



## February Market Update: Pro-Growth Optimism Lifts U.S. Stocks to Best Yearly Start Since 2003, but Canada Lag Far Behind

January was a month of record gains for U.S. equities, as pro-growth optimism and strong corporate earnings continued to drive the Trump reflation trade. In Canada, the picture was much more subdued, as volatile NAFTA negotiations prolonged the TSX's underperformance relative to its U.S. and global peers.

### Wall Street's Fast Start

Wall Street's major indexes rose at least 5.5% in January, capping off their strongest start to a year in well over a decade.<sup>1</sup> The gains immediately followed President Donald Trump's landmark tax reform, which was announced in December and officially set in motion at the start of 2018.

At its highest, the S&P 500 peaked at 2,862.87 on Jan. 26. The Dow Jones Industrial Average closed at 26,616.71 on the same day.

Unlike previous months, the upsurge in equities was associated with a gradual rise in the CBOE VIX, the market's preferred measure of volatility. Wall Street's "fear index" rose throughout the month, setting the stage for a potential selloff at the start of February.

### Corporate Earnings Continue to Surprise

The increasing health of corporate America was partly responsible for the strong performance of U.S. equities last month. At the time of writing, 50% of S&P 500 companies had reported fourth-quarter results. Of them, 80% reported positive earnings surprises and a similar number said revenues were higher than expected.<sup>2</sup>

For Q4 2017, the blended earnings gain for S&P 500 companies is 13.4%, according to financial research firm FactSet. All 11 sectors reported positive earnings growth for the quarter, led by energy.

## Canadian Stocks Continue to Disappoint

Canadian equities continued to lag Wall Street in January, with Toronto's benchmark TSX finishing down 1.6%. A stronger domestic economy and rebounding oil prices have failed to lift Canada's main stock index. Souring trade negotiations with the Trump administration may also threaten Canadian businesses with deep exposure to the U.S. market.

Canadian bureaucrats sounded the alarm bells on NAFTA last month by implying that talks may soon break down. President Trump has threatened repeatedly to walk away from negotiations unless Canada and Mexico make wholesale changes to the treaty.<sup>3</sup>

## Crypto Market Collapse

January was an extremely volatile month for cryptocurrencies, as regulatory woes triggered a panic sale on digital exchanges worldwide. The cryptocurrency market's total capitalization peaked above \$830 billion on Jan. 7. By early February, the market had lost \$550 billion.

The initial selloff was triggered by fears that South Korea was planning a wholesale ban on cryptocurrencies. Instead of a comprehensive ban, regulators in the Asian country decided to eliminate anonymous trading accounts to stamp out excessive speculation.

Even with South Korean jitters out of the way, crypto traders are feeling the pressure of U.S. federal investigations, major cyber breaches and an uncertain regulatory climate in certain jurisdictions. These conditions are unlikely to change in the near future, which should prompt investors to brace for continued volatility in the cryptocurrency space.

## The Month Ahead

After an exceptionally strong start to the year, Wall Street kicked off a global selloff in February, with the S&P 500 and Dow slumping more than 6%. The drop was associated with an unprecedented surge in volatility, as investors became more convinced the Federal Reserve would hasten rate hikes following much stronger than expected wage inflation.

The debate over inflation and monetary policy will continue in February as Jerome Powell takes the Chair as Fed chief. In Canada, monetary policy is also evolving to keep up with a more robust economy.

Neither the Fed nor the Bank of Canada is scheduled to deliver policy verdicts this month. In the meantime, investors will continue monitoring the economic data for clues about inflation, GDP and employment.

Market participants will also monitor developments around infrastructure spending after President Trump prioritized the initiative at his first State of the Union address. Analysts say the proposed spending measure could top \$1.5 trillion over ten years.<sup>4</sup>

Sincerely,

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### Sources

- 1 Fred Imbert (Jan. 12, 2018). "Stocks surge to record close, have best start to a year since 2003."
- 2 FactSet (Feb. 2, 2018). Earnings Insight: Key Metrics.
- 3 Sam Bourgi (Jan. 10, 2018). "U.S. Stocks Knocked Off Record Highs as NAFTA Concerns Weigh." Hacked.com
- 4 Reuters (Feb. 6, 2018). "Trump to unveil infrastructure plan Monday: White House official." CNBC.

