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2017 Year in Review and 2018 Outlook

There are several reasons to remain optimistic for growth in 2018. On January 5th 2018 the unemployment rate in Canada dropped to 5.7%, the lowest since 1974. Annual wage growth as of December 2017 was up to 2.9%. Our strong labor market means that interest rates are headed up. The investment community is expecting the Bank of Canada to raise rates three times this year from 1.0% to 1.75%. Interest rates are still low by historical standards, but this promise of higher interest rates is overdue for fixed income investors. Despite the concern of higher interest rates, housing prices climbed again in 2017. The message here is that a paycheck is needed to service a mortgage and cover interest costs. Lastly, the US economy appears on solid ground with Trump's promise of tax reform having been approved in December 2017.

As we head into 2018, there are a few signs investors need to exercise some caution. Canada is in the middle of NAFTA negotiations which may not turn out as favorable as one had hoped. Household debt in Canada is at record levels which the Bank of Canada is watching and warning about. In commodities, oil has now pushed through USD $60/barrel. OPEC maintaining production cuts is important to follow while watching the pick-up in drilling activity will also be key to maintaining prices. Global central banks (Europe & Japan) are still in accommodation mode and these markets are addicted to low interest levels.

The S&P/TSX finished the year up 6.0%, but when you include dividends, the number climbs to 9.1%. I am firm believer in the compounding benefits of dividends. This recent example shows you that the total return is close to 50% higher with dividends. The US Market had an even stronger year gaining 19.4% (in CAD$) while the Dow Jones Industrial Average was up 25.1% (in CAD$). Equity values are high heading into 2018. Using historical patterns as a guide, the risk-return possibilities in a late-cycle phase are generally less attractive then early in the cycle. Investors are keying in on earnings to see if they've kept pace with share prices. The recent US corporate tax cuts have a chance to support these elevated share prices if dividends rise and share buybacks start up.

The Canadian dollar strengthened 7.0% against the US dollar in 2017. As I write this the Canadian dollar sits above $.80. Our dollar is higher in part to low unemployment, rising interest rates and higher energy prices. Canada and the US are the only G7 economies raising rates.

The continuation of global and US growth should be given the benefit of the doubt. We continue to recommend a diversified portfolio while matching Asset Allocation with risk tolerance. In this market, our portfolio approach carries a slight overweight to Equity. Fixed Income is still necessary to stabilize portfolios. We will keep a watch on interest levels as they remain at distant low levels from 'choking' off a growing economy.

Please call us if you have any questions or concerns, or to plan an in-depth portfolio review. May 2018 be a healthy and prosperous year for you and your family.

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