

## February in Review

In early February, markets experienced a notable downturn and an increase in volatility for the first time since January 2016. The downward move was sparked by strong U.S. economic and employment data, fueling concerns that rising inflation and higher interest rates could threaten to end the current growth cycle. While markets retraced some of their early losses, both domestic and global equity market indices ended the month lower, with the S&P 500 ending a ten-month winning streak. Global bond yields also rose rapidly against this backdrop, putting downward pressure on bond prices.

**Fed keeps interest rates steady.** The U.S. Federal Reserve (Fed) kept interest rates unchanged in January; however, it said it anticipated inflation would rise this year – a sign it is still on track to raise borrowing costs in March under incoming central bank chief Jerome Powell. Citing solid gains in employment, household spending and capital investment, the Fed said it expected the economy to expand at a moderate pace and the labour market to remain strong in 2018. The Fed said it expected “further gradual” rate increases will be warranted.

**Canada sheds most jobs since 2009.** January’s 88,000 job decrease fell well short of economists’ forecasts for a gain of 10,000, and was the biggest decline since the global financial crisis of 2009, Statistics Canada said in its February report. The drop was driven by a record-breaking decline in part-time work, eclipsing an increase in full-time positions. The job market is coming off its strongest pace of growth since 2002 after creating more than 400,000 jobs in 2017. Economists said January’s drop was to be expected after such a strong year.

**EU grows at fastest pace in 10 years.** The European Union (EU) expanded by 2.5% in 2017, its strongest performance since 2007, when it grew by 2.7%. The growth was led by Germany, France and Spain. KPMG chief economist Yael Selfin said the figures confirmed the “continuation of strong growth momentum in [the] eurozone, helped by generous support from the European Central Bank (ECB) and a more pro-growth political drive in some of its main economies.” She added that while there is probably still significant room for the ECB before it starts tightening monetary policy, a further pickup in activity could see a more accelerated scaleback of its quantitative easing program.

**Surge in global oil supply may overtake demand in 2018.** The rise in global oil production, led by the United States, is likely to outpace growth in demand this year, the International Energy Agency (IEA) said in a report released last month. The Organization of the Petroleum Exporting Countries, along with other exporters such as Russia, have agreed to maintain a joint restriction on crude supply for a second year running in 2018, to force inventories to drain and support prices. Crude oil ended the month 4.5% lower on the news.

### Did you know?

On February 27, 2018, Finance Minister Bill Morneau delivered the government’s 2018 Federal Budget. The budget contained good news for corporations and individuals with no increases to income tax rates, a softening of the proposals related to private corporations, and some minor enhancements to the Medical Expense Tax Credit and the Canada Workers Benefit (formerly known as the Working Income Tax Benefit). The budget estimates deficits of \$19.4 billion for 2017-2018, \$18.1 billion for 2018-2019 and \$17.5 billion for 2019-2020.

INDEX <sup>†</sup>	1 Mth	Change (%) YTD	1 Yr	Index Level
Treasury Bill (FTSE TMX Canada 60 Day T-Bill)	0.09	0.18	0.72	160
Bonds (FTSE TMX Canada Universe Bond)	0.15	-0.65	1.01	1030
Canadian Equities (S&P/TSX Composite)	-3.02	-4.37	3.22	15,443
U.S. Equities (S&P 500, US\$)	-3.69	1.83	17.09	2,714
Global Equities (MSCI World, US\$)	-4.09	0.99	18.02	2,118
Emerging Markets (MSCI Emerging Markets, US\$)	-4.63	3.31	30.94	1,195

  

CURRENCIES <sup>†</sup>	1 Mth	Change (%) YTD	1 Yr	Exchange Rate
C\$/US\$	-4.04	-2.04	3.66	0.78
C\$/Euro	-2.29	-3.56	-10.10	0.64
C\$/Pound	-1.05	-3.79	-6.73	0.57
C\$/Yen	-6.24	-7.28	-1.95	83.14

  

COMMODITIES (US\$) <sup>†</sup>	1 Mth	Change (%) YTD	1 Yr	Price
Gold Spot (\$/oz)	-1.88	0.30	3.55	1,317.90
Oil WTI (\$/barrel)	-4.52	2.05	11.83	61.64
Natural Gas (\$/MMBtu)	-6.75	-2.98	-3.89	2.67

<sup>†</sup>Total Return, as at February 28, 2018. Indices are quoted in their local currency. Source: Bloomberg

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