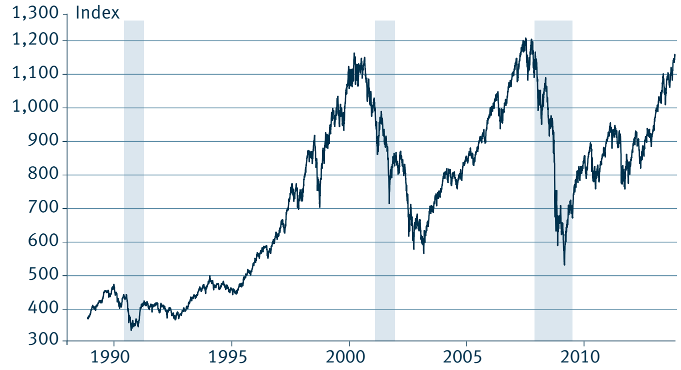
# Financial Markets

The last few weeks have been action-packed as financial markets continue to adjust to potential shifts of monetary policy in the advanced economies and to structural reforms in China. In the US, incoming Federal Reserve (Fed) chair Janet Yellen went out of her way to argue that despite a tangible improvement in the economy since the depth of the recession, the job of the central bank was "not done." Though this statement does not preclude a tapering of quantitative easing in the coming months, the central bank is clearly guiding toward a protracted period of low interest rates. The economy still has some way to go before Janet Yellen becomes concerned about inflation – headline CPI in October was up only 0.9% from a year earlier. In the end, this kind of wording from the Fed continues to be supportive to financial markets. At this writing the MSCI All-Country World Index is up around 20% year to date. The index is now within 5% of its all-time high of 2007.

**The global stock market close to an all-time high**

*MSCI All-Country World Index (local currency)*




*NBF Economy & Strategy (data via Datastream)*

# Canada

The Canadian economy ran below potential in the first half of 2013, and it continued to do so in the second half of the year. Looking ahead to 2014, we continue to see Canadian growth remaining tepid. True, our exports should improve as the US economy accelerates but consumption spending is likely to be challenged next year as households finally start to address their mounting debt load. Recall that deleveraging – which has already taken place in the US and Europe – has yet to happen in Canada. Moreover, with home prices not growing as they used to, wealth effects won't be as prominent in driving consumption spending. Residential construction, which has contributed significantly to GDP in recent years, now seems to be reverting to an earlier trend by subtracting from growth. That component of GDP should remain soft although we're not expecting an imminent housing collapse as some observers have suggested – good credit quality, disincentives to default (e.g. recourse mortgages), and demographics are favourable attributes for Canadian housing. Also, with low inflation and the presence of spare capacity, we think there is no threat of an imminent increase in interest rates by the Bank of Canada. We see the Canadian economy growing 1.6% in 2013 and 2.2% in 2014.