

## Market Review

### August 16, 2017

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### Market Outlook

Stock market pullbacks are inevitable and are caused by various reasons. With the broad market indices trading at above historical valuation levels, heightened investor sensitivity to events and headlines is to be expected. More recently, geopolitical uncertainty surrounding relations between the U.S. and North Korea has dominated global markets. Within Canada, the NAFTA trade negotiations and the health of the housing market represent incremental uncertainties.

Profit growth will be the primary driver for equities going forward. With Q2/17 earnings season largely completed in the S&P 500 companies, corporate revenue and profit growth have come in better than expected. So far, Q2/17 earnings per share (EPS) was up 12% year-over-year compared to expectations of 7%. For 2017, current consensus EPS growth rate is 11.5%, the first double digit EPS growth rate since 2011. Similarly, the TSX Composite is expected to post 19% EPS growth this year or 10% excluding Energy.

Global economic growth is generally improving. While U.S. economic growth may not be as strong as originally hoped following Trump's election, the economy is expanding and the job situation remains healthy, which bodes well for the future. The Canadian economy is strengthening, as evidenced by the July interest rate hike by the Bank of Canada. The Eurozone economic expansion is becoming more broadly based, GDP growth in Japan is better than expected and the Chinese economy is meeting targeted growth rates. Improving economic growth should flow through to corporate profit growth.

With many central banks tilting towards a less accommodative policy, the removal of monetary stimulus is expected to be gradual given benign inflation globally.