Stock Markets Wrap Up Another Good Quarter

Despite rising geopolitical concerns related to North Korea and a particularly violent start to hurricane season in North America, most foreign stock markets continued to climb in recent months. The third quarter of 2017 ended with a 4.5% gain for the S&P 500, which moved past 2,500 for the first time while the stock markets of advanced countries overseas were up over 5%, expressed in U.S. dollars. These stock markets were buoyed by the sharp increase in European currencies compared to the greenback. The stock markets of emerging countries continued to perform particularly well, with a 8% gain, driving up their overall return to 28% since the start of 2017. The strength of the global economy and the steep rise in earnings provide excellent support for stock markets. After a disappointing first quarter, oil and industrial metals prices recorded steep increases in the third quarter, which helped the Canadian stock market close on a positive note, although it is still lagging behind most other stock markets.

Other factors were less favourable for Canadian investors. The sudden start to monetary tightening in Canada triggered a 2% pullback in Canada’s bond market in Q3. This monetary firming also pushed the loonie up 4% since the end of June, nearly wiping out all quarterly advances on the S&P 500 for Canadian investors exposed to currency moves.

IMPLICATIONS

After turning in such a solid performance since the beginning of the year, foreign stock markets could very well experience a period of consolidation in the near future, or even a temporary correction. Other than this volatility inherent to stock markets, the outlooks remain generally favourable for this asset class with no relapse on the horizon for the global economy. The difficulties on the bond market could continue, however, in a context where monetary policies should continue to be gradually normalized in North America and other central banks could soon follow suit.

Mathieu D’Anjou, CFA, Senior Economist