As we enter 2018, we would like to take the opportunity to provide you with an overview of financial market results from the past 12 months, and to offer insights into some of the investment themes that may emerge in the coming year.

Most global equity markets registered healthy results in the fourth quarter of 2017, capping off a strong showing for the year as they responded to encouraging economic data, low interest rates, tepid inflation and expanding corporate activity. After a particularly strong showing in 2016, Canada's S&P/TSX Composite Index lagged for much of 2017, weighed down by low energy prices and underrepresentation in areas that outperformed, such as technology and health care. However, the Canadian equity benchmark staged a rebound in the final quarter of the year, buoyed by solid results in the financial services sector and a recovery in prices for oil and other commodities. For Canadian investors, the value of the Canadian dollar was also an important consideration in 2017. The loonie rose sharply in value relative to the U.S. dollar during the summer months and finished the year 7.0% stronger, having the effect of reducing gains for Canadian investors in assets priced in U.S. currency.

The trends that drove markets in the fourth quarter will likely to continue in 2018. The over-hang for the TSX near term is the uncertainty around NAFTA which looks to be making investors cautious. Ultimately, this should work out once the posturing is done because the economies of Canada and the United States are so interrelated. We need to monitor this closely as it would be disruptive to the markets.

The Bank of Canada recently raised interest rates a quarter point signaling renewed faith in the Canadian Economy with a cautious approach. This approach should bode well as long the Bank of Canada remains in step with the U.S. Federal Reserve. In the fourth quarter, central banks around the world continued to weigh options for scaling back monetary policies designed to stimulate the economy. The U.S. Federal Reserve Board announced a quarter-point increase in its benchmark interest rate in mid-December to a range of 1.25 to 1.5%, citing a strong labour market and healthy economic activity.

In this environment, government bond yields in many regions rose modestly in the fourth quarter, reflecting the expectation of higher global interest rates. The yield for 10-year U.S. Treasury bonds was up for the quarter, and finished the year little changed at about 2.4%. Canadian 10-year Government bond yields declined through the quarter, but finished the year higher at about 2.0%.

Many of the conditions that have supported market advances over the past year remain in place, including accommodating business conditions here and around the world, positive economic growth and relatively low inflation. The U.S. tax reform bill has been stimulating to corporate earnings and we are seeing repatriating of capital back to the United States led by Apple. Markets around the world are influenced by what happens in America and the signs thus far are positive. That said, we still haven't seen a correction and we are overdue for some consolidation which could increase volatility short term. There are still no signals of recession and inflation remains low so conditions for growth remain. Longer term, we remain cautiously optimistic.

We would like to close by wishing you a very happy, healthy and prosperous New Year and to thank you for the continued opportunity to work with you. If you have any questions about your portfolio, or would like to discuss anything please feel free to call or e-mail. We're here to help!

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