Market Commentary
January 1– February 6, 2018

Mercator Market Watch

Every Rose Has Its Thorn

As Valentine's Day approaches, the least loved bull market in history has encountered a sharp correction. Equity markets have enjoyed a remarkable run, both as along term bull market and more recently on the back of the U.S. election and U.S. tax reform agenda. From 2009 forward, the S&P 500 has produced positive returns annually, and has posted double digit returns in seven of those nine years. The Dow and NASDAQ both gained 32% in the past year. What was the likelihood that would continue? We witnessed the answer on February 5th as a market downturn, where the Dow Jones Industrial Average fell 4.6% and the S&P/TSX Composite fell 1.7%, came on stronger than expected U.S. economic news. Markets reacted to employment results that showed stronger wage growth than anticipated which could indicate rising borrowing costs.

Looking ahead, bumps along the road are healthy in capital markets. We remain confident in the economic outlook, particularly as this sharp correction has been based on positive news.

In that regards, equity markets will derive support from stronger, more synchronized global economic growth and from the resulting improvement in corporate earnings outlook (U.S. earnings growth is expected to be 12% in 2018). Monetary policy will remain accommodative even while U.S. rates are allowed to gradually re-rate higher coincident with an improvement in economic data. As well, the U.S. economy will benefit from the fiscal stimulus of Tax Cuts and Jobs Act that cuts taxes for both businesses and individuals. As a result of the sharp, one day sell-off the S&P 500 now trades at a more reasonable 16.9 times forward 2018 earnings expectations, down sharply from 19.5 times forward earnings estimates as of trading late January close and February start (as earnings have continued to improve rapidly as well). Finally it is worth noting that sharp declines like we have witnessed over the past few trading sessions are typically overdone (when markets are down 6—7% within six days in the past, global equities have been up on average of 13.9% in the next 12 months).

February 5ths, very volatile trading sessions echoed activity across global markets late January and early February as both equity and bond markets sold off sharply. Understandably some investors are concerned that this, the second longest bull market in history, may be in the process of drawing to an end.

STRATEGY

No one knows if this is the end or when the next bear market will happen, but as wealth advisors we want to ask our clients "how would you feel if your portfolio took a change from showing gains to losses?". It is in times of uncertainty like we just witnessed that you need to review your investments time horizon and ensure the risk factor matches your goals for all the investments you hold.

Stock Exchange	Year to Date Dec. 31, 2017 to Jan. 31, 2018
TSX (Toronto)	-1.59%
DOW (U.S.)	5.79%
S&P (U.S.)	5.62%
NASDAQ (U.S.)	7.36%
CAC (France)	3.19%
FTSE 100 (London)	-2.01%
DAX (Germany)	2.10%
NIKKEI (Japan)	0.79%
HANG SENG (Hong Kong)	9.92%

Stock exchange source: http://www.investing.com/indices

Rates as of January 31, 2018 *

Term	GICs	RSPs
1 year	2.30%	2.12%
2 Year	2.50%	2.43%
2.68%	2.68%	2.68%
4 Year	2.70%	2.70%
5 Year	2.90%	2.90%

*** Rates subject to change without notice.**

DAILY INTEREST ACCOUNT
1.10%

TAX FREE ACCOUNT
1.10%

GIC Rates: http://cannex.com/customerportal

What's ahead for February and beyond?

We have been anticipating some inflation-related market turbulence. Our expectation is that there are a variety of secular forces that are likely to keep wage gains and headline inflation from becoming disruptive but we continue to monitor developments closely. February is likely to be a month with increased volatility. But we remind you, corrections do occur which allow portfolio managers to refresh positioning and revalidate assumptions. Above all, remember your investment goals during times of uncertainty.

Should any questions arise, in regards to your portfolio please contact your Mercator Financial wealth advisor.

(*Information source(s): Portions of: BMO Global Asset Management, Market Alert, 02,06,18—Paul Taylor & Asset Allocation Team | Advisors Research Group—Monthly Market Update for January 2018)*

Manulife Securities Investment Services Inc. PH: 306-778-6611 FAX: 306-778-7644

MFDA Advisors:

Financial Planners: Larry Jensen, CFP®; Randy Sommerfeld, CFP®; Travis Cuthbert, CFP®

Senior Financial Consultant: Norman Tonnies; Associate Advisor: Chad MacLeod

Life Insurance Agents with Mercator Financial Inc.

Manulife Securities Incorporated PH: 306-778-0730 FAX: 306-778-0371

IIROC Advisors:

Financial Planner: Craig Robinson, CFP®

Life Insurance Agent with Mercator Financial Inc.