MARKET REVIEW - NOVEMBER 2016

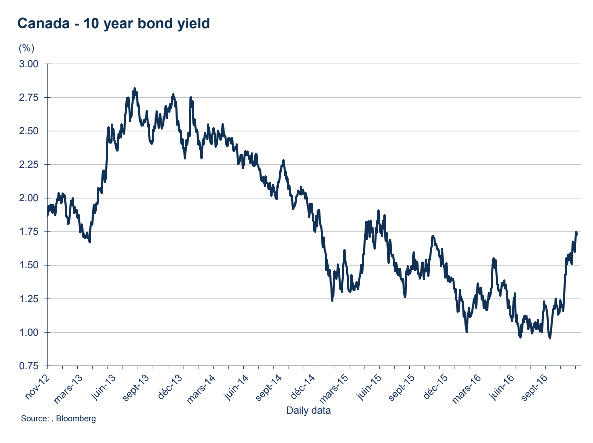
ETERNA FINANCIAL GROUP

STATISTICS on 2016-11-30		
CANADA		
Unemployment	6.80%	↓
C.P.I. (October)	1.50%	↑
3 months treasury bills CDA	0.50%	↑
Bonds CDA 5 years	1.08%	↑
Bonds CDA 10 years	1.69%	↑
S&P/TSX	15 083	↑
UNITED STATES		
Unemployment	4.60%	↓
C.P.I. (October)	1.60%	↑
3 months treasury bills US	0.48%	↑
Bonds US 5 years	1.84%	↑
Bonds US 10 years	2.38%	↑
Dow Jones - Industrial	19 124	↑
S&P 500	2 199	↑
CURRENCY		
$ US / $ CAN	0.7442	↑
$ US / € Euro	1.0589	↑
¥ Yen / $ USA.	114.46	↓

The arrow indicates the trend since the publication of the last monthly data or end of the month.

November proved to be an eventful month. Stock markets generally performed well, with the Canadian TSX delivering 2.2% return, while the U.S. market increased by 3.7%, according to the S&P 500. Other international markets generally rose, with the exception of the UK FTSE and the Emerging Markets Index. Meanwhile, the Japanese and Chinese stock markets advanced by 5%.

In Canada, the financial and industrial sectors delivered the strongest performances. On the financial side, insurance companies did particularly well, with Manulife and Sun Life gaining 20% and 15%, respectively. The banking group as a whole yielded 4%. The industrial sector grew by 6.2%, with Russel Metals advancing 21% and CNR 6.5%. Under the pressure of gold, the materials sector fell by 4.8%. Following the November 8 U.S. election, the Trump presidency had a violent impact on the market. The bond market experienced one of its worst monthly performances in recent months, while the TMX Canada Universe Bond Index fell by 2.1%. This strong decline was the result of a second month of rising bond rates. The decline is particularly violent for long-term federal bonds, which lost 4.9% in November, and 7.4% in the first two months of the fourth quarter. The short-term component suffered the same fate, which means that it was preferable to have a lot of cash. Global bond markets experienced an overall decline. Investors are therefore convinced that a new regime will be introduced, namely tax reduction and infrastructure projects to stimulate growth. There are also speculations about an oil price increase and expectations of inflation taking root. The market now expects increased FED rates as early as December. Finally, the presumed secretary of the treasury suggested financing by very long-term issuances (60 years). The recent market turbulence will be followed; economic statistics released in November are better, both in America, as in Europe and China. The greenback made significant gains and this will eventually have consequences.



PERFORMANCE as of 2016-11-30	1 month	3 months	12 months
Bonds			
FSTE/TMX - 91 Day Tbill	0.03%	0.13%	0.49%
FSTE/TMX - Short Term	-0.49%	-0.20%	1.54%
FSTE/TMX - Mid Term	-2.11%	-2.41%	3.18%
Stock Market Indices			
CANADA - S&P/TSX	2.19%	4.08%	15.45%
USA - S&P 500	3.73%	4.03%	8.51%
MSCI - E.A.F.E.	-1.96%	-0.72%	-3.25%
$ CAN versus $ US	-0.21%	-2.53%	-0.56%

SOURCES: Bloomberg, TSX Group - Total Return, $ CAN

DEVELOPMENT FOLLOWING THE ELECTION OF DONALD TRUMP

The election of candidate Trump created obvious uncertainties in financial markets. U.S. stock markets advanced and bond rates rose substantially, leading to a fall in bond prices. The U.S. dollar, on an increase since the summer, seems to be strengthening, which will be even more likely with rate hikes in the United States. It is clear that the FED has a free path to increase its administered rates. The policy announced during the election campaign was clear: lower taxes, increased infrastructure spending, increased military spending, review of trade agreements, review of energy policies and review of policies related to the climate treaty. It is a promise of real change of regime and economic environment.

It is worth mentioning that the White House will be able to negotiate with its Congress allies, since Republicans have maintained control of the two legislative chambers. It is too early to determine all possible impacts—the exercise of power should face its usual constraints. On the other hand, it is clear that the Canadian energy sector is now optimistic about the Keystone project, since President Obama's rulings may be overturned without a vote in Congress. Energy advisors to President-elect Trump are known to be global warming skeptics and in favour of the oil sector. It is reasonable at this time to believe that this sector may be better served by the new regime, either through Keystone approval, backing out of the Paris climate agreements, easing of car pollution laws and generation of electricity by coal. There is a great deal of speculation at this point and we will have to wait until after the establishment of the new government and tabling of bills to learn more, which should be around February 2017.

If today's markets' presumptions are proven accurate, bond rates will be in a higher range and the U.S. dollar will be strong. There will be an impact on emerging markets and economies. On the one hand, their exports will be stimulated, but on the other hand, their debt denominated in U.S. dollars will be negatively impacted. The rising U.S. dollar may also reduce the risk of inflation in the United States and contain the rise in commodity prices in a context of sustained growth. It is difficult to assess how any policy of reviewing free trade and international trade agreements would impact emerging exporters—international trade has already declined in recent years. There may be relatively diverse overall effects. A reduction in the U.S. greenhouse gas effort could first favour U.S. companies, as will the announced reduction in corporate taxation. In addition, an agreement with Congress on the taxation rate for repatriation of foreign capital could translate into recovery in business investment in the United States. In relative terms, Canada and Mexico are at a disadvantage regarding taxation and regulation. The loonie could be under pressure.

Our southern neighbours voted for change and the tone has already changed. It remains to be seen how reality will emerge in the first six months of 2017. The new president is not seen as dogmatic and seems rather pragmatic. It will be interesting to see how he will adjust campaign objectives and promises to budgetary reality. Can we expect an even greater deficit on the part of an individual who has preached for the rigour and control of state spending for so many years? This context should lead to greater market volatility, until a clearer direction is ascertained, which could take some time.

Best Wishes

In this holiday season, we would like to offer you our best wishes for health and happiness to you and your family and thank you for the confidence you have in us.

Merry Christmas and Happy New Year!

Business hours during the holidays

Our offices will be closed on December 26th and 27th and the 2nd and 3th January.

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