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# Keeping In Touch

Welcome to 2015. It is hard to believe that we are almost through the first quarter of the year already. The stock markets and bond markets have been relatively favorable in the first quarter so far. The issues going forward are no different than what we experienced in 2014 and will have much to do with the US raising interest rates, the strength of the US dollar, the price of oil and European stimulus programs. These four issues will impact the Canadian economy either positively or negatively over the next year as most economies are tied globally in today's world.

The US economy is growing at an increasing pace which is evidenced by falling unemployment, consistent quarterly GDP growth and stock markets performing well. Much of this has been fuelled in the past by historically low interest rates. This growth has provided the stimulus for the demand for US currency and the US dollar has surged against other global currencies, most notably the Euro and our Canadian dollar. Interesting enough, for every action there is a reaction. A stronger US dollar makes those goods produced in the US and exported more expensive to foreign buyers and this is beginning to weigh on some companies in the US which rely on the export markets. Should the US Federal Reserve raise interest rates, this will further negatively impact those large US companies that export. Higher interest rates in the US will drive up demand for US fixed income investments and will thus increase the strength of the US dollar even further.

The US Federal Reserve is faced with a double edged sword as they must offset the need to raise interest rates to curtail inflation with the dampening effect it will have on the US economy. I suspect that it will slow and gradual increase with each step given the time required to fully assess the impact to the US economy. In Canada, as the US is our largest trading partner, a weak Canadian dollar is good for Canadian exporters who are mostly in Eastern Canada. In the West, our economy is tied very closely to the price of a barrel of oil. Fortunately, oil is sold on global markets in US dollars which does help maintain profit margins. The lower price of a barrel of oil definitely has impacted the economies of western Canadian Provinces and will continue to do so while it remains low. On the other side, lower energy costs result in consumers around the world having more disposable income and eventually this will reflect in economic growth as consumers spend these extra dollars. I treat it as a form of stimulus that is not directly funded by the government and our tax dollars.

Greece is in the news again and I am not sure what the outcome of the latest round of talks will be. I expect that it will continue to make unreasonable demands and put pressure on its current bond holders. I also expect that the EU will hold their course. The European Central Bank has finally begun a stimulus program similar to what was done in the US and this should hopefully aid in their economic recovery, but it could get worse before it gets better.

In summary, I expect the stock markets to be somewhat volatile as they react to rising interest rates, even though the fact that interest rates are rising is because the economy is getting better. The cost of a barrel of oil will most certainly create market volatility as it moves up and down based on demand and speculation. In general terms, I do expect that there will be small corrections during the year and that the economies globally will continue to benefit from lower energy prices which will hopefully provide economic stimulus globally.

If you have any questions, please give me a call to discuss or set up an appointment.

Take care

Trevor Nelson CA, CFP
Investment Advisor

*The comments expressed her are the opinions of the Advisor and may not represent the views of IPC Securities Corporation.*

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