The Canadian stock market’s excellent performance draws on renewed foreign investment

COMMENTS
With growth of 17.5%, the S&P/TSX was one of the world’s top performing stock markets in 2016, a contrast with 2015’s 11% retreat. Last year’s excellent performance by the Canadian stock market reflects the big rebound by the major materials (+39%) and energy (+31%) sectors.

The Canadian stock market’s rise was also helped by renewed foreign interest. The latest Statistics Canada data on international security transactions shows very strong purchasing by foreigners in the last few months. After dropping to almost zero in 2015, the 12-month total for net foreign purchases of Canadian shares hit $46B in November. This is similar to the cyclical peak hit in August 2014, just before the correction by commodity prices triggered negative sentiment toward Canadian securities. The rebound of share purchases, combined with ongoing strong demand for bonds, took the 12-month total for foreign investment in Canadian securities to a new historic peak.

IMPLICATIONS
The record foreign purchases of Canadian securities clearly illustrates that positive sentiment toward Canadian assets is back. In addition to supporting Canada’s stock market, these purchases have certainly played a role in the Canadian dollar’s good performance in the last few months. As the comeback by commodity prices seems solid and the global economy should accelerate in 2017, we can hope that positive sentiment in Canadian assets will hold up in the coming quarters. The eruption of a major trade conflict with the United States is a major risk that could revive some concerns about Canada, however.

Mathieu D’Anjou, CFA, Senior Economist