



## 2017 MARKET REVIEW

### Happy New Year!

It's hard to believe 2017 is over. Whether you look back on the year fondly or are eager to turn the page, most would agree it was anything but boring. There were incredible changes politically, culturally, and economically. Politically, of course, we started the year with the inauguration of one of the most controversial U.S. Presidents in history, while overseas there were concerns that populism may also take hold before elections in France and Germany put those fears to rest. Culturally, we saw women come forth in droves telling their poignant stories of harassment and abuse and prompting Time Magazine to name these "*silence breakers*" as their *Person of the Year*. Economically, we saw global growth accelerate at levels not seen since before the Great Recession, with falling unemployment and benign inflation.

### United States

In the U.S., stocks soared with the Dow Jones Industrial Average continually reaching new highs. For the year, the Dow rose an eye-popping 25.08% while the S&P500 Index, a broader measure of the market, posted a 19.42% increase. The positive trend was a result of many factors, the greatest being record profits as consumerism flourished and unemployment continued its multi-year decline to reach levels not seen since before 2009. The group of stocks referred to as FANG (Facebook, Amazon, Netflix, Google) helped to lead innovation with their culture-bending disruptive technologies and corporate America drooled at the prospect of a 40% tax cut which graduated from proposed to passed minutes before the Christmas break. For Canadians investing in the U.S., a good portion of their returns were eaten by a surging Loonie, up a little more than 7% against the U.S. dollar in 2017.

### Overseas

Some hangovers are thought, by some, to be cured by grease and some are caused by Greece. After several bailouts and

a steady diet of monetary stimulus over the last seven years, the prospect of contagion finally faded into the background in 2017. Actually, economic growth in Europe outpaced that of the United States and unemployment has also reached lows not seen since 2009. Overseas stocks, including Europe, Australia and the Far East, rose 21.8% as measured by the MSCI EAFE. The political stability that came with the election of Macron and re-election of Merkel played no small role in generating regional optimism. There continues to be concern over Britain's exit from the European Union but Brexit, as it is known, will be a long and incremental process rather than an event.

### China

Economist Benjamin Tal often tells the story of his Chinese Economist friend who when asked about his freedom to calculate economic growth replied, "*We have complete autonomy in assembling the data as long as it adds up to 7%*". The Chinese economy grew at that familiar clip throughout 2017 in spite of a moderate slowdown in housing that was a result of the government actively tightening controls on mortgages and home ownership. The region and the world rely to varying extents on China's economic strength and demand for resources.

### Canada

The Canadian economy also delivered a lot of surprises in 2017, but investors had a harder time buying into the optimism. Domestically, stocks took their time getting to the party and refused to go to the dance floor. The TSX composite index posted a modest gain, relatively speaking, of 6% for the year. Although the economy did outgrow many of the most optimistic forecasts, the shadow of record level household debt, rising interest rates, and the potential uncertainty generated by NAFTA negotiations served to tamp down enthusiasm.

## TAX HIGHLIGHTS

Your **2017 RRSP contribution limit** is noted on your 2016 Notice of Assessment. The deadline for making 2017 contributions is March 1, 2018.

Your **RRSP 2018 contribution limit** is \$26,500 or 18% of income up to \$26,500.

**TFSA 2018 contribution limit** is \$5500.

**Tax Slips:** You may not receive all tax slips until mid-March. We strongly suggest you wait to file your return until after the middle of March.

**Education Credits:** 2016 was the last year education credits (\$400/month full-time enrolment plus \$65/month for

textbooks) were available. Tuition tax credits remain unchanged.

**Principal Residence:** Beginning in 2016, when you sell your principal residence, you must report the sale on your tax return. You will need to report the date you acquired the property, proceeds from the sale and a description of the property on Schedule 3.



## Looking Ahead

Economic fundamentals remain solid globally. The U.S. market has built in a lot of optimism based on tax reform which has become the law of the land. Workers will start to see less tax taken from their pay in February and eventually corporations will feel the benefit of a 40% reduction in the marginal rate. There is much more to the new legislation of course, but these are the principle elements designed to raise wages and create jobs. It will take time to judge the impact of the bill which is expected to add more than \$1 trillion to the U.S. deficit. A lot of optimism is priced into U.S. stocks at the moment and it is reasonable to expect a pull back at some point over the next 18 months. As far as Canadian stocks go, we have raised the same concerns going on a year now. More Canadians have taken on more debt and the housing market remains frothy, particularly in the GTA and Vancouver. The good news is that delinquency rates and unemployment remain low. We will likely see the housing market and economy in general tested by higher interest rates in 2018.

Overall, we remain cautiously optimistic about the markets for 2018. There are always short-term risks to be wary of which is why we focus on balance and ensuring your risk doesn't reach beyond your tolerance for it.

Jamey Morse, Alexandra (Sandy) Esposito and David Strachan

*"The comments expressed here are the opinions of the Advisors and may not represent the views of IPC Securities Corporation."*

## FUN CHRONICLES OF THE PAST YEAR

Let's start with Jamey and his unwavering commitment to coaching the most charming hockey players on earth, eight year olds full of enthusiasm for this great Canadian game. Jamey recently entered his team in an outdoor tournament on Wolf Island. For those of you who don't know where Wolf Island is, it is a short ferry ride from Kingston. It's an island adorned with multiple windmills because of strong prevailing

winds, lovely in the summer but not so much in December. Oh well, cold kids, long bus ride, tired parents, rosy cheeks, and memories to last a lifetime.

Sandy Esposito usually has intriguing travel stories we all love to listen to. Ireland was booked for this year but...a kitty needed very special medical attention, not locally of course, rather an extended stay at the University of Guelph's Veterinary Hospital, followed by weeks of isolation at home. Happy endings on both counts, thank goodness. Kitty's doing well and the holiday re-booked. Oh how we love our animals.

Dave's commitment to running (well...jogging) is admirable. We all know what struggles staying fit brings but Dave seems to have figured it out. One look at his stationary bike and he heads outside! So for all of you seeking motivation, maybe give this a try.

Deborah's adventures were vicarious ones. Her daughter headed to the Northwest Territories to work in the Nahanni, a fly-in only national park. Originally established in 1972, by then Prime Minister Pierre Elliot Trudeau, the park was among the world's first four natural heritage locations to be inscribed as a World Heritage Site by UNESCO in 1978. Her son spent four months in the Yukon at a small but renowned research camp at the foot of the Saint Elias mountains where the focus is studying how animals interact with their environments and manage their own resources. Both kids confidently believe that everyone should visit Canada's far north at least once in their lifetime.

This year, Stephanie was our in-house HGTV specialist. Drywall, 2x4's, trending paint samples, neutrals and pops of colour turned her Uxbridge bungalow into a stunning success. The stress and mess of drywall dust and disruption was well worth it.

We hope that you all have a healthy and prosperous 2018 and look forward to seeing you soon!



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