



**Fraser Kochan, CPA, CA, CIM**

Vice President, Associate Portfolio Manager  
fraser.kochan@rbc.com  
306-773-7245

**Erin Mullin**

Associate  
erin.mullin@rbc.com  
306-770-2540

**Dorene Bymoen**

Associate  
dorene.bymoen@rbc.com  
306-770-2541

137 1st Ave NE  
Swift Current, SK S9H 2B1

www.fraserkochan.ca  
1 800 667-2466

## What moved the markets

The release of the 2018 Federal Budget dominated Canadian headlines towards the end of the month, following a string of underwhelming economic releases. In the U.S., new Federal Reserve Chair Jerome Powell emphasized the emergence of positive economic data following a brief equity market correction and the sudden return of volatility.

### Equity markets comments

Equity markets were negative in North America, with the S&P/TSX outperforming the S&P 500 by 0.7% for the month. In Canada, Information Technology and Industrials were the only two sectors posting positive returns with 5.8% and 1.3%, respectively. The S&P/TSX Healthcare sector was the weakest of the group, with losses of -10% for the month.

In the U.S., the S&P 500 closed at -3.7% for the month with all sectors ending in negative territory, with the exception the Information Technology sector which rose 0.1%. The Energy sector led the S&P 500's decline with losses of -10.8%.

### Fixed Income Specific Developments

The 2018 Canadian Federal Budget revealed only minor changes to the projected deficit and maintained the forecast for an average annual deficit in excess of \$15 billion over the next six years. The Budget focuses heavily on gender equity, innovation and skills, and includes a National Housing Strategy, the latter of which is a measure intended to improve the affordability of rental housing. Measures to tackle gender equality include legislation regarding a pay equity regime for federally regulated sectors, as well as \$1.2 billion over 5 years to support a "use it or leave it" EI Parental Sharing Benefit, which would provide additional paid time off for those who share parental leave. The program is aimed at increasing female participation in the labour force, and specifically cites RBC Economics research indicating that increasing the female participation rate could increase GDP by up to 4%. However, the budget drew heavy criticism for the decision to abstain from returning to a balanced budget while the economy is operating close to capacity, and for failing to address Canadian competitiveness while foreign direct investment in Canada is at its lowest level since the global financial crisis.

All indices and figures priced in local currency as at February 28, 2018 (unless otherwise stated). For important disclosures, see page 11.

## Number crunching

Equity indices*	Month	YTD*
S&P/TSX Composite Index TR	-3.0%	-4.4%
Dow Jones Industrial Average TR	-4.0%	1.7%
S&P 500 Index TR	-3.7%	1.8%
NASDAQ Composite Index TR	-1.7%	5.5%
MSCI EAFE TR (USD)	-4.5%	0.3%
MSCI World TR (USD)	-4.1%	1.0%

S&P/TSX sector performance*	Month	YTD*
S&P/TSX Financials TR	-3.2%	-2.4%
S&P/TSX Energy TR	-6.1%	-11.1%
S&P/TSX Materials TR	-4.0%	-4.6%
S&P/TSX Industrials TR	1.3%	-0.5%
S&P/TSX Consumer Discretionary TR	-3.2%	-3.5%
S&P/TSX Telecom Services TR	-2.1%	-6.6%
S&P/TSX Information Technology TR	5.8%	11.5%
S&P/TSX Consumer Staples TR	-2.7%	-4.5%
S&P/TSX Utilities TR	-3.4%	-7.6%
S&P/TSX Healthcare TR	-10.0%	-13.7%

\* All returns are on a Total Return basis. All indices are in local currency unless otherwise noted. Source: Bloomberg

Headline CPI inflation increased 1.7% year-over-year in January, according to the most recent release by Statistics Canada. The January increase is a slight dip from the 1.9% increase seen in December and falls below the Bank of Canada's target of 2%, but the data did beat market expectations of 1.5%. Core CPI inflation grew by 1.5%, falling from the 1.7% growth rate recorded in December. Prices for food purchased at restaurants increased by 4.9% and childcare and housekeeping prices increased by 9.9%, coinciding with the introduction of higher legislated minimum wages in Ontario.

The Canadian economy shed 88,000 jobs in January, according to the latest Labour Force Survey released by Statistics Canada, falling well short of the expected gain of 10,000 jobs. The January decline, which was comprised of an increase of 49,000 full-time positions offset by a decrease of 137,000 part-time positions, ends a 17-month streak of employment gains. This represents the largest monthly loss in jobs since 2009, and the largest drop in part-time positions on record. Although the unemployment rate increased by 0.1% to 5.9%, it remains among the lowest level of unemployment in over four decades. On a regional basis, the bulk of job losses were experienced in Ontario, which accounted for 67% of the 88,000 positions shed and again coincided with the introduction of higher legislated minimum wages.

NAFTA negotiations resumed on February 25th in Mexico City, and are scheduled to run until March 5th. Negotiators have reportedly completed the first official chapter of the agreement, which pertains to regulatory best practices, according to Bloomberg News. However, the most contentious issues remain outstanding, including rules of origin for auto manufacturing and the inclusion of a "sunset" clause that would require all three member nations to agree to extend the agreement after five years. An agreement on the rules of origin would determine the proportion of content that must originate in North America in order to benefit from NAFTA tariff exemptions. U.S. negotiators are reportedly seeking to raise the North American origin requirement to 85% from the previous level of 62.5%, and add a U.S. origin requirement of 50%.

In the U.S., both the release of minutes from the January 31st Federal Open Market Committee (FOMC) policy meeting and rhetoric from newly minted Federal Reserve Chair Jerome Powell's first testimony to Congress appeared to reaffirm the Federal Reserve's commitment to a gradual tightening of monetary policy. The FOMC meeting minutes cited rising U.S. equity prices, tightening of corporate credit spreads, solid growth in real GDP, and strong expectations of inflation as signs of economic strength. Echoing this sentiment, Powell indicated that recent data suggests that inflation is progressing towards the target, although there is no evidence that the economy

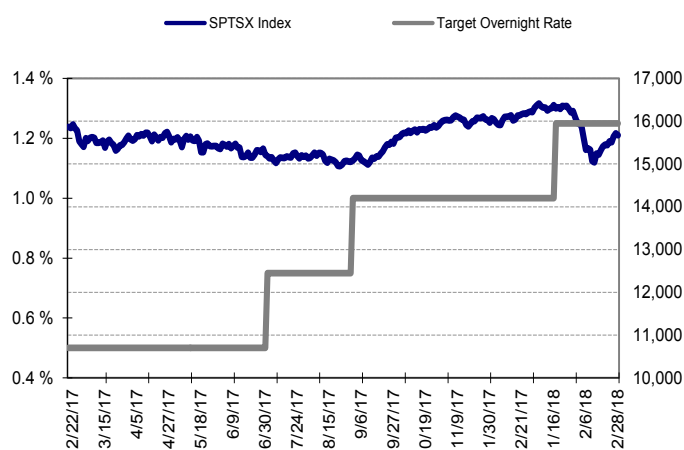
Currencies (in Canadian dollars)	Exchange	Month	YTD*
US Dollar	1.2831	4.2%	2.1%
Euro	1.5646	2.4%	3.7%
British Pound	1.7657	1.0%	4.0%
Japanese Yen	0.0120	6.7%	7.8%

Currencies (one Canadian dollar)	Exchange	Month	YTD*
US Dollar	0.7793	-4.0%	-2.0%
Euro	0.6391	-2.3%	-3.6%
British Pound	0.5664	-1.0%	-3.8%
Japanese Yen	83.1360	-6.2%	-7.3%

Commodities (US\$)	Spot price	Month	YTD*
Crude Oil (WTI per barrel)	\$61.64	-4.8%	2.0%
Natural Gas (per million btu)	\$2.67	-11.0%	-9.7%
Gold (per ounce)	\$1,318.38	-2.0%	1.2%
Silver (per ounce)	\$16.42	-5.3%	-3.1%
Copper (per pound)	\$3.13	-2.6%	-4.3%
Nickel (per pound)	\$6.23	1.4%	8.2%
Aluminum (per pound)	\$0.98	-3.0%	-4.5%
Zinc (per pound)	\$1.56	-2.6%	3.9%

\*All returns are on a Total Return basis All indices are in local currency unless otherwise noted.

#### S&P/TSX Index – target overnight rate, LTM



Source: RBC Wealth Management, Bloomberg

is overheating. The positive tone has raised expectations that the Federal Reserve may elect to raise the federal funds effective rate four times in 2018 as opposed to the planned three if inflationary pressures accelerate.

Data released by the US Bureau of Labor Statistics indicated that consumer prices rose by 0.5% in January, beating expectations of 0.3%. On an annual basis, the headline inflation figure hit 2.1%, exceeding the Fed target of 2% and market expectations of 1.9%. Taking out the more volatile measures that include energy and food, core inflation remained unchanged at 1.8% on an annual basis.

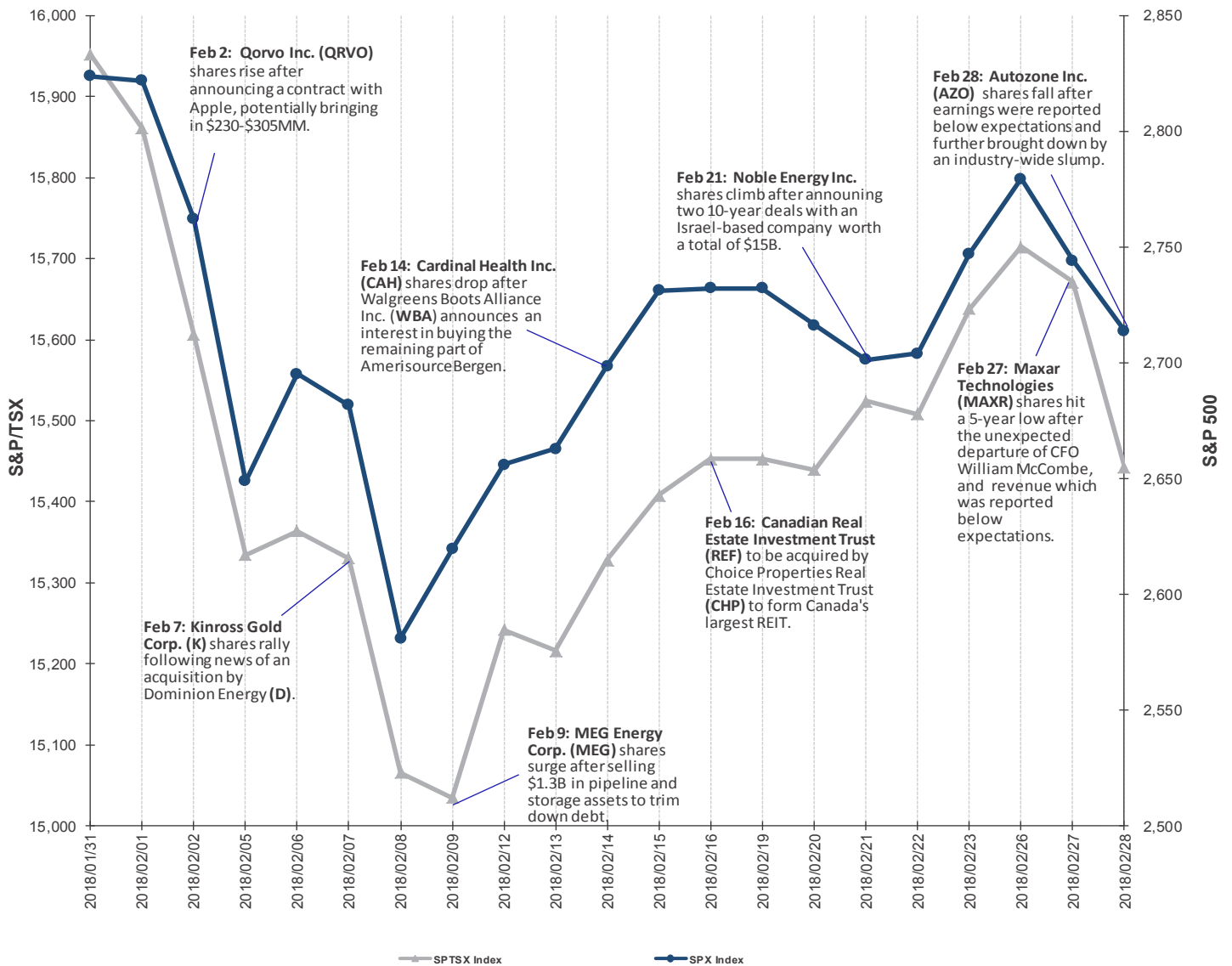
Corrections in the equity market in early February were accompanied by the biggest single day surge in the VIX, an index that reflects the market estimate of future volatility. This caused exchange-traded products designed to short the VIX index to incur substantial losses. Several financial services firms liquidated their inverse VIX funds, which fell from a combined value of \$3 billion to just \$150 million in a single day. Amid anticipation of higher US Treasury yields and further hikes in the federal funds effective rate, high yield bond funds were hit by the second highest outflow on record. Net outflows for debt funds exceeded \$14 billion during the week ending February 14th, while high yield bond funds were hit the hardest, experiencing net outflows in excess of \$10 billion. By comparison, high yield bond funds recorded nearly \$6 billion in outflows in March of 2017 following a hike of the U.S. Federal Funds effective rate, and over \$11 billion in outflows in August of 2014 amid speculation of the first rate hike following the 2008-2009 recession.

In the U.K., the Bank of England held interest rates and their asset purchase policy steady following their latest monetary policy meeting, but lifted growth forecasts and held inflation expectations above target. Signs of momentum in the economy are slow to emerge, as the latest Q4 GDP data release saw growth of 0.4% quarter-over-quarter, narrowly missing the market expectation of 0.5%. The UK labour market report indicated employment gains well below the 165,000 consensus estimate, coming in at 88,000 compared with the three months prior, as the unemployment rate edged up by 0.1% to 4.4%.

In Japan, core consumer inflation held steady at 0.9% in January, falling in line with the consensus forecast, but continued to fall short of the Bank of Japan's 2% inflation target. Japan's fourth quarter GDP grew at an annualized rate of 0.5% over the previous quarter, representing the eighth consecutive quarter of growth and the longest stretch of growth since 1989. The most recent release of economic data preceded the nomination of Haruhiko Kuroda, who will serve a second five-year term as the Governor of the Bank of Japan. Prime Minister Shinzo Abe's reappointment of Kuroda will make him the longest serving Bank of Japan Governor in half a century.

# North American equity highlights

February 2018

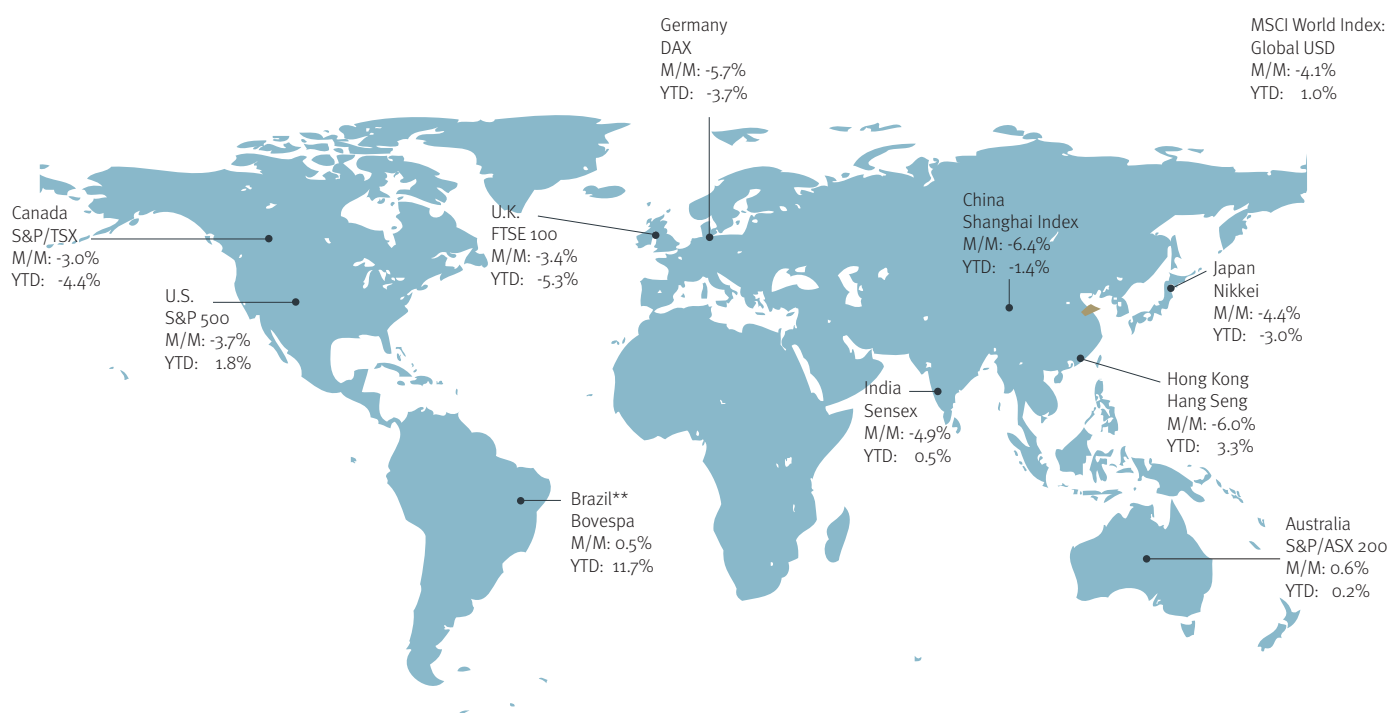


Source: Bloomberg

# World markets

## February month-over-month and year-to-date performance

Most global indices in February closed in the negative territory. In North America, the S&P/TSX dropped -3.0% for the month while the S&P 500 posted even greater losses at -3.7%. U.K.'s FTSE 100 and Germany's DAX dropped -3.4% and -5.7%, respectively. India's Sensex fell -4.9% while Japan's Nikkei also closed in negative territory at -4.4%. The Asian market posted the worst performance in the group, with China's Shanghai Index falling -6.4% and Hong Kong's Hang Seng down -6.0%. In contrast, Australia's S&P/ASX200 and Brazil's Bovespa closed the month as the highest of the group at 0.6% and 0.5%, respectively. Overall, the MSCI World Index fell -4.1%.



All returns are on a total return basis unless otherwise noted. All returns calculated in local currency except for MSCI World

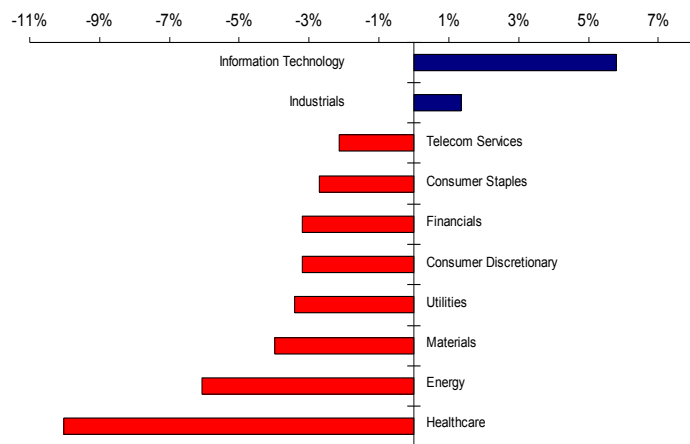
\*\* These indices are calculated on a price return basis

Source: Bloomberg, RBC Wealth Management, 02/28/18

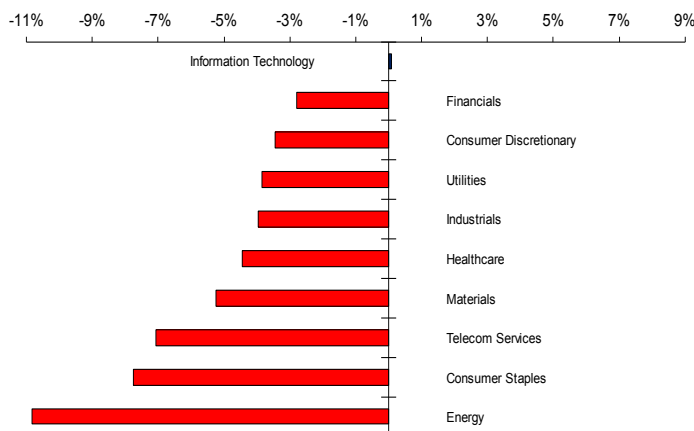
# Canadian & U.S. equities

February 2018

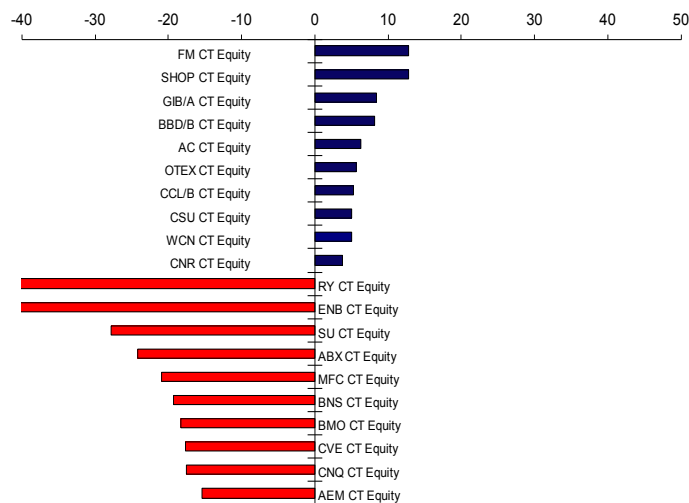
S&P/TSX composite sector movement



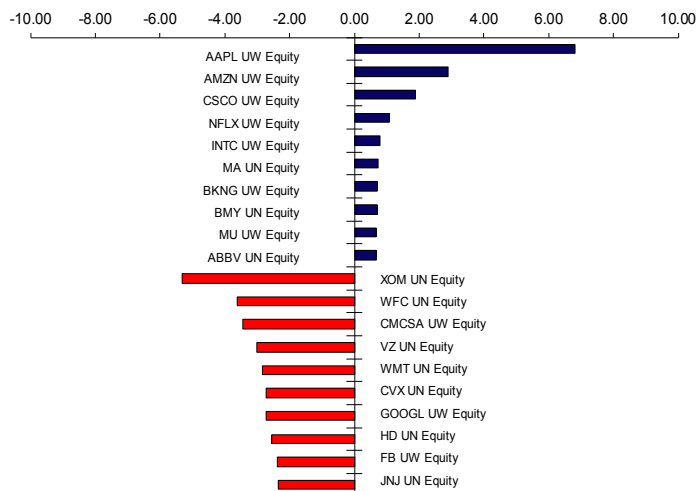
S&P 500 sector movement



Top 10 S&P/TSX contributors/decliners by index points



Top 10 S&P 500 contributors/decliners by index points



Source: Bloomberg

# Canadian and U.S. economic data

February 2018

Release date	Economic indicators: Canada	Period	Consensus	Actual	Prior
01/31/2018	Gross Domestic Product (m-o-m, SA)	Nov	0.40%	0.40%	0.00%
01/31/2018	Gross Domestic Product (y-o-y, SA)	Nov	3.40%	3.50%	3.40%
Labour market					
02/09/2018	Net Change in Employment (ooo, SA)	Jan	10.0	-88.0	64.8
02/09/2018	Participation Rate (SA)	Jan	--	65.50%	65.80%
02/09/2018	Unemployment Rate (SA)	Jan	5.80%	5.90%	5.80%
Housing market					
02/08/2018	Housing Starts (ooo, SAAR)	Jan	210	216.2	216.3
02/08/2018	New Housing Price Index (y-o-y)	Dec	--	3.30%	3.40%
02/15/2018	Existing Home Sales (m-o-m)	Jan	--	-14.50%	4.50%
02/14/2018	Teranet/National Bank HPI (m-o-m)	Jan	--	0.30%	0.20%
Consumer & manufacturing					
02/22/2018	Retail Sales (m-o-m, SA)	Dec	-0.10%	-0.80%	0.30%
02/22/2018	Retail Sales Less Autos (m-o-m, SA)	Dec	0.30%	-1.80%	1.70%
02/16/2018	Manufacturing Sales (m-o-m, SA)	Dec	0.30%	-0.30%	3.80%
Trade					
02/06/2018	Merchandise Trade (billion, SA)	Dec	-2.32	-3.19	-2.71
Prices					
02/23/2018	Consumer Price Index (m-o-m)	Jan	0.50%	0.70%	-0.40%
02/23/2018	Consumer Price Index (y-o-y)	Jan	1.50%	1.70%	1.90%
02/28/2018	Industrial Product Price (m-o-m)	Jan	0.50%	0.30%	-0.10%
02/28/2018	Raw Materials Price Index (m-o-m)	Jan	--	3.30%	-0.90%
Other indicators					
02/20/2018	Wholesale Sales (m-o-m, SA)	Dec	0.40%	-0.50%	0.30%
02/06/2018	Ivey Purchasing Managers Index (SA)	Jan	--	55.2	60.4
02/07/2018	Building Permits (m-o-m, SA)	Dec	2%	5%	-7%

Release date	Economic indicators: U.S.	Period	Consensus	Actual	Prior
02/28/2018	GDP (q-o-q, SAAR)	4Q S	2.50%	2.50%	2.60%
02/28/2018	GDP Price Index (q-o-q, SAAR)	4Q S	2.40%	2.30%	2.40%
02/28/2018	Core PCE (q-o-q, SAAR)	4Q S	1.90%	1.90%	1.90%
Labour market					
02/02/2018	Change in Nonfarm Payrolls (ooo, SA)	Jan	180.0	200.0	160.0
02/02/2018	Unemployment Rate (SA)	Jan	4.10%	4.10%	4.10%
Housing market					
02/16/2018	Building Permits (ooo, SAAR)	Jan	1300.00	1396.00	1300.00
02/16/2018	Housing Starts (ooo, SAAR)	Jan	1234.00	1326.00	1209.00
02/26/2018	New Home Sales (ooo, SAAR)	Jan	647.00	593.00	643.00
02/21/2018	Existing Home Sales (million, SAAR)	Jan	5.60	5.38	5.56
02/15/2018	NAHB Housing Market Index (SA)	Feb	72	72	72
02/01/2018	Construction Spending (m-o-m, SA)	Dec	0.40%	0.70%	1.20%
Consumer & manufacturing					
02/14/2018	Advance Retail Sales (m-o-m, SA)	Jan	0.20%	-0.30%	0.00%
02/14/2018	Retail Sales Less Autos (m-o-m, SA)	Jan	0.50%	0.00%	0.10%
02/27/2018	Consumer Confidence (SA)	Feb	126.5	130.8	124.3
02/16/2018	U. of Michigan Confidence	Feb P	95.5	99.9	95.7
02/28/2018	Personal Consumption (q-o-q, SAAR)	4Q S	3.60%	3.80%	3.80%
02/27/2018	Durable Goods Orders (m-o-m, SA)	Jan P	-2.00%	-3.70%	2.60%
02/02/2018	Factory Orders (m-o-m, SA)	Dec	1.50%	1.70%	1.70%
Trade					
02/16/2018	Import Price Index (m-o-m)	Jan	0.60%	1.00%	0.20%
02/16/2018	Import Price Index (y-o-y)	Jan	3.00%	3.60%	3.20%
02/06/2018	Trade Balance (billion, SA)	Dec	-52.1	-53.1	-50.4
Prices					
02/14/2018	Consumer Price Index (m-o-m, SA)	Jan	0.30%	0.50%	0.20%
02/14/2018	Consumer Price Index (y-o-y)	Jan	1.90%	2.10%	2.10%
02/14/2018	CPI Core Index (SA)	Jan	--	255.29	254.40
Other Indicators					
02/01/2018	ISM Manufacturing Index (SA)	Jan	58.6	59.1	59.3
02/28/2018	Chicago Purchasing Manager Index	Feb	64.1	61.9	65.7
02/15/2018	Philadelphia Fed Index	Feb	21.8	25.8	22.2
02/22/2018	Leading Indicators (m-o-m)	Jan	0.70%	1.00%	0.60%
02/14/2018	Business Inventories (m-o-m, SA)	Dec	0.30%	0.40%	0.40%

Source: Bloomberg

SA = Seasonally Adjusted; SAAR = Seasonally Adjusted Annual Rate; m-o-m = Month-over-month % change; q-o-q = Quarter-over-quarter % change; y-o-y = Year-over-year % change.

## Notable Canadian dividend activity – February 2018

Increases				
Company	\$ Change		Ex-Date	% Change
Intact Financial Corp.	Prior: \$0.6400	New: \$0.7000	March 14, 2018	9.4%
Brookfield Renewable Partners	Prior: \$0.4675	New: \$0.4900	February 27, 2018	4.8%
Suncor Energy Inc.	Prior: \$0.3200	New: \$0.3600	March 2, 2018	12.5%
Bce Inc.	Prior: \$0.7175	New: \$0.7550	March 14, 2018	5.2%
Manulife Financial Corp.	Prior: \$0.2050	New: \$0.2200	February 20, 2018	7.3%
Stingray Digital	Prior: \$0.0500	New: \$0.0550	February 27, 2018	10.0%
Brookfield Property Partners	Prior: \$0.2950	New: \$0.3150	February 27, 2018	6.8%
Brookfield Infrastructure Partners LP	Prior: \$0.4350	New: \$0.4700	February 27, 2018	8.0%
Killam Apartment REIT	Prior: \$0.0517	New: \$0.0533	March 31, 2018	3.1%
West Fraser Timber	Prior: \$0.1100	New: \$0.1500	March 16, 2018	36.4%
Brookfield Asset Management	Prior: \$0.1400	New: \$0.1500	February 27, 2018	7.1%
Maple Leaf Foods Inc.	Prior: \$0.1100	New: \$0.1300	March 8, 2018	18.2%
Pan American Silver Corp.	Prior: \$0.0250	New: \$0.0350	March 2, 2018	40.0%
Transcanada Pipeline	Prior: \$0.6250	New: \$0.6900	March 28, 2018	10.4%
Magna	Prior: \$0.2800	New: \$0.3300	March 8, 2018	17.9%
Stantec	Prior: \$0.1250	New: \$0.1375	March 28, 2018	10.0%
Innergex	Prior: \$0.1650	New: \$0.1700	March 28, 2018	3.0%
Toromont	Prior: \$0.1900	New: \$0.2300	March 8, 2018	21.1%
Bank of Nova Scotia	Prior: \$0.7900	New: \$0.8200	April 2, 2018	3.8%
PrairieSky Royalty	Prior: \$0.0625	New: \$0.0650	February 27, 2018	4.0%

Source: Bloomberg

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			Count	Percent
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HOLD [Sector Perform]	683	41.24	155	22.69
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