



**Omar Shash, MBA**  
Investment Advisor  
omar.shash@rbc.com  
(514) 878 - 7952

1 Place Ville Marie, Suite 521  
Montreal, QC  
H3B 1Z3  
www.omarshash.com

## What moved the markets

Monetary policy meetings were front and center this month, as the Bank of Canada raised its benchmark rate by 25 bps to 1.25%, while the Federal Reserve, European Central Bank, and Bank of Japan held rates steady.

Accompanying economic data releases showed strong growth across the board, although inflation continues to lag behind the target rate in the U.S., Europe, and Japan. The sixth round of NAFTA renegotiations yielded little certainty, although all parties have communicated varying degrees of optimism.

### Equity markets comments

Equity markets in North America were mixed. The S&P/TSX posted -1.4% while the S&P500 recorded a 5.7% return. In Canada, Information Technology and Financials were the only two S&P/TSX sectors with positive returns, posting 5.4% and 0.8% respectively. Conversely, the Canadian Energy sector was the weakest of the group with losses of -5.4%.

In the U.S., all sectors ended the month in positive territory with the exception of the Utilities sector closing at -3.1%. The Consumer Discretionary sector led the U.S. markets with a gain of 9.3%.

### Fixed income specific developments

The Bank of Canada (BoC) raised its benchmark rate to 1.25% from 1% following the January 17th meeting. It was the third increase since last July, taking the overnight rate to the highest level since the financial crisis. The BoC's Statement, Monetary Report, and press conference reiterated that a flexible approach will be taken in considering future rate moves, citing uncertainty surrounding the future of NAFTA. The BoC noted that the data since October has been stronger than they expected, including solid employment gains, inflation close to target, and a reduction in labour market slack. The BoC touched briefly on household debt, but noted that household spending is expected to slow as the impacts of higher rates and changes to the B-20 guidelines take hold in the mortgage market. On the prospect of future rate hikes, the BoC indicated that they will be "guided by incoming data in assessing the economy's sensitivity to interest rates" and will be taking a slow and gradual approach to the tightening of monetary stimulus.

All indices and figures priced in local currency as at January 31, 2018 (unless otherwise stated). For important disclosures, see page 11.

## Number crunching

Equity indices*	Month	YTD*
S&P/TSX Composite Index TR	-1.4%	-1.4%
Dow Jones Industrial Average TR	5.9%	5.9%
S&P 500 Index TR	5.7%	5.7%
NASDAQ Composite Index TR	7.4%	7.4%
MSCI EAFE TR (USD)	5.0%	5.0%
MSCI World TR (USD)	5.3%	5.3%

S&P/TSX sector performance*	Month	YTD*
S&P/TSX Financials TR	0.8%	0.8%
S&P/TSX Energy TR	-5.4%	-5.4%
S&P/TSX Materials TR	-0.6%	-0.6%
S&P/TSX Industrials TR	-1.8%	-1.8%
S&P/TSX Consumer Discretionary TR	-0.3%	-0.3%
S&P/TSX Telecom Services TR	-4.5%	-4.5%
S&P/TSX Information Technology TR	5.4%	5.4%
S&P/TSX Consumer Staples TR	-1.9%	-1.9%
S&P/TSX Utilities TR	-4.3%	-4.3%
S&P/TSX Healthcare TR	-4.1%	-4.1%

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

Economic data released by Statistics Canada this month were positive indicators of sustained Canadian economic growth. Canadian GDP growth bounced back with a 0.4% month over month increase in November, or 3.5% year over year, predominantly due to increases in manufacturing, mining, and oil and gas extraction. Gains were recorded across 17 of 20 industry classifications as the economy continues to grow above the 1.5% BoC estimate of long-run potential. Manufacturing grew by 1.8%, the largest monthly increase since February 2014, and oil and gas extraction grew 1.6% month over month. Retail sales and Consumer Price Index (CPI) data released by Statistics Canada have signaled that consumer spending remains largely unaffected by the 2017 BoC rate hikes, despite indications of heavy household debt. Headline CPI inflation hit 1.9% year over year in December, slightly lower than the 2.1% increase in November. This marks the first time in three years that the two-month average of headline inflation, at 2%, is in line with the BoC target. The Canadian economy added 78,600 jobs in December, significantly beating the modest gain of 2,000 expected by market economists. Overall in 2017, Canada added 394,200 full time jobs, the biggest gain since 1999, as the unemployment rate fell to 5.7%, the lowest rate since 1974.

The sixth round of NAFTA renegotiations wrapped up in Montreal on January 29th with few indications that meaningful progress has been made. Negotiators have reportedly agreed on just three of approximately 30 chapters of the pact, including a proposal related to fighting corruption. U.S. Trade Representative Robert Lighthizer stated that representatives have started to discuss “core issues”, the most contentious of which include the rules of origin for the automotive industry, the structure of dispute panels, and the U.S. desire for the inclusion of a “sunset clause”, which would require all three nations to agree to extend the agreement after five years. The U.S. is reportedly seeking to raise the North American content requirement for auto production from 62.5% to 85%, including a provision that requires at least 50% of the content to be manufactured in the U.S. If the U.S. decides to withdraw from NAFTA, they can do so after giving six-month notice, a timeline that would fall within the range of Mexican presidential elections on July 1st and U.S. midterm elections in November.

Trade disputes continue to mount between the U.S., Canada, and Mexico; the U.S. International Trade Commission (ITC) ruled in favour of Bombardier this week to end a 300% penalty that the U.S. Commerce Department applied to the sale of Bombardier C series jets to U.S. airlines. The penalty was enforced after U.S. rival Boeing accused the Canadian aerospace manufacturer of accepting unfair government subsidies,

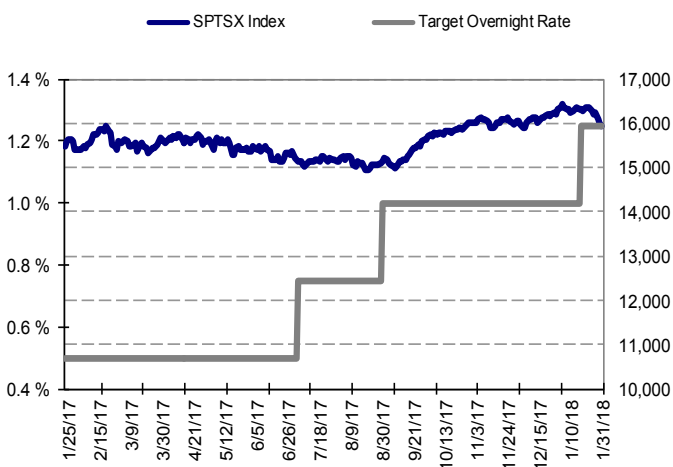
Currencies (in Canadian dollars)	Exchange	Month	YTD*
US Dollar	1.2315	-2.0%	-2.0%
Euro	1.5286	1.3%	1.3%
British Pound	1.7477	2.9%	2.9%
Japanese Yen	0.0113	1.1%	1.1%

Currencies (one Canadian dollar)	Exchange	Month	YTD*
US Dollar	0.8121	2.1%	2.1%
Euro	0.6541	-1.3%	-1.3%
British Pound	0.5724	-2.8%	-2.8%
Japanese Yen	88.6700	-1.1%	-1.1%

Commodities (US\$)	Spot price	Month	YTD*
Crude Oil (WTI per barrel)	\$64.73	7.1%	7.1%
Natural Gas (per million btu)	\$3.00	1.4%	1.4%
Gold (per ounce)	\$1,345.15	3.2%	3.2%
Silver (per ounce)	\$17.34	2.4%	2.4%
Copper (per pound)	\$3.21	-1.8%	-1.8%
Nickel (per pound)	\$6.15	6.7%	6.7%
Aluminum (per pound)	\$1.01	-1.6%	-1.6%
Zinc (per pound)	\$1.61	6.7%	6.7%

\*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

which supposedly allowed it to undercut its rivals. In December, Canada filed a formal dispute with the World Trade Organization seeking protection from U.S. threats of punitive tariffs, particularly on its lumber, paper, steel, and aluminum exports.

Janet Yellen's final FOMC meeting as chair offered no surprises as the fed funds range was left unchanged at 1.25-1.50%. The FOMC statement indicates that they expect inflation to rise and stabilize around the 2% target this year, and that economic conditions will warrant "further gradual increases in the federal funds rate", hinting that it will maintain its tightening path. Yellen handed over the role to Jerome Powell on February 3rd.

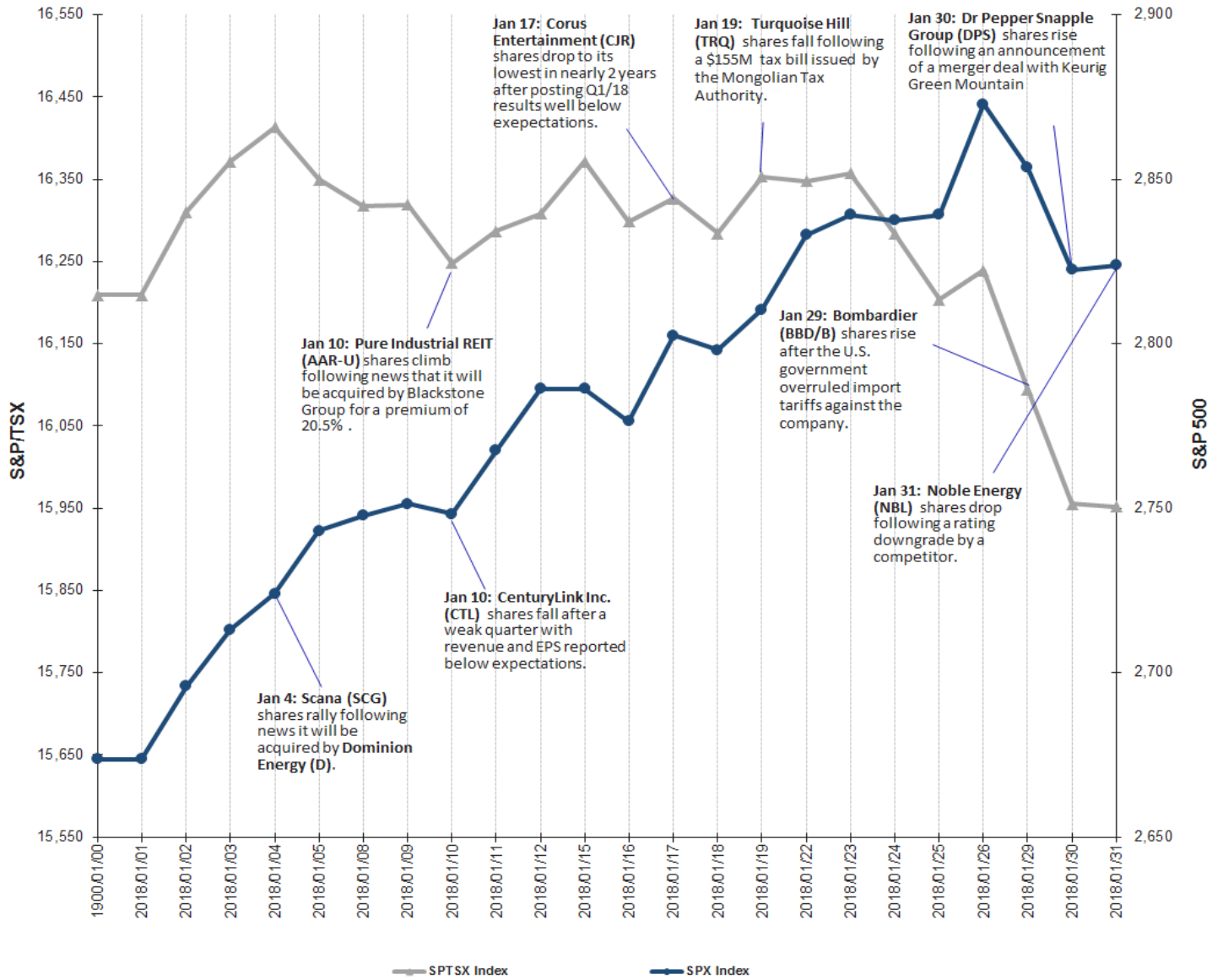
U.S. Congress has yet to vote on a temporary spending bill that would fund the government until March 22nd or March 23rd, although Republican leaders are reportedly trying to ensure that they have adequate support for passage. The latest temporary spending bill, passed on January 22nd after a short government shutdown, will keep the federal government open through February 8th. Democrats agreed to support the previous temporary spending bill in exchange for a proposal from Republican Senate Majority Leader Mitch McConnell that would address DACA, a program that shields young, undocumented immigrants from deportation, which is set to expire in March.

The European Central Bank (ECB) left benchmark rates unchanged at record lows following their latest monetary policy meeting. The pace of bond purchases will also remain unchanged at €30 billion per month until at least September. The ECB reiterated its commitment to maintain its monetary stimulus efforts to support the inflation outlook, a decision which fell in line with expectations leading up to the meeting. Following the release of the monetary policy decision, ECB President Mario Draghi indicated that an interest rate increase is unlikely to occur in 2018, despite the fact that the economy grew the fastest in a decade in 2017 and the Euro has continued to rally. Core inflation remains at 0.9%, well below the ECB's 2% target. In the U.K., inflation fell to 3% year-over-year in December, in line with consensus estimates, and down from 3.1% the previous month.

Similarly, the Bank of Japan concluded its monetary policy meeting by maintaining its quantitative easing program despite indications of a stronger economic outlook. Despite data pointing towards an economy that is expanding at a stable pace, the Bank of Japan Governor Haruhiko Kuroda stressed that until inflation trends closer to the 2% target, they are unlikely to begin unwinding their easing program.

# North American equity highlights

January 2018

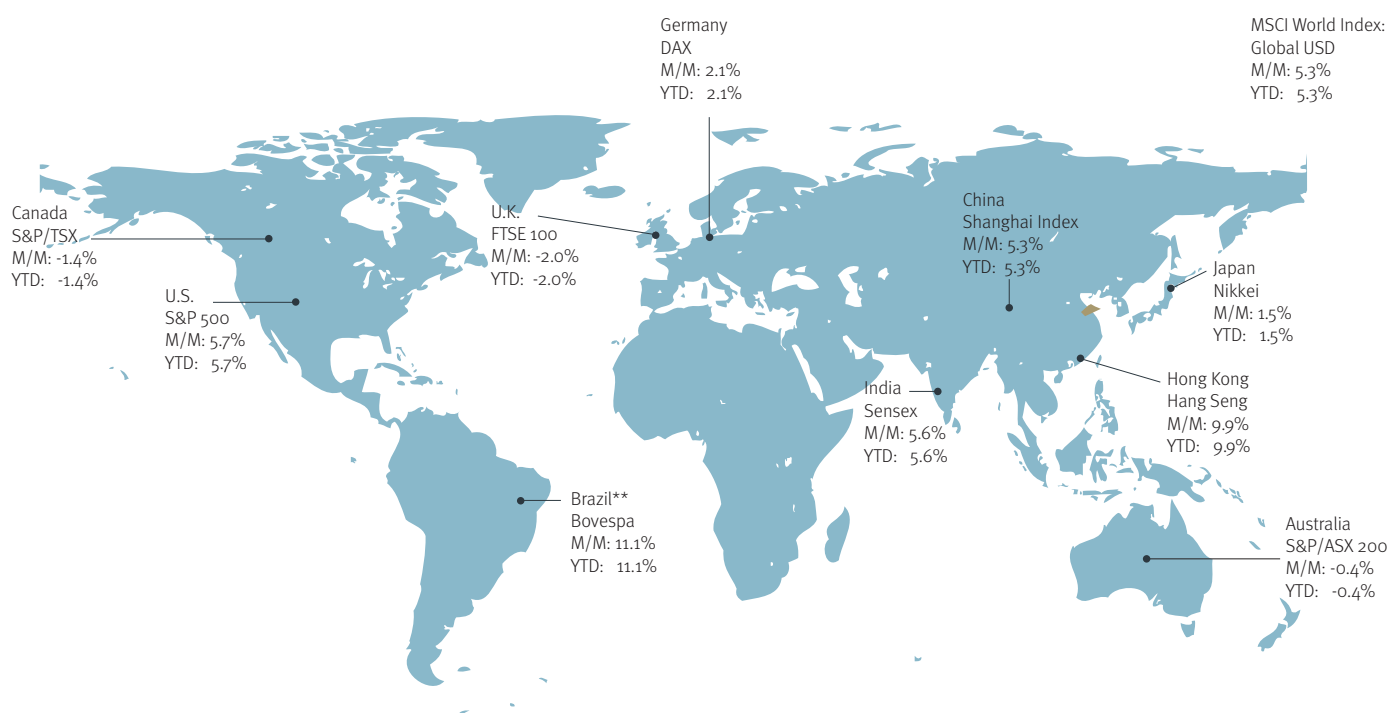


Source: Bloomberg

# World markets

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

January was a favourable start to the year for global indices with most markets closing in positive territory. In North America, the S&P 500 rose by 5.7% while the S&P/TSX fell by 1.4%. The Brazil Bovespa and the Hong Kong Hang Seng markets closed the month as the highest of the group, climbing 11.1% and 9.9% respectively. India's Sensex market moved higher by 5.6% and Germany's DAX climbed 2.1%. China's Shanghai Index ended the month up 5.3%, while Japan's Nikkei edged higher by 1.5%. The U.K.'s FTSE 100 and Australia's S&P/ASX200 posted negative returns at -2.0% and -0.4% respectively. Overall, the MSCI World Index increased by 5.3% for the month of January.



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

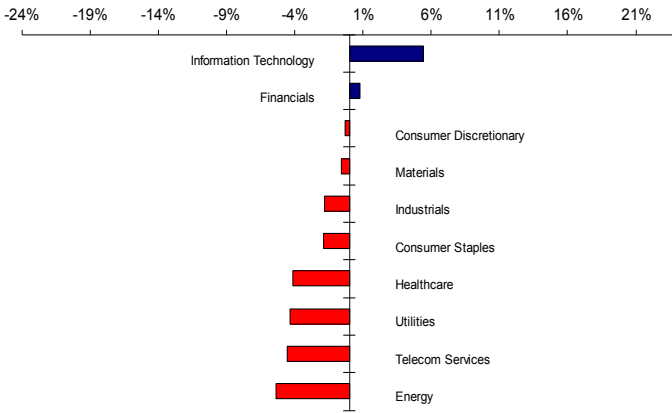
\*\* These indices are calculated on a price return basis

Source: Bloomberg, RBC Wealth Management, 01/31/18

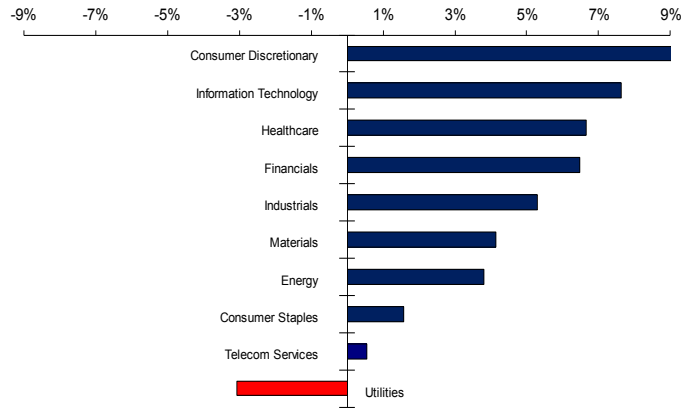
# Canadian & U.S. equities

January 2018

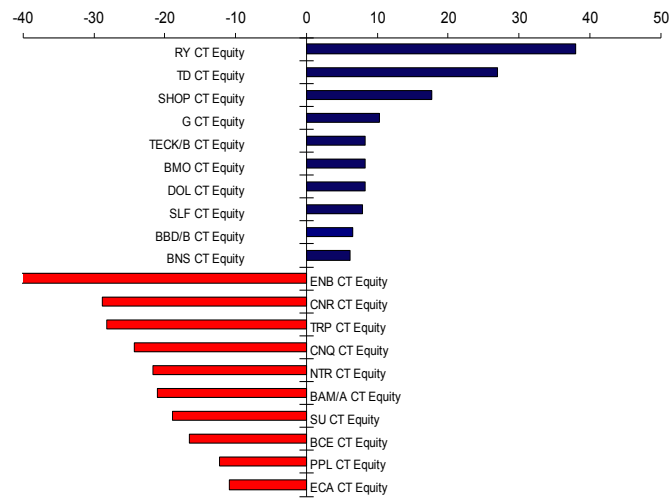
S&P/TSX composite sector movement



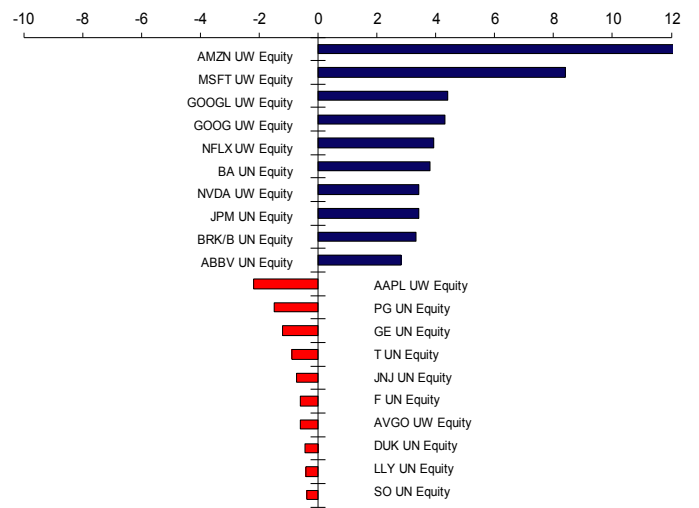
S&P 500 sector movement



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

January 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%
<b>Labour market</b>					
01/05/2018	Net Change in Employment (ooo, SA)	Dec	2.0	78.6	81.2
01/05/2018	Participation Rate (SA)	Dec	--	65.80%	65.80%
01/05/2018	Unemployment Rate (SA)	Dec	6.00%	5.70%	5.90%
<b>Housing market</b>					
01/09/2018	Housing Starts (ooo, SAAR)	Dec	212	217.0	251.7
01/11/2018	New Housing Price Index (y-o-y)	Nov	--	3.40%	3.50%
01/15/2018	Existing Home Sales (m-o-m)	Dec	--	4.50%	3.90%
01/12/2018	Teranet/National Bank HPI (m-o-m)	Dec	--	0.20%	-0.50%
<b>Consumer &amp; manufacturing</b>					
01/25/2018	Retail Sales (m-o-m, SA)	Nov	0.80%	0.20%	1.60%
01/25/2018	Retail Sales Less Autos (m-o-m, SA)	Nov	0.90%	1.60%	0.80%
01/19/2018	Manufacturing Sales (m-o-m, SA)	Nov	2.00%	3.40%	-0.60%
<b>Trade</b>					
01/05/2018	Merchandise Trade (billion, SA)	Nov	-1.13	-2.54	-1.55
<b>Prices</b>					
01/26/2018	Consumer Price Index (m-o-m)	Dec	-0.30%	-0.40%	0.30%
01/26/2018	Consumer Price Index (y-o-y)	Dec	1.90%	1.90%	2.10%
01/31/2018	Industrial Product Price (m-o-m)	Dec	-0.20%	-0.10%	1.40%
01/31/2018	Raw Materials Price Index (m-o-m)	Dec	-2.30%	-0.90%	5.40%
<b>Other indicators</b>					
01/22/2018	Wholesale Sales (m-o-m, SA)	Nov	1.20%	0.70%	1.60%
01/05/2018	Ivey Purchasing Managers Index (SA)	Dec	--	60.4	63
01/10/2018	Building Permits (m-o-m, SA)	Nov	-1%	-8%	4%

Release date	Economic indicators: U.S.	Period	Consensus	Actual	Prior
01/26/2018	GDP (q-o-q, SAAR)	4Q A	3.00%	2.60%	3.20%
01/26/2018	GDP Price Index (q-o-q, SAAR)	4Q A	2.30%	2.40%	2.10%
01/26/2018	Core PCE (q-o-q, SAAR)	4Q A	1.90%	1.90%	1.30%
<b>Labour market</b>					
01/05/2018	Change in Nonfarm Payrolls (ooo, SA)	Dec	190.0	148.0	216.0
01/05/2018	Unemployment Rate (SA)	Dec	4.10%	4.10%	4.10%
<b>Housing market</b>					
01/18/2018	Building Permits (ooo, SAAR)	Dec	1295.00	1302.00	1303.00
01/18/2018	Housing Starts (ooo, SAAR)	Dec	1275.00	1192.00	1299.00
01/25/2018	New Home Sales (ooo, SAAR)	Dec	675.00	625.00	689.00
01/24/2018	Existing Home Sales (million, SAAR)	Dec	5.70	5.57	5.78
01/17/2018	NAHB Housing Market Index (SA)	Jan	72	72	74
01/03/2018	Construction Spending (m-o-m, SA)	Nov	0.50%	0.80%	0.10%
<b>Consumer &amp; manufacturing</b>					
01/12/2018	Advance Retail Sales (m-o-m, SA)	Dec	0.50%	0.40%	0.90%
01/12/2018	Retail Sales Less Autos (m-o-m, SA)	Dec	0.30%	0.40%	1.30%
01/30/2018	Consumer Confidence (SA)	Jan	123.0	125.4	123.1
01/19/2018	U. of Michigan Confidence	Jan P	97.0	94.4	95.9
01/26/2018	Personal Consumption (q-o-q, SAAR)	4Q A	3.70%	3.80%	2.20%
01/26/2018	Durable Goods Orders (m-o-m, SA)	Dec P	0.80%	2.90%	1.70%
01/05/2018	Factory Orders (m-o-m, SA)	Nov	1.10%	1.30%	0.40%
<b>Trade</b>					
01/10/2018	Import Price Index (m-o-m)	Dec	0.40%	0.10%	0.80%
01/10/2018	Import Price Index (y-o-y)	Dec	3.10%	3.00%	3.30%
01/05/2018	Trade Balance (billion, SA)	Nov	-49.9	-50.5	-48.9
<b>Prices</b>					
01/12/2018	Consumer Price Index (m-o-m, SA)	Dec	0.10%	0.10%	0.40%
01/12/2018	Consumer Price Index (y-o-y)	Dec	2.10%	2.10%	2.20%
01/12/2018	CPI Core Index (SA)	Dec	254.33	254.43	253.72
01/29/2018	PCE Deflator (y-o-y, SA)	Dec	1.70%	1.70%	1.80%
<b>Other Indicators</b>					
01/03/2018	ISM Manufacturing Index (SA)	Dec	58.2	59.7	58.2
01/31/2018	Chicago Purchasing Manager Index	Jan	64.0	65.7	67.8
01/18/2018	Philadelphia Fed Index	Jan	25.0	22.2	27.9
01/25/2018	Leading Indicators (m-o-m)	Dec	0.50%	0.60%	0.50%
01/12/2018	Business Inventories (m-o-m, SA)	Nov	0.40%	0.40%	0.00%

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 – January 2018

Increases				
Company	\$ Change		Ex-Date	% Change
Metro Inc.	Prior: \$0.1625	New: \$0.18	February 14, 2018	10.8%
Methanex Corp.	Prior: \$0.30	New: \$0.33	March 15, 2018	10.0%
Decreases				
Company	\$ Change		Ex-Date	% Change
Peyto Exploration & Development Corp	Prior: \$0.11	New: \$0.06	January 30, 2018	-45.5%

Source: Bloomberg

# Research resources

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HOLD [Sector Perform]	683	41.24	155	22.69
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