# Economic Commentary

*First Quarter 2017*

### Can Trump Deliver on Campaign Promises?

During his campaign run, Trump said he would repeal and replace Obamacare, implement significant tax cuts, and allocate close to a trillion dollars to infrastructure spending. These policies would be supportive of economic growth and as a result equity markets rallied and bond yields soared. The question facing investors in 2017 is how much of this news is already factored into current market pricing and would Trump be able to implement all of his proposed changes.

The first major hurdle was passing the health care reform bill which was to replace Obamacare. When it became evident that the Republicans did not have enough votes to pass the bill in the senate, Trump decide to pull the bill. Not being able to pass the health care reform bill dealt a crushing blow to the Trump administration and showed a lack of unity within the Republican party. This defeat casts doubt on the timing of other measures, including tax reform and increased government spending initiatives. Equity markets continue to show upward momentum, albeit at a slower pace, while bond yields have remained in a trading range so far this year. This market reaction could imply a potential fading of the Trump trade that pushed markets higher following his election victory.

### Fed On Pace for Three Hikes in 2017

The U.S. Federal Reserve raised interest rates at its meeting in March and maintained its position that two additional rate hikes through the balance of the year would be appropriate. The timing and extent of future rate increases will continue to be data dependent, with employment and inflation the key indicators for the Fed to monitor. The unemployment rate has shown a steady decline over the past five years and now sits at 4.5%, the lowest rate since May 2007. Both headline and core inflation readings are above the Fed's target of 2%, sitting at 2.7% and 2.2%, respectively.

### Bank of Canada Still on Hold

The Bank of Canada left its overnight rate unchanged at its first two meetings of the year. The Canadian economy got off to a great start in 2017 with January GDP up 0.6%, with many sectors contributing to the stellar growth. Employment has been strong and headline inflation is now at 2%. Despite the strengthening economy, Bank of Canada Governor Poloz remains very cautious in his outlook and continues to maintain a dovish bias. Interest rate hikes are not expected any time soon in Canada, however, the risk of any rate cuts occurring has diminished greatly with the current state of the economy.

### Brexit, Elections Highlight European Political Risk

Britain has begun the process to exit the European Union. Discussions will begin in June of this year, with an end date of March 29, 2019. There are many issues that need to be resolved in the interim, so Brexit will continue to be a source of volatility in the markets over the next two years. The global populist sentiment that is gaining momentum will be tested with two key elections France and Germany. Higher inflation may allow the ECB to begin tapering its bond buying program later this year, however, the unexpected drop in the March inflation number to 1.5% could keep the program intact through 2017.

### Key Metrics

| Indicator | Value | Chg 1Q | Chg 1Y |
|---|---|---|---|
| S&P/TSX Composite | 15,547.75 | 2.4% | 18.6% |
| S&P 500 (USD) | 2,362.72 | 6.1% | 17.2% |
| MSCI EAFE (USD) | 1,792.98 | 7.4% | 12.3% |
| FTSE TMX Universe Bond Index | 1,023.95 | 1.2% | 1.5% |
| CAD/USD | 0.75 | 0.9% | -2.4% |
| WTI Crude ($/bl)) | $ 50.60 | -9.7% | 14.1% |
| GoC 10Y Bond | 1.63% | -9.6 bps | 39.8 bps |
| GoC Deposit Rate | 0.50% | 0 | 0 |
| Cdn CPI YoY | 2.0% | 0.5% | 0.7% |
| US 10Y Treasury | 2.39% | -5.7 bps | 61.8 bps |
| Fed Funds Rate | 1.00% | 25 bps | 50 bps |
| USD CPI YoY | 2.7% | 0.6% | 1.8% |

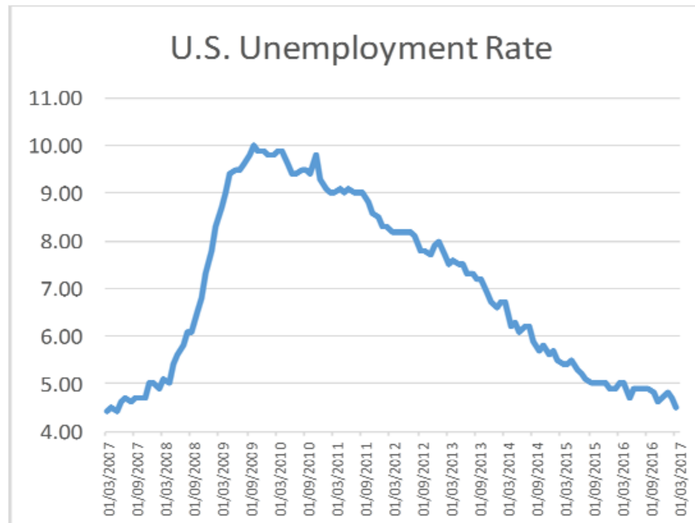
### Top Themes

After health care defeat, can Trump deliver on other promises?

U.S. Fed on pace for three hikes in 2017

Brexit, European elections highlight political risk in Europe

### Top Chart: U.S. Approaching Full Employment




Source: Bloomberg, Lincluden