

Market Review

May 16, 2017

Market Outlook

The global economic backdrop is improving, with both advanced and emerging economies in an expansionary mode. The job situation in the U.S. remains robust, as evidenced by the unemployment rate declining to 4.4% on April. Economic indicators and surveys continue to suggest strengthening U.S. GDP growth after a soft first quarter. The Canadian economy is recovering, supported by higher energy prices over the past year, fiscal stimulus through infrastructure investment and accommodative monetary policy.

Q1 2017 earnings reports for the S&P 500 companies are nearly complete and both revenues and earnings per share (EPS) growth have come in better than expected. So far, EPS growth is tracking at about 13.6% year-over-year (the highest earnings growth for the Index since Q3 2011) compared to an expected 9.2%. For all of 2017, EPS is expected to be up 11.4%, the first year of double-digit growth since 2011.

In Canada for the TSX, consensus estimates expect 2017 EPS to be up 23%, reflecting the recovery in crude oil prices from one year ago, e.g. WTI bottomed at the US\$28/bbl level in February 2016. Earnings for Financials, which accounts for about 35% of the TSX, is also expected to improve, up 12% versus up 1.5% in 2016.

Our constructive view on equities is predicated on continued corporate profit growth, needed to support arguably elevated valuations relative to historical averages. Economic data, indicators and surveys as well as the U.S. Treasury Yield Curve do not suggest a recession in the foreseeable future.