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FINANCIAL SOLUTIONS

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The global economy in aggregate continued to strengthen in 2014, although the improvement, as has been the case through most of the current recovery, was uneven. After shrinking in the first quarter, the American economy grew at a much stronger rate than expected in the second half of the year. While not as robust, Canada's economy also registered encouraging signs of improvement during 2014. In other regions, geopolitical events such as conflict in Ukraine and the Middle East, slower growth in China and the risk of deflation in Europe affected financial markets. Overall, the global expansion moved cautiously forward.

Global financial markets also started 2014 on a hesitant note, but benefited from improving economic trends and strong corporate profits through the spring and summer months. Most equity indexes were positive through the end of the third quarter, but volatile conditions surfaced in the fourth quarter as investors began to focus on the slowing pace of growth in emerging markets, particularly China. Concerns about oversupply in the energy market caused a sharp drop in the price of oil and other commodities, which was felt broadly across many markets and sectors. The price per barrel of crude dropped to less than US$50 at the start of 2015, the lowest since 2009.

Canada's commodity-heavy S&P/TSX Composite Index was particularly volatile in the fourth quarter, staging a series of sharp declines and rebounds. The Canadian index finished the three-month period with a loss of 1.5%, but registered a respectable gain of 10.6% for the year. The falling price of oil, which is a major Canadian export product, also caused the Canadian dollar to lose value relative to the American dollar. Our loonie finished the year about 8% lower at 86.2 cents U.S.

The MSCI World Index, which measures large and mid-cap equities across 23 developed markets, gained 5.5% for the year in American dollar terms. Accounting for the Canadian dollar's decline, however, this gain was magnified to 15.1% for Canadian investors. The performance of the World Index reflected generally weaker results in emerging and developed markets outside North America and the robust gains for American equities. The benchmark S&P 500 Index benefited from strong American economic trends, growing consumer and business confidence and healthy corporate profits, adding 13.7% in 2014. Again, Canadian investors in U.S. stocks benefited from the decline in the value of our own currency, with the U.S. market up 24% in Canadian dollar terms.

Turning to fixed-income markets, the moderate pace of global economic activity in 2014 meant that monetary policy remained highly accommodative to growth. Although the American Federal Reserve officially ended the asset purchase programs it had used to stimulate the economy since 2009, central banks in Europe, China and Japan took steps to keep interest rates low, their currencies weak and their export markets competitive. Bonds performed well in this environment. The FTSE TMX Canada Universe Bond Index, a measure of Canadian government and investment-grade corporate bonds, added 2.7% in the fourth quarter for a gain of nearly 8.8% for the year.

As we head into 2015, the global economy continues to slowly expand. Nearly six years after the financial crisis, equities have delivered generally positive results, however markets are cyclical, and it is always difficult to predict their direction in any given year. While the sharp drop in oil prices has weighed on the Canadian equity market in particular, it is important to remember that asset classes, industry sectors and geographic markets often move in divergent directions. Lower oil prices, are positives for other sectors as they strengthen consumer confidence and reduce costs for manufacturers, transportation companies and related industries.

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Recent market events further support the case for tactical wealth management that is proactive across asset classes, geographies and industry sectors. Prudence and diligence will help to maximize returns for your portfolio, while mitigating risks as they occur, including currency and interest rate movements.

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