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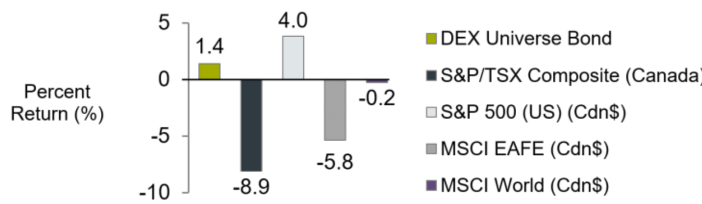
# 2018 Economic Review and Future Forecast

2018 will be remembered as a year that included two very different market environments. From January to September, positive returns were realized for bond and equity markets. Of particular note was the U.S. equity market, with the S&P 500 Index resulting in a 14.1% return during this time. This period of U.S. market growth capped one of the longest in history, but since 2017, some analysts have cautioned that a market correction could be on the horizon.

That market correction began in October, as investors saw severe volatility across all markets. Several indices posted significant corrections, including the Canadian S&P/TSX dropping by -6.5% and the U.S. S&P 500 dropping by -6.9%. Despite significant declines in the U.S. S&P Index in October and December, it did manage to end the year showing a positive overall one year return. Bond investors also felt the impact of several interest rate hikes that had been implemented, seeing volatility in November and just managing to realize a positive return by the end of the year.

The only predictable market behaviour from October to December was volatility, as investors saw several instances of significant fluctuation in market levels in response to policy, political and financial events, and investor uncertainty.

The accompanying graph (right) indicates one-year returns of major market indices, as of December 31, 2018.




## Factors affecting financial markets

**Canadian economy**: In Canada, concerns about a global trade war, increased interest rates, a slowdown in the housing market, and declining oil prices have weighed on the Canadian market. With the heavy concentration in Canada on energy stocks, the drop in those stocks in 2018 of -21% played a strong role in the market decline.

**U.S. concerns**: Interest rates were increased four times in 2018 and markets reacted badly to the December hike and to the lack of a stronger indication on whether the U. S. Federal Reserve would take a break on raising rates in 2019. Additional concerns included the future direction of housing prices, the level of corporate debt, U.S. and China trade relations, as well as uncertainty regarding U.S. policy changes and their impact on the economy.

**Global markets**: A slowdown in China's economy occurred as the government pulled back on their bank lending to try and slow down their accumulated debt, and in December, factory activity shrank for the first time in two years. Worries regarding potential U.S. tariffs on the US$250 billion of Chinese imports impacted global markets, as well as concerns regarding the Brexit process and its impacts.

## 2019 forecast

In Canada, there is speculation that interest rates will continue to rise, impacting consumer spending, debt levels and housing markets, with higher costs to consumers potentially contributing to a decline in economic growth.

In the U.S., although they are expected to slow, there is still uncertainty regarding future interest rate hikes. The reporting of possible lower corporate earnings and profits is anticipated as analysts watch for other leading indicators of economic growth for the future. And concerns regarding trade tensions with China and government policy continue.

In this current environment of uncertainty in the marketplace, investors are reminded not to react to short-term market fluctuations, as selling an investment when it is down in value 'locks in' any losses. As always, we recommend that investors regularly review their portfolio to ensure that it is diversified and matches their risk tolerance and timeframe until retirement. We encourage you to work with your financial advisor or Reuter Benefits' team of licensed professionals to keep a disciplined, long-term focus as you review your investments.

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