MARKET REVIEW - JANUARY 2017

ETERNA FINANCIAL GROUP

STATISTICS on 2017-01-31

CANADA		
Unemployment	6.90%	↑
C.P.I. (October)	1.50%	↑
3 months treasury bills CDA	0.46%	↑
Bonds CDA 5 years	1.12%	↑
Bonds CDA 10 years	1.76%	↑
S&P/TSX	15 386	↑

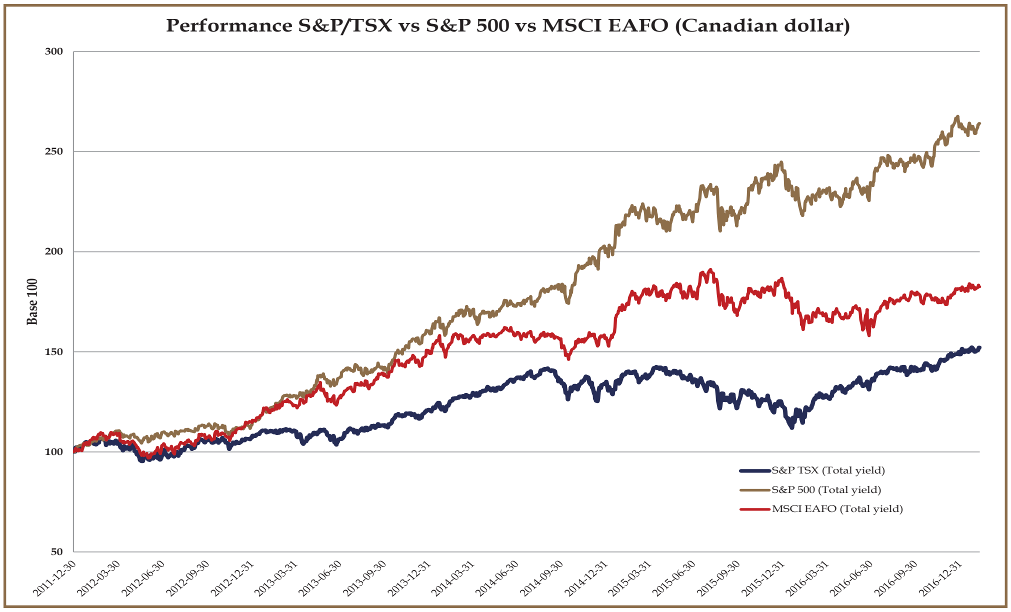
UNITED STATES		
Unemployment	4.80%	↑
C.P.I. (October)	2.10%	↑
3 months treasury bills US	0.51%	↑
Bonds US 5 years	1.91%	↓
Bonds US 10 years	2.45%	↑
Dow Jones - Industrial	19 864	↑
S&P 500	2 279	↑

CURRENCY		
$ US / $ CAN	0.7674	↓
$ US / € Euro	1.0798	↓
¥ Yen / $ USA.	112.80	↑

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

January was beneficial for North American stock markets, which generated positive returns in local currencies. However, the weakness of the U.S. dollar against our currency (-3.1%) was unfavourable to main U.S. indices. The S&P 500 and Dow Jones Industrials lost 1.23% and 2.46%, respectively, in Canadian dollars, while the MSCI EAFE International Index edged down 0.25%. The Canadian S&P/TSX Composite Index yielded 0.85% over the same period, mainly due to the materials (+9.3%) and telecommunications (+2.7%) sectors. Conversely, it was the energy sector which most negatively impacted on the index, generating a 5.6% loss. On the bond side, the FTSE-TMX index for Canadian bonds lost 0.12%, mainly due to the negative return of its long-term component (-0.83%). From a sectoral perspective, corporate bonds showed the best performance of 0.41%, while municipal, provincial and federal bonds declined by 0.34%, 0.52% and 0.14%, respectively.

The first month of 2017 also marked the arrival of the new American President, whose slightest moves and declarations have attracted interest worldwide. That said, as portfolio manager, it is essential not to be carried away by the media storm created by this major change, at the expense of our long-term investment vision. While leaving aside rumours and short-term reactions generated by Mr. Trump's declarations, we must remain on the lookout for structural changes which the new leader's decisions might bring.



PERFORMANCE as of 2017-01-31

	1 month	3 months	12 months
Bonds			
FSTE/TMX - 91 Day Tbill	0.04%	0.13%	0.50%
FSTE/TMX - Short Term	0.21%	-0.32%	1.00%
FSTE/TMX - Mid Term	0.19%	-2.26%	1.20%
Stock Market Indices			
CANADA - S&P/TSX	0.85%	4.78%	23.55%
USA - S&P 500	-1.23%	4.81%	11.53%
MSCI - E.A.F.E.	-0.25%	1.44%	4.09%
$ CAN versus $ US	3.06%	2.83%	6.77%

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

WHAT CAN WE EXPECT FOR THE CANADIAN DOLLAR?

Who can predict how the loonie will behave over the next few months? Forecasting currency rates is a fatally difficult exercise, as these variables are subject to multiple influences in the open foreign exchange market and billions are traded daily on a global scale. We can still consider and analyze some potentially decisive factors for the coming quarters.

Canada used to have trade surpluses. Following the great recession, the situation was reversed. Over time, the share of exported petroleum products has increased, becoming as important as that of automotive products. Higher oil prices exert a perverse effect; while, on the one hand, they benefit Canadian oil companies, they also inflate trade surpluses and lead to a rise in our currency. The recession quickly impacted the U.S. domestic demand and lowered oil prices. Since then, prices have strengthened, but are lower than previous peaks and volume is limited by lack of transportation. In summary, the Canadian dollar has been a "petrodollar" and oil prices are now a decisive factor in its fluctuations. No one at the moment expects a return to price peaks, but better performance is probable with continuation of the cycle and possibility of new pipeline developments.

Interest rates reward currency holding. The gap between Canadian and U.S. rates is critical. Canadian rates are currently below U.S. rates, which does not favour the Canadian exchange rate. Economic policies envisioned in the United States favour growth, either by lowering taxation and regulation, or by the FED raising rates. Slower Canadian growth suggests that the Bank of Canada will drag its feet compared to the FED. We can therefore assume that there will be no support through the interest rate differential.

Canada is experiencing a slow recovery, given the weakness of its currency. Several analysts point to structural, productivity and competitiveness issues.

Finally, public deficits and associated perception also play a role. In the context of the crisis, Canada has managed its public finances well, setting an example on the world stage. However, based on submitted budgets, we now know that the Canadian government does not intend to return to budgetary balance. Although the fiscal policy of the new U.S. government is still unknown, our relative situation may deteriorate.