Market Review
December 14, 2016

Market Outlook

The strength in global equities since the U.S. election reflects investor optimism on Trump's economic plan to stimulate growth through lower taxes (corporate, individual and repatriation), increased infrastructure investment and decreased regulation. The reduction in the corporate tax rate on repatriated earnings from 35% to 10% could potentially bring substantial cash back to the U.S. and fuel further stock buybacks and dividend payouts.

Aside from the repatriation of offshore cash, the reduction of corporate taxes from 35% to 15% could provide a significant boost to earnings per share (EPS) on the S&P 500 Index. Presently, consensus EPS are forecast to rise 1% in 2016 and 12% in 2017 to $133, excluding any beneficial impact of lower corporate taxes. Each percentage point decrease in the effective corporate tax rate is estimated to add $1.82 to 2017e EPS. Therefore, a five percentage point cut would add $9.10 or 7% to 2017e EPS, resulting in a year-over-year EPS growth rate of 20%.

Investors, however, should be cognizant of the risks associated with Trump's platform including: potential discord in global trade relations, his anti-free trade view, lower immigration/mass deportations, and a strengthening currency which would dampen U.S. multinational profits.

U.S. economic reports indicate an expanding economy with continued steady gains in employment and wage growth. Notwithstanding the controversy surrounding Trump's presidential win, consumer confidence improved markedly in November and is back to levels that existed prior to the Great Recession.

As expected, the Canadian economy bounced back in Q3/16, with GDP growing at an annualized pace of 3.5%, largely due to resumption of oil exports as Alberta oil production came back online. While this growth rate is not sustainable, sources for continued economic improvement include rising exports to a relatively stronger U.S. economy, which accounts for close to 75% of Canadian exports and domestic fiscal stimulus through increased infrastructure investment.

With no signs of a recession on the horizon, equities remain the preferred asset class for long term investors.

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