GP WEALTH MANAGEMENT

Looking back at 2017, it was the first year since the 2009 financial crisis that economic growth surprised to the upside almost everywhere around the globe.

Investors holding a large allocation of their portfolio outside of Canada were positioned to do particularly well.

Buoyant international markets

Perhaps the biggest growth surprise emanated from continental Europe, where previous laggard economies, including Spain, have joined the region's upswing. According to FocusEconomics, a leading international provider of economic analysis and forecasts, the Eurozone's economy is on solid footing heading into next year, with tailwinds that include an improving labor market. FocusEconomics projects GDP will grow a healthy 2.0% in 2018.

In China, annual growth climbed back above 6.5%, calming the fears of the naysayers. That said, China's economy is expected to gradually cool as it continues to rebalance its economic model, putting less emphasis on manufacturing and more emphasis on consumption and the service industries.

To the south, the U.S economy got its mojo back, with growth actually speeding up as the year wound down. Now, the newly minted tax bill, known as the Tax Cuts and Jobs Act, has the potential to goose the economy even more. The act reduces the corporate tax rate from 35 percent to 21 percent, temporarily reduces tax rates on many noncorporate (pass-through) businesses, and temporarily increases the present discounted value of capital cost recovery allowances for equipment.

Investors who bought U.S. equities after Donald Trump was elected President fared especially well in 2017, with the market gaining about 25 per cent since the beginning of the year.

Canada's performance

Here in Canada, newly revised GDP data suggests the economy is doing better than previously thought. A blistering first half in 2017 was followed by a more-than-decent third quarter. The solid economy is evidenced by a strong labour market, which generated an average of 33,000 jobs per month over the last 12 months. That's the best performance by the labour market in a decade. Better yet, most of the jobs created were private sector and full-time.

If you were invested in Canadian equities, you would have experienced positive returns, but not nearly as robust as the returns generated in the U.S. and international markets. Excluding dividends, the S&P TSX returned about 6 per cent for the year.

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This bull market is long in the tooth, yet it has a bounce in its step – what to make of it?

The recent sharp turn to optimism by investors has come late in the economic cycle. By next April, the current expansion will be the second-oldest on record.

Recall, the U.S. stock market bottomed in March 2009. Since then, it's been rising for 8-plus years, with gains of 289 per cent.

Using previous cycles as a guide, the market is in its late autumn and should be slowing down. Instead, it's acting like a spring chicken. Maybe we're seeing the influence of the Baby Boomers, a generation that's always up for a vigorous next act.

Still, the nature of markets is to perpetually cycle between bull and bear states, so the transition into a bear market is inevitable. Knowing this, investors should be asking themselves how they can make the most of the late-cycle returns, while protecting themselves against losses when the downswing begins.

Without question, the late-cycle period of a bull market can be challenging. Typically, the fundamentals will be setting off alarm bells, equity valuations will be stretched to a concerning degree and the central banks, in a bid to moderate inflation, will start hiking interest rates, which can have the effect of depressing stock prices.

Global monetary policy

Despite all these signs, the markets could keep rising — even surge, as U.S. equities are doing now — for some time. These late-stage market rallies are often driven, in part, by overconfident investors. After an extended bull run, even the most experienced investors can lose perspective and start thinking "this time will be different."

To avoid being drawn into the euphoria at a market peak, investors need to have a disciplined process that guides their buying and selling decisions. With a solid process, it's possible to lean into opportunities and away from risk, even late in the cycle,

Enjoy this animated old bull while it lasts, but remember the reaper is out there and your best defense is to be a disciplined investor.

Getting Advice

Are you looking for additional perspective on the financial markets and how it might affect your portfolio? We encourage you to talk to us. Speak to your Financial Advisor or contact investor services at 1 800 608 7707.

MARKET MONITOR

MARKET INDICATORS	MARKET CLOSE*	2016 RETURN	2017 Q4	2017 RETURN
S&P/TSX Composite	16,232.24	+17.51%	+3.67%	+6.03%
Dow Jones	24,719.22	+13.42%	+10.33%	+25.08%
MSCI World	2,103.448	+5.32%	+5.14%	+21.6%

*As of December 29, 2017