Economic News

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CANADA

A volatile quarter, but one that was fairly good for investors

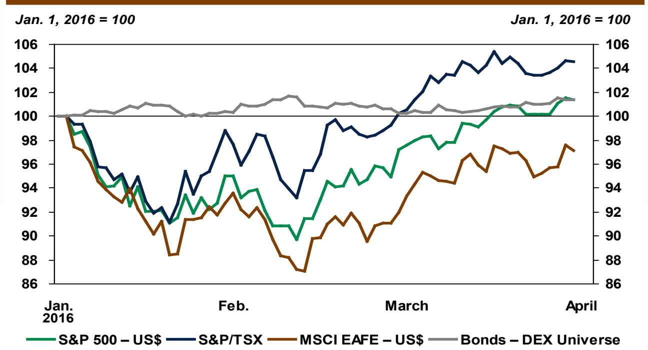
Another oil price drop and new fears about China sent some panic into the markets in the early weeks of 2016. The pessimism peaked when concerns turned toward Europe's financial sector. The decisive action taken by the European Central Bank to support its banking sector and encouraging economic statistics managed to reassure investors as of mid-February, however.

After a very tough start to the year, therefore, the stock markets have rebounded sharply in recent weeks. While several of the indexes overseas are still below where they ended 2015, the S&P 500 has jumped more than 200 points, allowing it to post a slight gain for the quarter. Canada's stock market did even better, posting a return of 4.5% including dividends from the start of 2016. Largely responsible for the S&P/TSX's excellent performance is the important materials sector: it gained nearly 20%, reflecting such things as the surge in gold prices.

The Canadian stock market' good performance and modest upswings in the U.S. stock market and fixed-income securities have yielded a quarterly return of about 2% for a Canadian investor with a standard portfolio (15% U.S. equity, 25% Canadian equity, 45% Canadian bonds and 5% T-bills). However, factoring in the U.S. dollar's 6% retreat against the loonie in the first quarter cuts this return almost in half. A lack of Canadian key rate cuts, the upswing by some commodity prices and favourable economic data have given the loonie a big push. The currency effect, which had heavily favoured foreign investment in recent years, thus became unfavourable in the first quarter.

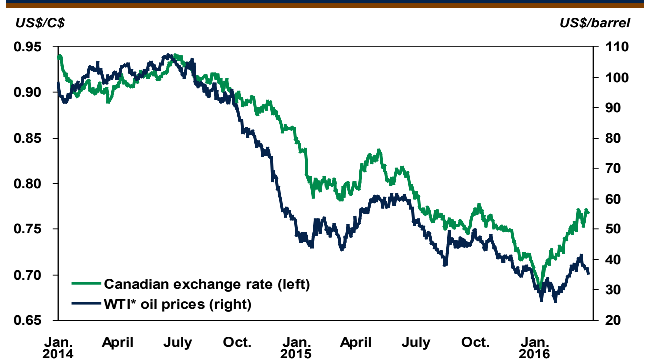
Implications: In the end, the first quarter was fairly good for Canadian investors and we have upgraded our targets for the S&P/TSX. The trends that favoured the loonie and Canadian stocks early in the year should however be less present as of now. International stock markets could thus advance a little more quickly than the S&P/TSX through the end of 2016.

A strong finish saved the first quarter



Sources: Datastream and Desjardins, Economic Studies

After two very tough years, the Canadian dollar rebounded



* West Texas Intermediate.
Sources: Datastream and Desjardins, Economic Studies

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