

ECONOMIC VIEWPOINT

2016: What to take away from a year full of surprises?

The time has come to take stock of 2016. We will remember the many surprises and reversals in the political, economic and financial spheres. Here are the main points that have caught our attention.

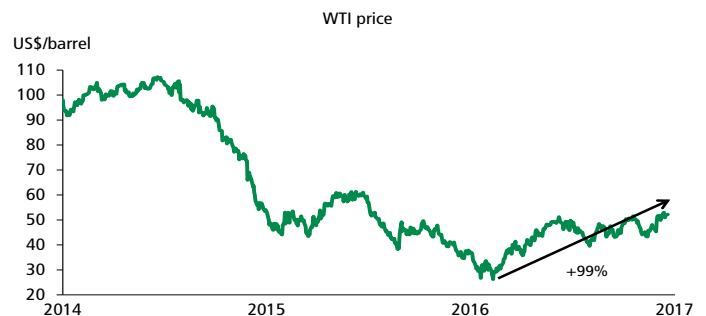
A year of political surprises: The United Kingdom's Prime Minister David Cameron seemed unshakable at the start of 2016, while the opposition was in disarray. Just a few months later, the Brexit vote ended his political career. It was the same story in Italy, where a referendum defeat forced Prime Minister Matteo Renzi to resign. And, of course, we can't forget Donald Trump winning the U.S. presidential election.

The Organization of Petroleum Exporting Countries (OPEC) tries to take back the reins. Faced with a surge in U.S. output, in the fall of 2014, OPEC had decided to let the market return to balance on its own. What followed was a spectacular collapse in oil prices. However, OPEC recently agreed to substantially curb its oil output as of January 2017, and even convinced other countries, including Russia, to do the same. The rise in oil prices, which have doubled since last February's low, therefore seems solid.

Indebtedness continued to rise around the world, supported by low interest rates. A new record was set this year, with total debt (public and private sectors) above 280% of GDP in the advanced nations.

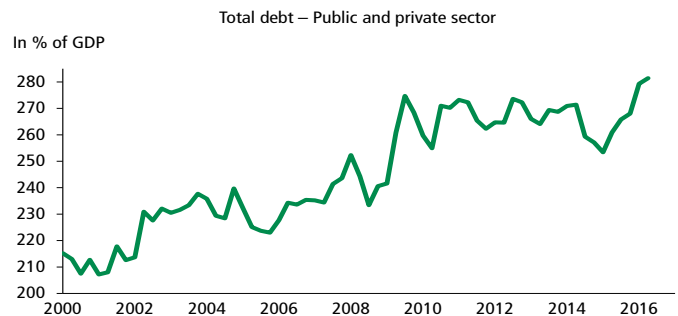
Fears over emerging nations have declined. In China, the slowdown has given way to some stabilization, orchestrated by the government authorities. Annualized real GDP growth thus stabilized at 6.7% in the first three quarters of the year. Brazil and Russia began 2016 in recession. Although the situation now seems less gloomy in these two countries, growth has not yet completely recovered.

CRUDE OIL After a sharp correction, oil prices are on the rise again



WTI : West Texas Intermediate
Sources: Datastream and Desjardins, Economic Studies

WORLD Total debt in advanced economies is over 280% of GDP



Sources: Bank of International Settlements and Desjardins, Economic Studies

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The U.S. economy got 2016 off to a disappointing start, as in previous years. The problems in the manufacturing and oil sectors, fairly weak confidence and a tough winter in some regions contributed to the weak growth early in the year. The situation improved as of last summer, and the surprise created by Donald Trump's election does not seem to have changed the situation, quite the contrary. Household sentiment seems to be on the way to ending 2016 on an uptrend.

The euro zone got the year off to a good start with growth of 2.0% in the first quarter. However, the economy slowed as of last spring, keeping the European Central Bank (ECB) on the alert. Euroland's jobless rate did manage to end the year below the 10% mark for the first time since the spring of 2011.

In the United Kingdom, economic news were of course dominated by the Brexit referendum. However, uncertainty over the issue did not hurt growth too much. Britain's real GDP growth even beat that of other G7 nations last spring. The pound's slide helped the economy, but more negative effects are starting to materialize through accelerating import prices.

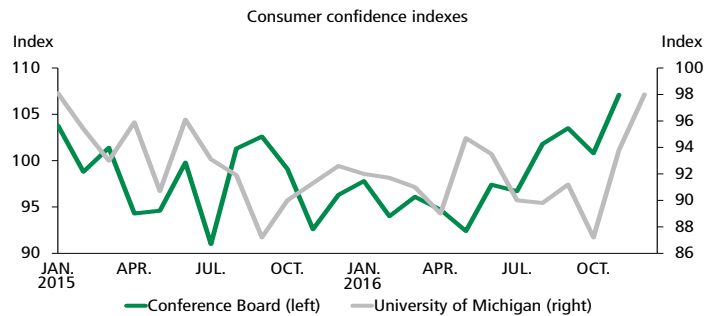
In Canada, the year began with some optimism, with the federal government including an ambitious stimulus plan in its budget. The plan's benefits should start to have an impact shortly. Last spring, the forest fires around Fort McMurray, Alberta caused some major swings in economic growth. Lastly, in the fall, the federal government ordered a new series of measures to restrict mortgage credit, and therefore encourage the housing market to slow and household debt to stabilize.

In Quebec, more positive results were seen in 2016. Among other things, the employment market has grown substantially since last summer, taking the unemployment rate down to its lowest point since 1976. Consumer confidence has also improved, while retail sales growth has been stronger than in recent years.

Ontario and British Columbia likely continued to lead the pack in terms of Canadian economic growth in 2016. The improvement in the manufacturing sector and housing market growth were key factors for both provinces. However, last summer, British Columbia introduced measures to limit foreign investment in the Vancouver area housing market, among other things. Lower energy prices once again impacted Alberta, Saskatchewan and Newfoundland and Labrador.

UNITED STATES

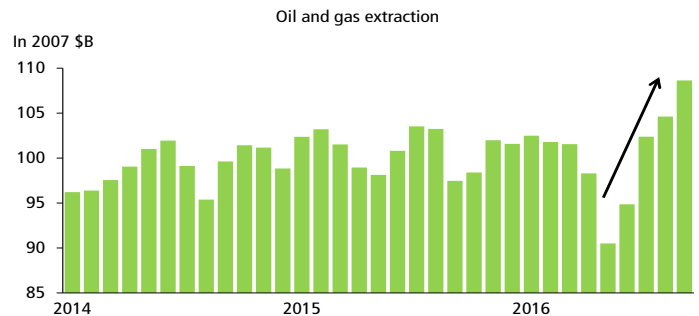
Household sentiment improves



Sources: Conference Board, University of Michigan and Desjardins, Economic Studies

CANADA

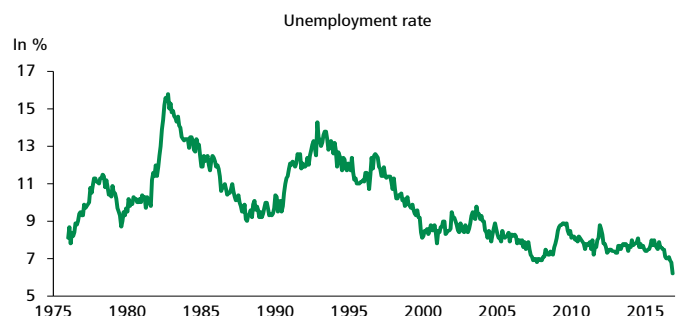
The energy sector strengthened following the Alberta forest fires



Sources: Statistics Canada and Desjardins, Economic Studies

QUEBEC

The unemployment rate fell to a historic low in November 2016



Sources: Statistics Canada and Desjardins, Economic Studies

Stock markets regained confidence. 2015 was a tough, roller coaster year for stock exchanges, and 2016 got off to a similar start with a spectacular plunge very early in the year. However, confidence returned as of mid-February and has not really flagged since, despite the many surprises, including Brexit's and Donald Trump's wins. Many U.S. indexes have recently set new historic peaks and, capitalizing on the rebound in commodity prices, the Canadian stock market should end the year with a gain of close to 20%.

The long downward trend in bond yields finally seems to be over. After another tumble in the first half of the year, magnified by the Brexit win, bond yields started an upswing toward the end of last summer. The rise accelerated sharply after the U.S. election but had started before that, as the economic context made historically low bond yields increasingly unjustifiable. Following this spectacular rebound, bond yields are ending 2016 not too far from the levels we were expecting a year ago.

Monetary policies have almost reached their limit. Negative yields continued to spread in advanced nations in early 2016, but central banks' attitude seemed to change over the summer, as questions started to arise over the risks and adverse impacts of extremely low rates. This helped convince the Federal Reserve (Fed) to raise its key rates for a second time in December.

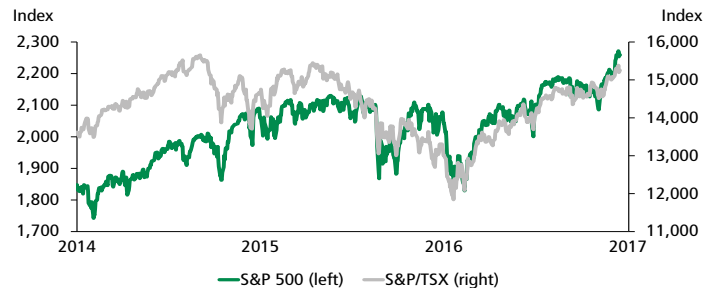
The U.S. dollar started 2016 on a decline, as the economic statistics were increasingly unfavourable toward ongoing Fed monetary firming. The situation underwent a clear change at the end of the year, and the greenback is now oscillating at levels that date back to 2002.

The loonie recovers a bit. We may not remember it, but the Canadian dollar dropped below the symbolic threshold of US\$0.70 last January, in the wake of very depressed oil prices and in anticipation of another rate cut in Canada. The situation has turned around since then, but the greenback's ascent looks like another threat.

The yuan was added to the International Monetary Fund's (IMF) special drawing rights basket (SDR) in October. This was a big step in making the currency international, although several other steps must still be taken for it to be freely and widely used around the world.

STOCK MARKETS

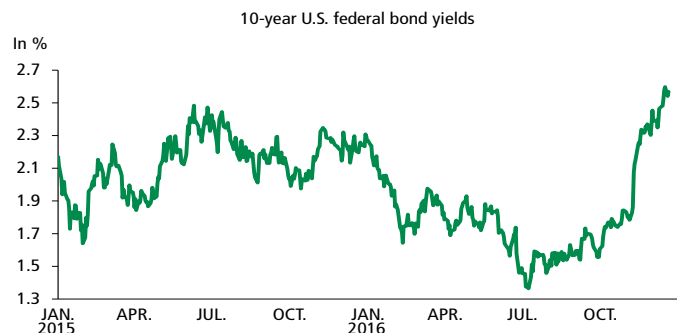
Despite a misstep early in the year, stock markets did very well in 2016, especially in Canada



Sources: Datastream and Desjardins, Economic Studies

INTEREST RATE

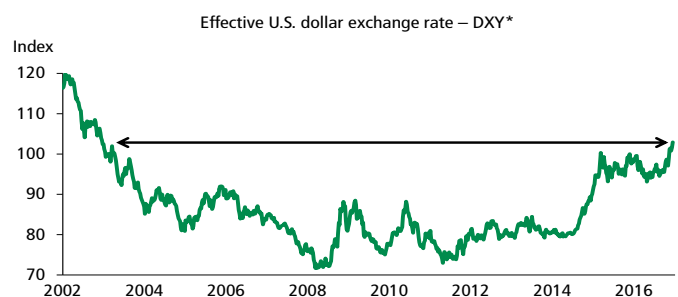
2016 was a very volatile year for the bond market



Sources: Datastream and Desjardins, Economic Studies

CURRENCY MARKET

New cyclical peak for the U.S. dollar



* Exchange rate basket including the Canadian dollar, the euro, the yen, the pound, the Swiss franc and the Swedish krona.

Sources: Bloomberg and Desjardins, Economic Studies