markets benefited from both the synchronized global growth environment and the secular growth trade. In particular, the cyclical components of emerging markets are beneficiaries of a rebound in global trade and stability in the US dollar.

2018 capital market outlook strikes a balance

Heading into 2018, we believe the world economy and financial markets are progressing through the later stages of the business cycle. We feel that the global economy has enough momentum and that inflation and financial conditions will remain accommodative long enough that we continue to favour equities over fixed income. Within that outlook, we acknowledge the attractiveness of equities over bonds on a risk-adjusted basis has narrowed. The result strikes a balance - a tempered risk-on position with a slight overweight in equities. For more on what capital markets may hold for 2018 and beyond, please see GLC's 2018 Capital Market Outlook.