

## Market/Economic Update

The S&P 500® Index started the fourth quarter of 2017 (Q4 - the first three months ending December 31, 2017) on a positive note, continuing a strong rally from September. U.S. and Canadian economic growth was strong and reported corporate earnings in October were better than expected. The Federal Reserve raised its federal funds rate in December for the third increase in 2017. Investors largely anticipated the increase and the stock market was not adversely affected. Both the U.S. and Canadian stock markets were positive in Q4. The S&P 500® Index outperformed the S&P/TSX 60™ Composite Index as investors expected President Trump's tax reforms to be passed in the near future, helping to stimulate the U.S. economy.

At the beginning of Q4, Horizons Seasonal Rotation ETF ("HAC") was less than fully invested in the equity markets as it was conservatively positioned in the unfavourable six-month period for stocks between the beginning of May until late in October. During the month of October, HAC increased its equity positions to take advantage of seasonal trends for sectors of the stock market. By the end of October, HAC was fully invested in equities. In late November, HAC sold its position in the Canadian banking sector. The sector has a strong seasonal period that starts on October 10th, but often starts to sell off when the Canadian banks start to release their fourth quarter earnings (typically at the end of November), if the banks have had a strong run into their earnings season. In mid-December, HAC entered into positions in the technology sector, the Nasdaq-100® Index and the small-cap sector, which tend to start their seasonal periods at that time. Also, HAC entered into a position in the silver bullion sector late in December, as silver tends to perform well from the beginning of January to the end of March.

## Outlook

Historically, the stock market tends to perform well in the first quarter of the year. After a strong rally in the fourth quarter of the year, the stock market gains may be muted in the first quarter of 2018. After a long period of low volatility in 2017, it is expected that the S&P 500® Index will return to a period of "normality" with higher volatility levels. After increasing its federal funds rate three times in 2017, the Federal Reserve is currently expected to increase the rate an additional three times in 2018. In addition, the Federal Reserve is currently reducing its balance sheet, which will have the effect of "quantitative tightening." A tighter monetary policy will probably have the effect of increasing volatility in the stock market. Nevertheless, seasonal investing is still expected to provide value in a more volatile environment. HAC looks forward to benefitting from seasonal opportunities in the first quarter of 2018.

To learn more, please visit [www.HorizonsETFs.com](http://www.HorizonsETFs.com)



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