

Weekly Note

To us there are no foreign markets.™

Investment Team

Robert Jukes
Global Strategist
T: 44.207.523.4594
robert.jukes@canaccord.com

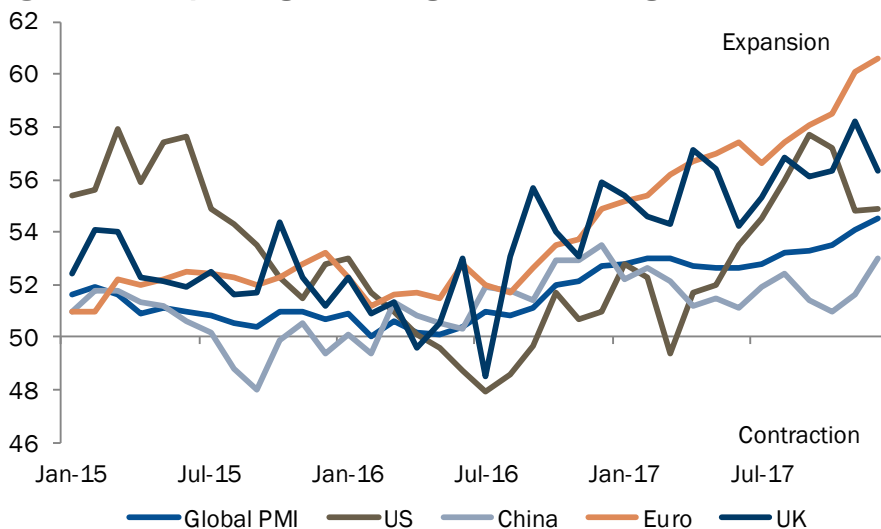
Michael Quach
Senior Research Analyst
T: 44.207.523.4528
michael.quach@canaccord.com

Ian LeCroy
Research Analyst
T: 416.867.2643
ian.lecroy@canaccord.com

Things Can Only Get Better

Global stock markets have started the new year as they have left off with the FTSE All World Index (developed plus emerging markets) up an impressive 1.8% in local currency terms (to 4th January). This follows the 17.7% return in 2017. The positive start to 2018 reflects robust economic indicators which are pointing to an ongoing strong synchronised global growth. The strong readings from the purchasing managers indices (PMIs) globally which serve as a good proxy of short term economic activities is boosting companies' earnings prospects.

Figure 1: PMIs pointing to robust global economic growth

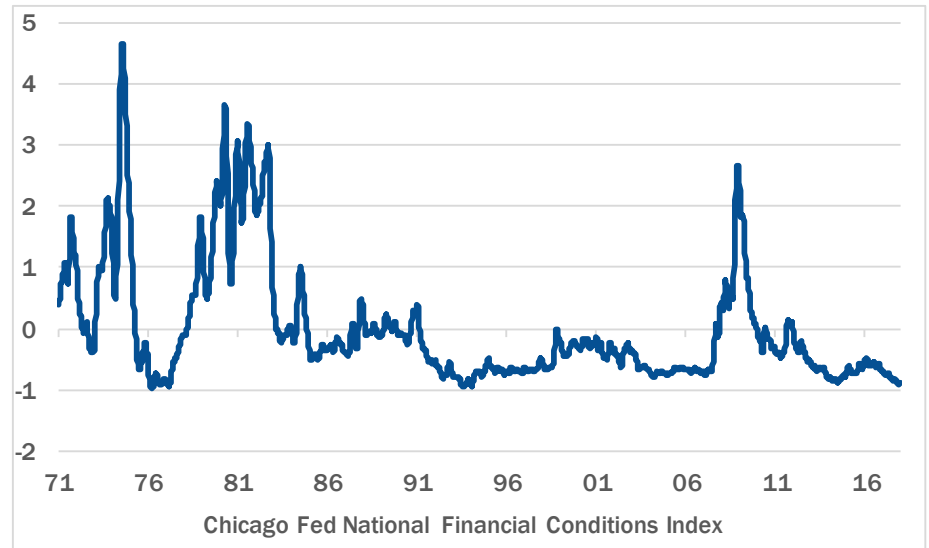


Source: Datastream, Canaccord Genuity Wealth Management

The economic momentum in the Euro area has been exceptionally strong given the extremely loose monetary conditions, stronger domestic demands and an improving global economy. In December 2017, the European Central Bank (ECB) maintained its main policy rate, the refi rate, at 0.0% and confirmed its intention to continue with its bond buying programme of E30bn per month from E60bn per month previously until at least September 2018. We would note that structural challenges remain which hinder the region's medium-term outlook and that in the near term, there remains political risks with general elections in Italy due in March this year, the possibility of another general elections in Germany and the Brexit negotiations.

In spite of the five interest rate hikes by the US Federal Reserve since December 2015 with the last increase in December to a range of 1.25% to 1.5% and the trimming of the central bank's US\$4.5 trillion balance sheet (though at a very slow pace), financial conditions remain extremely favourable. Indeed, conditions in the US as measured by the Chicago Fed's National Financial Conditions Index (NFCI) is as loose as it has been going back to 1971 (see Figure 2), in part due to the weaker dollar.

Figure 2: Financial conditions in the US remain accommodative

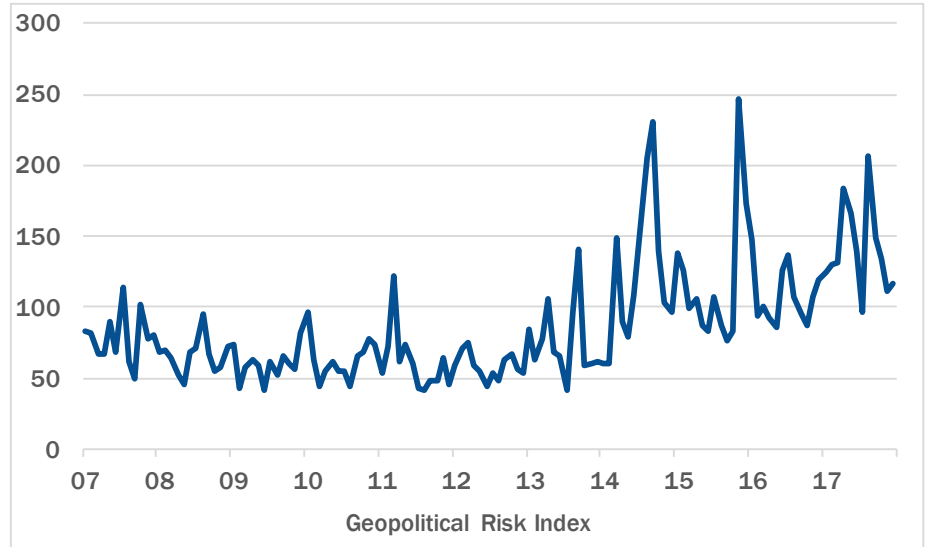


Source: Chicago Fed, Canaccord Genuity Wealth Management

Alongside the improved economic momentum, however, we have seen a rise in geopolitical risk over recent years. Figure 3 highlights the upward trend in the Geopolitical Risk Index from the US Federal Reserve. As we have previously observed markets tend to ignore or recover quite quickly from major geopolitical events. There were plenty of potential catalysts last year, but nothing seemed to shake markets from responding to sound fundamentals.

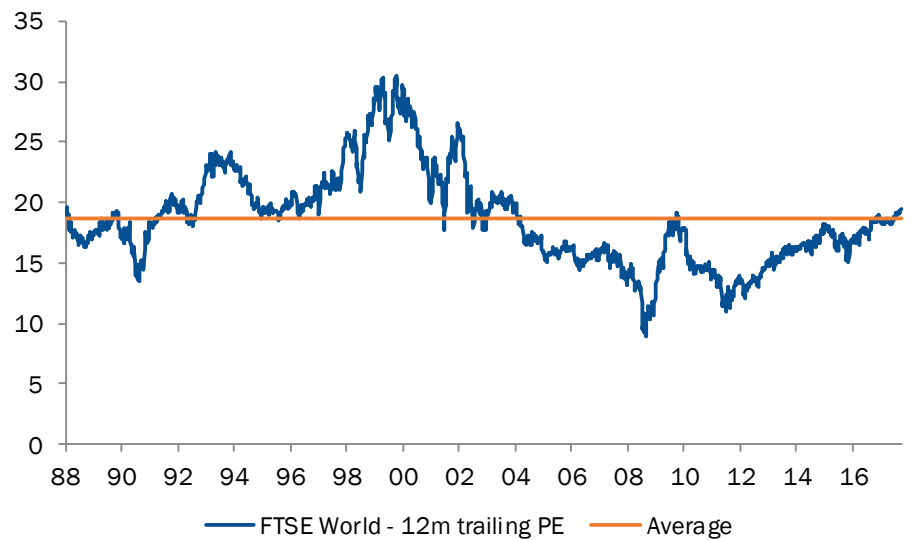
Given the strength of the stockmarkets, valuation has also become a key area of concern among some investors. The global stockmarket as measured by the FTSE World Index is currently trading marginally above its 30-year average on a trailing price-to-earnings (PE) and price-to-book (PB) basis. On a trailing dividend yield (DY) basis, the Index is trading in-line with its long run average. The global stockmarket remains below its peak valuations across all three valuation measures. Given the fair value in the global stockmarket, the synchronised global economic momentum, positive earnings growth and the still accommodative global monetary policies we remain positive on equities.

Figure 3: Geopolitical Risk remains high



Source: Federal Reserve, Canaccord Genuity Wealth Management

Figure 4: FTSE World Index – trailing PE



Source: Datastream, Canaccord Genuity Wealth Management

Goldilocks seems to be the most appropriate description of markets right now, and very little seems to upset them. For now, at least, we expect markets to continue much as they have done through the last half of 2017 into the first half of 2018.

All information is given as of the date appearing in this document and Canaccord Genuity Wealth Management (CGWM) does not assume any obligation to update it or to advise on further developments related. All this information has been compiled from sources believed to be reliable, but the accuracy and completeness of the information is not guaranteed, nor in providing it do CGWM assume any liability.

All views expressed in this document are provided for informational purposes only and does not constitute an offer or solicitation to buy or sell any securities. The statements expressed herein are not intended to provide tax, legal or financial advice, and under no circumstances should be construed as a solicitation to act as a securities broker or dealer in any jurisdiction. All views are intended for general circulation to clients and do not have any regard to the specific investment objectives, financial situation or general needs of any particular person.

Forward-looking statements and past performance are not guarantees of future results. To the fullest extent permitted by law, neither CGWM nor its affiliates or any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of the information contained in this document. Canaccord Genuity Wealth Management in Canada is a division of Canaccord Genuity Corp. Member – Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada.