Office of the Vice-President
Strategy, Risks and Performance

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AUTORITÉ
DES MARCHÉS
FINANCIERS

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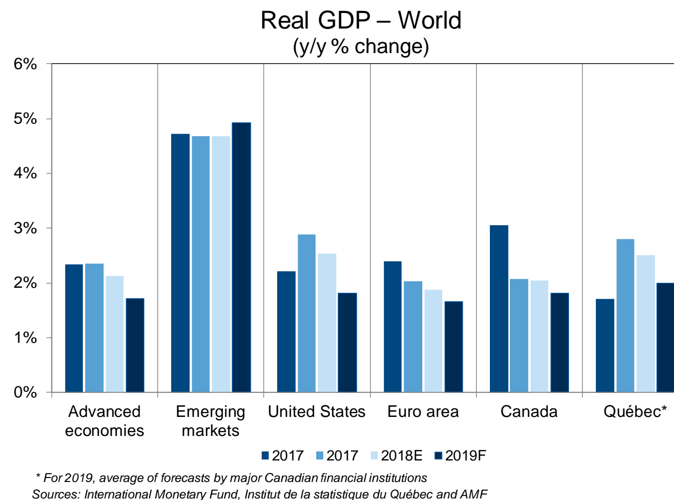
HIGHLIGHTS

- After peaking in 2017, global economic growth slowed in 2018, a year marked by political uncertainty, protectionism and volatile financial markets.
- The U.S. economy remained strong, bolstered by fiscal policy, household spending and business investment. In order to prevent rising inflation, the Federal Reserve tightened its monetary policy four times in 2018.
- In Canada, the economy decelerated in the second half of 2018 owing to a slowdown in the natural resource industry and softening domestic demand.
- The Québec economy was expected to grow by about 2.5% in 2018, outpacing Canada as a whole. The economy owed its strong performance largely to robust domestic demand and slightly faster growth in exports.
- World stock markets posted significant declines in 2018. The slowing global economy and trade tensions were significant drivers of market volatility.
- Bond markets seesawed in 2018, affected by heightened risk aversion and fears of a global economic slowdown and by a U.S. economy showing early signs of overheating.



REVIEW OF 2018

January

Several new measures came into effect in the financial sector:

- In Canada, Guideline B-20 of the Office of the Superintendent of Financial Institutions now requires all mortgage applicants to undergo stress testing.
- In the European Union, the directive MiFID II aims to strengthen investor protection, improve the transparency of investment-related fees and enhance financial institution governance.
- International accounting standard IFRS 9 is intended to simplify the accounting rules for financial instruments.

February

Stock markets underwent a major correction, inflicting large losses on volatility exchange traded funds.

May

The U.S. Congress relaxed bank regulatory requirements under the Dodd-Frank Act, particularly for small- to medium-sized banks.

June

The United States imposed customs tariffs on steel and aluminum imports from Canada, Mexico and the European Union.

Québec passed Bill 141, which modernizes regulation of the financial sector and provides new tools to the *Autorité des marchés financiers*.

September

The trade war between the United States and China took a turn for the worse when the U.S. imposed tariffs on US$250 billion of Chinese imports. China retaliated with tariffs on US$110 billion of U.S. imports.

Washington and Ottawa reached a last-minute deal on a renewed NAFTA.

October

Inflation reached 25% in Turkey and 45% in Argentina. Both emerging markets were hit hard by rising U.S. interest rates and the strong greenback.

December

Faced with near-certain defeat, British Prime Minister Theresa May postponed the vote on the agreement between London and Brussels on the United Kingdom’s withdrawal from the European Union.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership came into force, establishing a new trading block between Canada and 10 other Asia-Pacific countries.

ECONOMIC CONTEXT

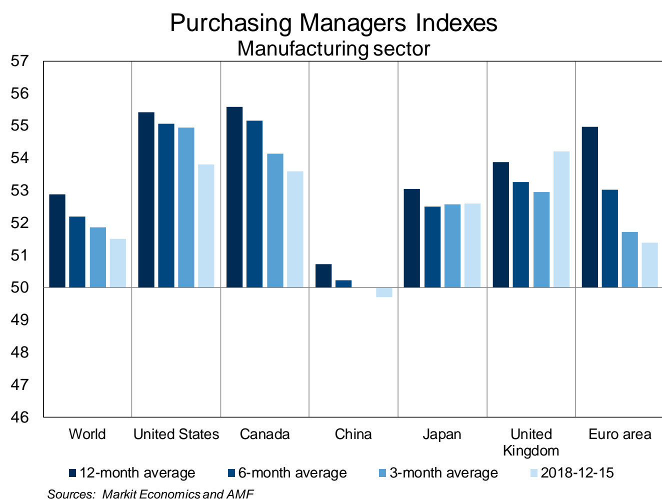
WORLD

After peaking in 2017, global economic growth gradually slowed over the course of 2018, a year marked by political uncertainty, protectionism and volatile financial markets.

Except for the U.S. economy, which was supported by a highly expansionary fiscal policy, the advanced economies experienced weaker growth in 2018.

The economies of the euro area, the United Kingdom and Japan showed signs of losing steam. Germany, Italy and Japan even recorded one-time decreases in their GDPs in the third quarter.

The declines in purchasing managers indexes and the industrial production and global trade slowdowns reflected a worldwide loss of momentum. In addition to disrupting supply chains, trade tensions, stoked by the United States, undermined global confidence and investments.

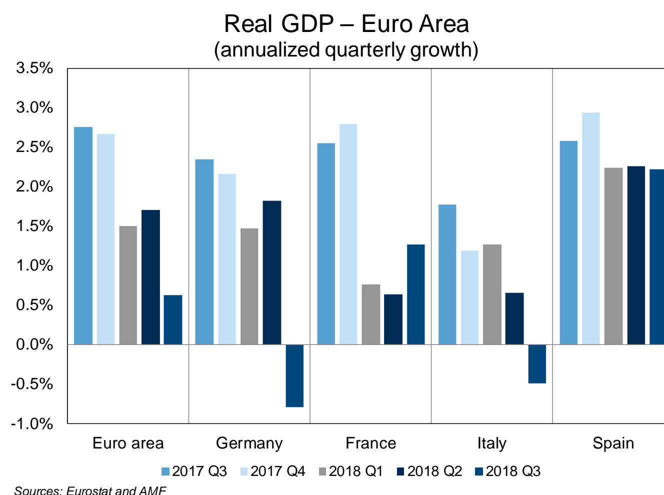


While an agreement in principle has been reached to renew NAFTA, tensions between the United States and China remain high. A three-month truce has been declared to enable the two largest economies to come to an agreement on such issues as reducing the U.S. trade deficit, opening up the Chinese market and protecting intellectual property. The U.S. is threatening to boost its customs tariffs and extend them to all Chinese imports if no agreement is reached.

In November, the midterm elections inflicted a defeat on the Republican administration, which will no longer have free rein to impose its agenda. During that period, the U.S. economy was firing on all cylinders, and in December, the Federal Reserve hiked its key policy rate for a fourth time in 2018.

In the euro area, growth fell under 2% in 2018, and according to European Central Bank (ECB) forecasts, it could fall even further in 2019. The purchasing managers indexes surprised on the downside at the end of the year. Despite this, the ECB wound up its quantitative easing program.

The populist government in Italy became embroiled in a dispute with Brussels over the country's expansionary budget, which broke E.U. rules. The resulting uncertainty led to volatility in the Italian markets, which, among other things, affected bonds and bank securities.



The Brexit negotiations are still deadlocked, with only a few months left before the March 29 deadline for the United Kingdom's withdrawal from the European Union. The British Parliament rejected the compromise deal negotiated between London and

Brussels, placing the Conservative government of Theresa May in a precarious position. An extension of the deadline may be considered.

Higher U.S. interest rates and a strong greenback resulted in capital outflows from emerging markets. The countries most vulnerable and therefore hardest hit were those carrying a high level of foreign-denominated debt and large current account deficits, particularly Argentina and Turkey.

The Chinese economy also experienced a slowdown as growth in industrial production and retail sales dipped. In addition to the trade war with the United States, China must deal with high and growing private sector indebtedness and accelerated population aging. The slowdown in growth could very well continue in 2019.

The global stock markets were highly volatile, with large losses in the fourth quarter of 2018 largely wiping out gains made since the start of the year.

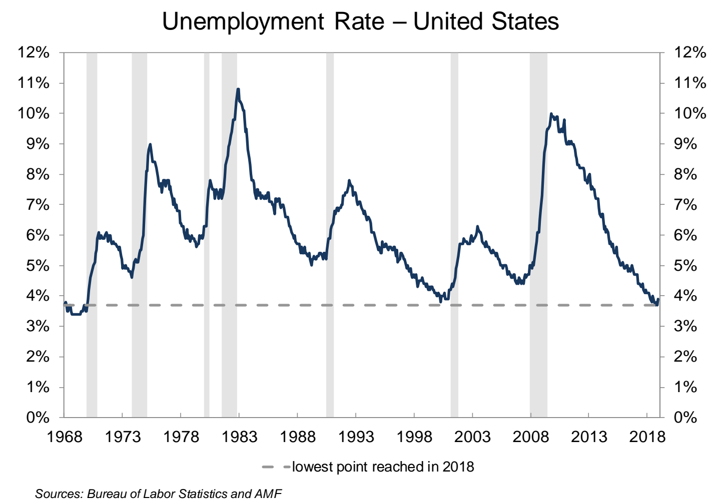
After climbing gradually during the first nine months of the year, oil prices fell sharply in the fourth quarter as a result of abundant supply and moderating demand in global markets.

Despite the risks facing the global economy, the outlook remains relatively positive for 2019: the advanced economies are at or near full employment; inflation is of minimal concern; and the central banks are maintaining accommodative monetary policies. Global economic growth is expected to remain above the average for the past 10 years, at least during the first half of 2019.

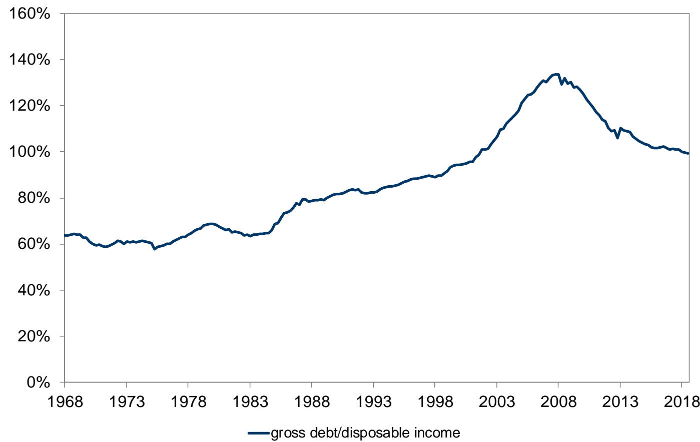
UNITED STATES

Driven by exceptional fiscal stimulus and bolstered by consumer spending and business investment, the U.S. economy posted its best performance since 2005. GDP growth is expected to be around 3% for 2018.

This solid performance pushed unemployment down below 4%, to levels not seen since the late 1960s, and kept it there during the second half of the year.



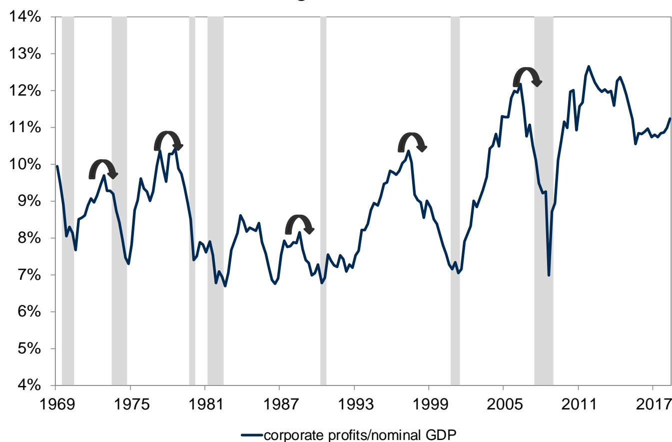
Labour market performance and faster wage growth supported consumption. Even though growth in household spending has accelerated over the past year, U.S. consumers are living more within their means: their ratio of debt to disposable income continues to decline and their savings rate remains relatively high.



Sources: Datastream and AMF

The residential real estate sector underperformed, despite the very robust economy. Housing starts stalled, and home sales declined. Higher interest rates, cumulative home price appreciation and tighter lending conditions curbed demand.

The current expansion of the U.S. economy is on the verge of becoming the longest on record, surpassing the boom cycles of the 1960s and 1990s. This does not mean in and of itself that the next recession is imminent. However, it is fair to say that the U.S. economy is displaying some late-cycle characteristics, including a flattening of the yield curve and a gradual decline in profit margins.



Sources: Datastream and AMF

The risk of a recession in 2019 remains nonetheless low, and with good reason, because U.S. monetary policy remains slightly expansionary despite the rise in rates.

The U.S. economy has only fallen into recession when Fed monetary policy has been restrictive, which is still not the case. Although the Fed raised its key policy rate by 25 basis points four times in 2018, setting it at 2.25%-2.50%, it remains below the neutral rate, which is the rate that neither stimulates nor inhibits economic growth.

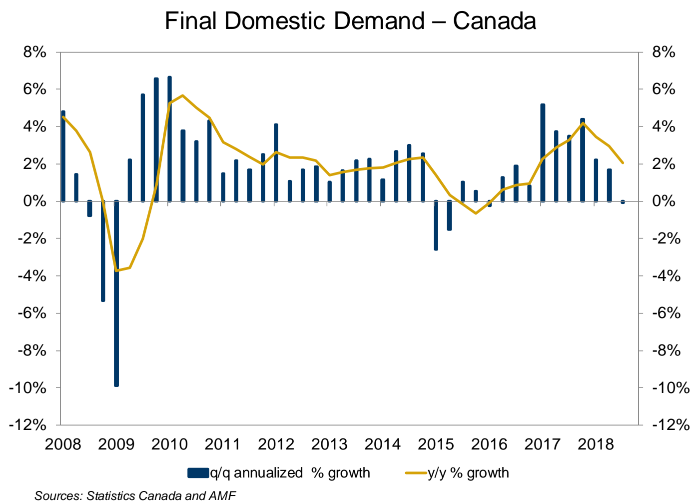
Growth will gradually slow in 2019 as the effect of budgetary and fiscal stimulus wanes and financial conditions tighten. These two factors will combine to gradually curb consumption, although GDP growth will remain sufficiently robust to further reduce the unemployment rate and exert increasing pressure on wages and prices. In this context, the Federal Reserve will continue to tighten its monetary policy in order to counteract upstream inflationary pressures.

Lastly, the U.S. federal government shutdown was still ongoing as 2019 began. However, if the past is any indication, even a prolonged shutdown will have very little direct impact on the economy. The situation is, however, contributing to uncertainty in the current global economic and financial environment.

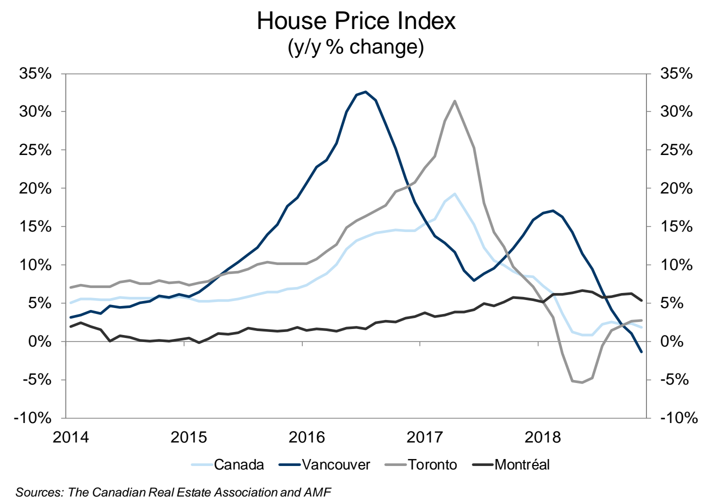
CANADA

The Canadian economy slowed in the second half of 2018 owing to the slowdown in the natural resource industry and waning domestic demand.

The Canadian economy ended 2018 with growth of about 2%. It is worth noting that domestic demand decelerated during the year and even slightly declined in the third quarter for the first time since the start of 2016.



Sources: Statistics Canada and AMF



Sources: The Canadian Real Estate Association and AMF

Household consumption slowed considerably throughout the year, contributing less than 1 percentage point to GDP growth in 2018, down from an average of 2.1 percentage points in 2017.

The slowdown in consumption was due to both slower job creation and household sensitivity to interest rate hikes. The components of consumption most sensitive to interest rates, such as durable goods and residential construction, decreased more significantly as a result.

Business investment also delivered a modest performance and even declined by 7.1% in the third quarter. However, given the full utilization of resources and the level of optimism among business leaders, this pullback could be a one-time event, possibly resulting from uncertainty surrounding the renegotiation of NAFTA during the summer.

Residential construction declined over the first three quarters of 2018. Higher mortgage rates and new federal and provincial macroprudential measures contributed to the sector's weakness in 2018.

Although differences remain between various areas of Canada, the real estate market is showing signs of stabilizing. Price increases and resale activity rebounded in the Toronto area, while prices in the Vancouver area ended the year lower.

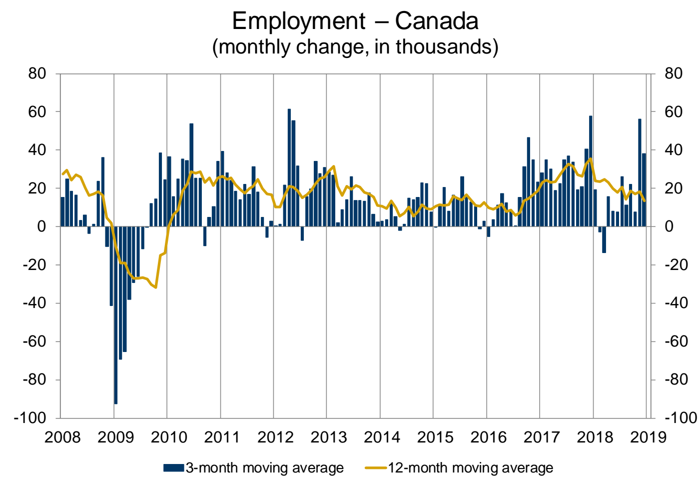
Exports posted relatively modest but sustained growth over the past year. Net exports contributed positively to economic growth in the second and third quarters, partly offsetting the slowdown in domestic demand.

The global economy appears to have weakened slightly since the beginning of 2018, and Canadian exports could be affected in the coming months should global growth lose even more momentum. However, continued robust growth in the United States, combined with the weakening Canadian dollar, could provide some support to Canadian exporters.

Also, while Canada has entered into an agreement in principle on a new free trade agreement with the United States and Mexico, global protectionism remains a threat. The trade war between the United States and China is dragging on with no resolution in sight and could further affect global growth. Moreover, the tariffs imposed by the Trump administration on Canadian steel and aluminum are still in place.

The labour market posted a far more modest performance in 2018, with 163,300 jobs created, compared with 427,300 in 2017.

The unemployment rate nonetheless reached a new historic low of 5.6% in December. As a result, the Canadian economy remains close to full employment, with recruitment problems continuing to surface in various industries.



After ratcheting up its key policy rate three times in 2018, to 1.75%, the Bank of Canada left it unchanged at its meetings in December 2018 and January 2019.

In order to fully assess the impact of past monetary policy tightenings and recent economic developments, marked by a significant deceleration of domestic demand, the Bank of Canada could well pause before continuing to normalize its monetary policy.

Indeed, although inflation has risen since the end of 2017, it remains in check for now. Moreover, total inflation could decline in the coming months in tandem with decreases in oil prices.

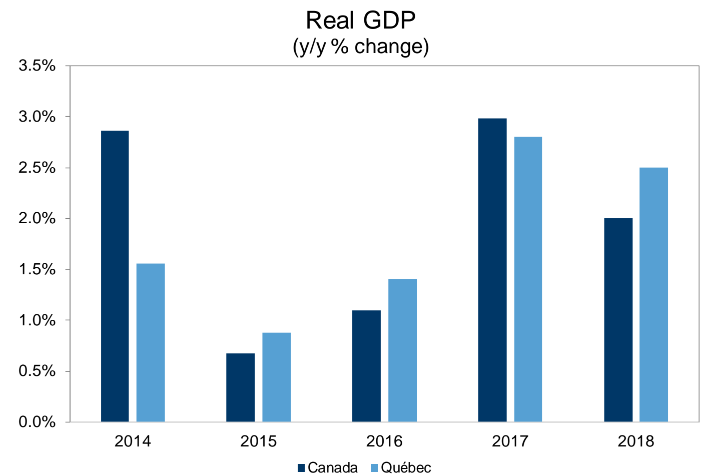
Furthermore, the Canadian economy is facing several risks. The difficulties in the Alberta oil industry and the temporary oil production curtailments recently mandated by the Government of Alberta will have a negative impact on short-term economic growth.

The slowdown in domestic demand also needs to be monitored, especially at a time when Canadian households remain highly leveraged. The debt service ratio has begun to inch up in the past few months, and interest payments on household debt have started to take up an increasing share of disposable income. The gradual tightening of financial conditions and the impact of macroprudential measures will play a role in slowing economic momentum in 2019.

Québec

In 2018, the Québec economy benefited from the generally favourable global economic climate, still-loose financial conditions, healthier public finances, and full employment.

It delivered another enviable performance last year with estimated GDP growth of 2.5%, outpacing economic growth in the rest of Canada.

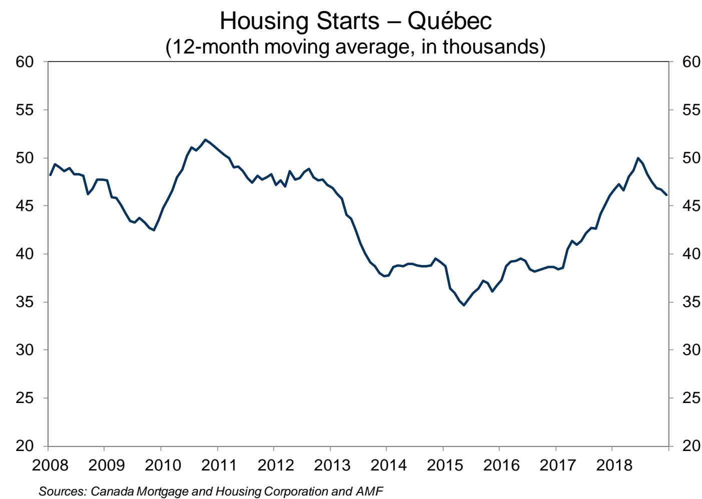


Growth was supported by both strong domestic demand and a slight improvement in net exports.

Domestic demand was supported not only by consumer spending, but also by private sector investment, residential construction, and government spending.

Economic growth is therefore no longer solely reliant on consumption and the use of debt, but instead has become more broadly based, making it slightly more sustainable.

The recovery in the residential sector that started in 2017 continued in 2018, driven largely by the strong economy and labour market.



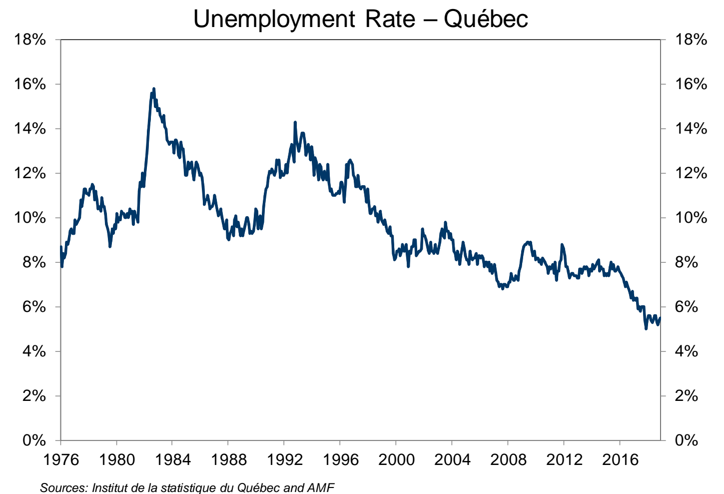
However, the gradual rise in interest rates and the expected slowdown in employment will calm the market and have a cooling effect on the residential sector.

The solid performance of the economy argues in favour of adding capacity in order to increase production, while the labour shortage is prompting businesses to focus on greater efficiency, particularly through the increased use of automation.

Moreover, the agreement in principle regarding the Canada-United States-Mexico Agreement has reduced uncertainty and boosted business confidence. This, together with the incentives provided by the different levels of government, will support productive investment by businesses. In short, businesses will continue to invest in 2019.

Exports grew by approximately 7% in 2018, their best performance since 2015, spurred by growth in the United States and a favourable exchange rate. However, external competitive pressures and protectionist tendencies could once again hinder growth.

The labour market slowed in 2018, with employment remaining virtually unchanged and the unemployment rate averaging 5.4%. This low rate reflects both the strength of the labour market in recent years and the relative scarcity of labour caused by the aging population.



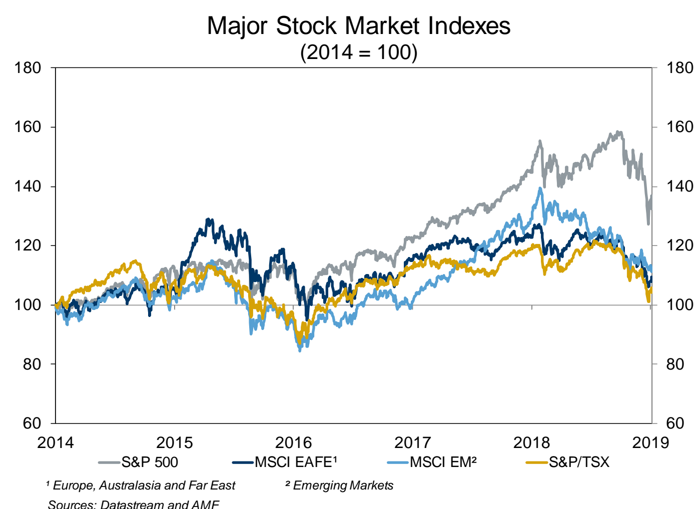
Growth in Québec's economy peaked in 2017, with momentum continuing through 2018. However, the slowdown in Canada and the United States and rising interest rates will dampen the pace of economic expansion in 2019.

Job creation will level off and GDP growth will eventually be limited to its long-term potential as result of full employment, the aging population, and labour shortages.

FINANCIAL MARKETS

STOCK MARKETS

In 2018, the global stock markets experienced sharp declines and a resurgence in volatility. Interest rate normalization, trade tensions and the global economic slowdown shook investor confidence. As a result, the MSCI All Country World Index ended the year 9.5% lower after two corrections, including a particularly sharp one at the end of the year. The S&P 500 fared a little better, decreasing 6.2%.



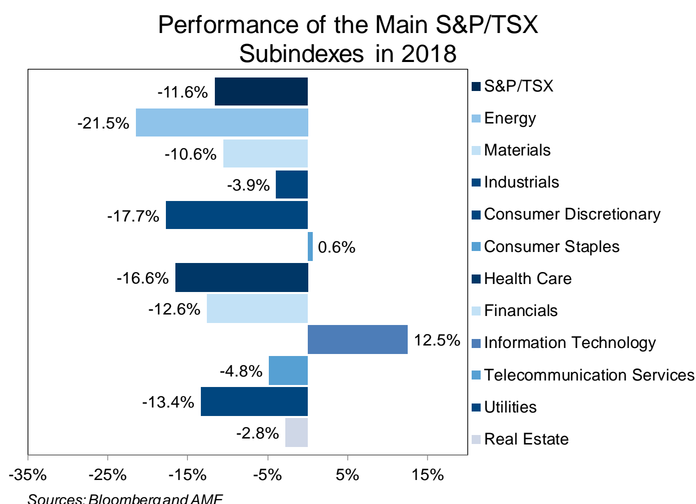
Despite some negative returns, the U.S. stock markets did better than their peers, benefiting from a very robust economy, supported, in part, by substantial tax cuts. The S&P 500 hit the ground running, posting its best January performance in more than two decades.

The upward trend came to a grinding halt with a correction in February and, following a strong rebound, the markets faced a second, even steeper correction in the final months of the year. In both cases, the corrections were initially triggered by a sudden, sharp increase in bond rates.

Rising interest rates and a flattening yield curve are signaling that the U.S. economy has entered the most advanced stage of the economic cycle. While a recession is not necessarily imminent, investors are facing the spectre of a possible economic slowdown in the years ahead.

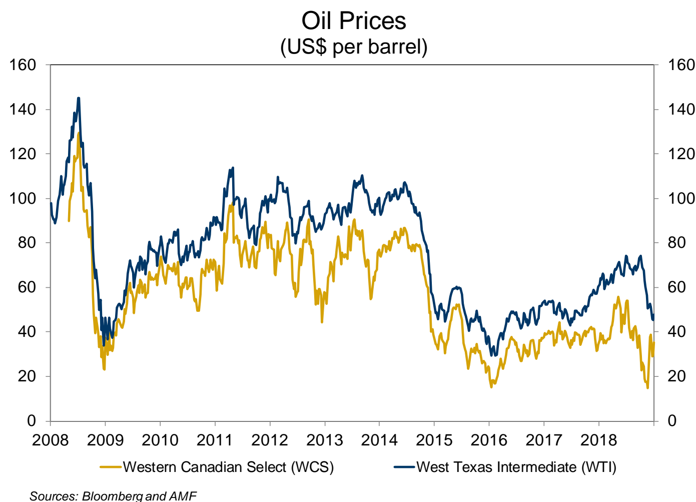
After a surge in 2018, particularly in the United States, investors are expressing some concerns about the outlook for corporate earnings growth. Corporate profit margins are now under pressure owing to higher wages, the waning effects of tax cuts, and slowing global economic growth. Customs tariffs are also beginning to have an impact on business input costs and global trade. An intensification of the trade war between the United States and China could amplify these effects.

In Canada, the S&P/TSX was not immune to this pessimism and also suffered the effects of falling oil prices. On the year, it delivered another disappointing performance, posting a negative 11.6% return.



This underperformance is largely explained by the performance of the energy sector, which was down 21.5%. Benchmark oil prices, such as Brent and Western Texas Intermediate (WTI), ended the year sharply lower, mainly due to an increase in U.S. production and a slowdown in global economic growth.

The drop in oil prices was even steeper in Canada: Western Canadian Select (WCS), the benchmark price for heavy crude, literally collapsed in the last quarter as a result of the difficulties involved in exporting oil from Alberta. The pipeline shortage and lack of storage capacity have created a bottleneck for the province's oil.

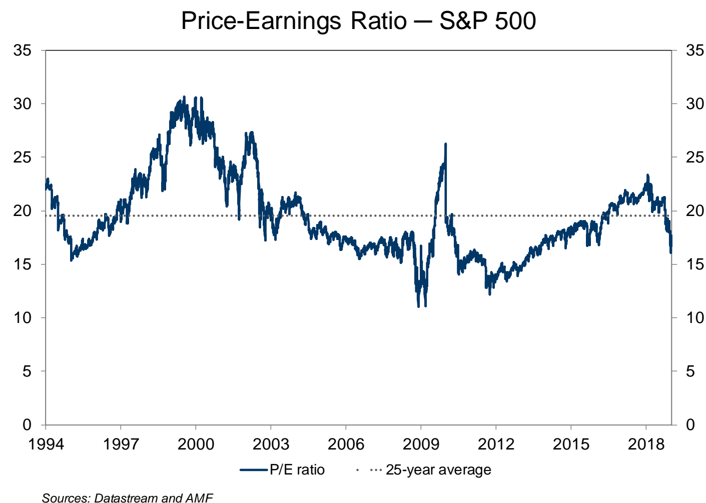


Sources: Bloomberg and AMF

In response to the collapse of the WCS, the Alberta government took some draconian measures, including mandating oil production curtailments of 325,000 barrels per day, which helped the benchmark make up some lost ground by year-end.

While stocks of Québec-based companies trading on the TSX performed slightly better overall, they nonetheless fell 9.3% on the year, according to the Morningstar National Bank Québec Index. The materials sector saw a significant decline, reflecting, among other things, a decrease in gold prices. Moreover, the weak performance of some companies in the consumer discretionary and financials sectors contributed to the Québec index's negative performance.

The fall in stock prices resulted in a sharp decline in valuation measures. Specifically, the S&P 500 and S&P/TSX price-earnings ratios decreased considerably from the start of the year owing to the combination of falling index prices and growing corporate earnings. These ratios have dropped below their average for the past 25 years.



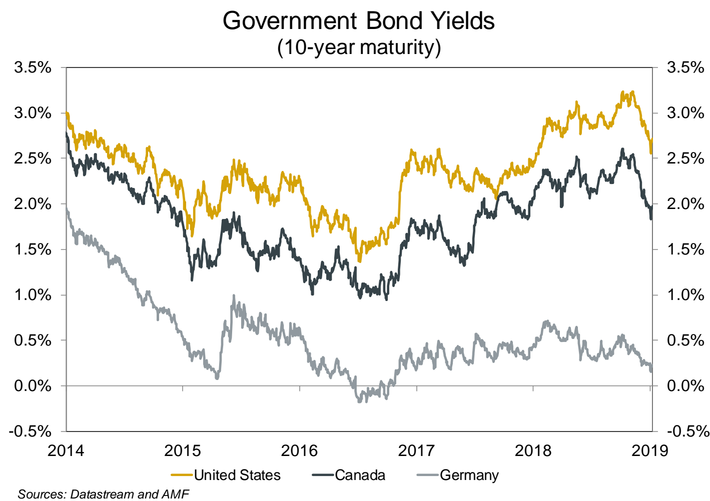
Sources: Datastream and AMF

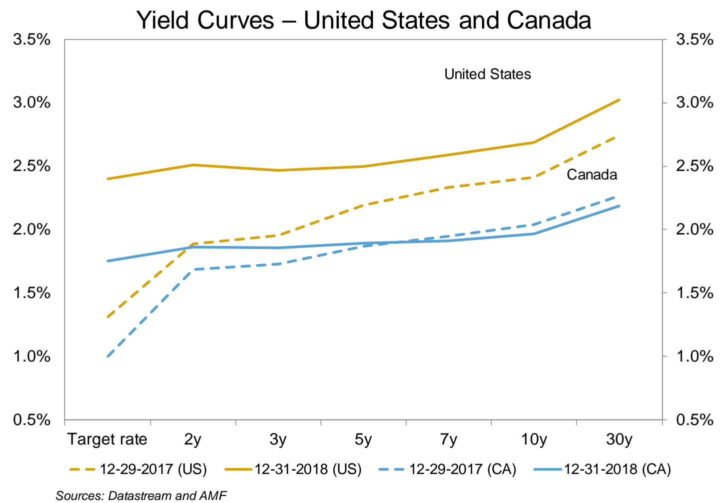
Historically, a lower price-earnings ratio has been associated with an expectation of a higher average long-term return. However, in the case of the United States in particular, the almost unprecedented bull market of the past decade is making many investors cautious.

Lastly, the materialization of the above risks, particularly relating to the maturation of the economic cycle, would obviously have a negative impact on the evolution of the market. However, an easing of trade tensions, especially between the United States and China, would provide a boost to investor confidence.

BOND MARKETS

The bond markets have seesawed since the start of the year, affected by heightened risk aversion and fears of a global economic slowdown, on the one hand, and by a U.S. economy showing several early signs of overheating, on the other.





U.S. 10-year bond rates ultimately ended 2018 at 2.7%, posting a modest increase of roughly 30 basis points for the whole year. Fueled by inflationary fears, 10-year rates briefly exceeded 3.2% in September and October, a level not seen since 2011. Stock market turmoil and fears of a sharper-than-expected economic slowdown caused rates to tumble at year-end.

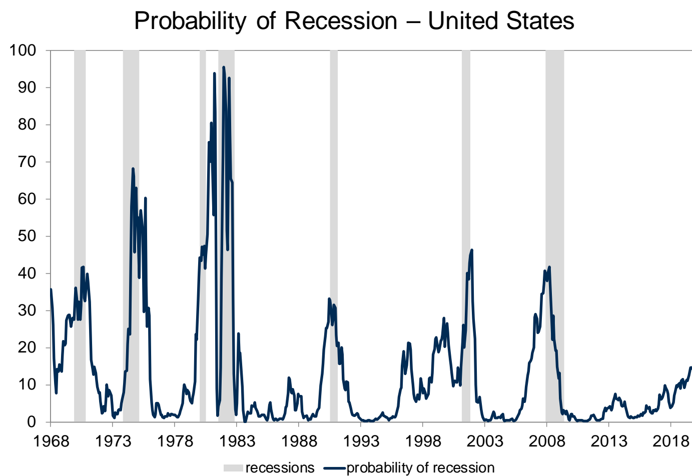
Despite everything, conditions remain favourable for bond rate increases in the United States, as economic activity is still growing at a steady pace and the labour market remains very tight. For these reasons, the Federal Reserve hiked interest rates 25 basis points four times in 2018, bringing its key policy rate to 2.25% - 2.50% and closer to the equilibrium rate, which is estimated at around 3%.

Overall, short-term rates increased more than long-term rates in the United States. Consequently, the yield curve flattened and, more recently, even inverted for certain maturities. The spread between 5-year and 2-year rates, in particular, became slightly negative at year-end.

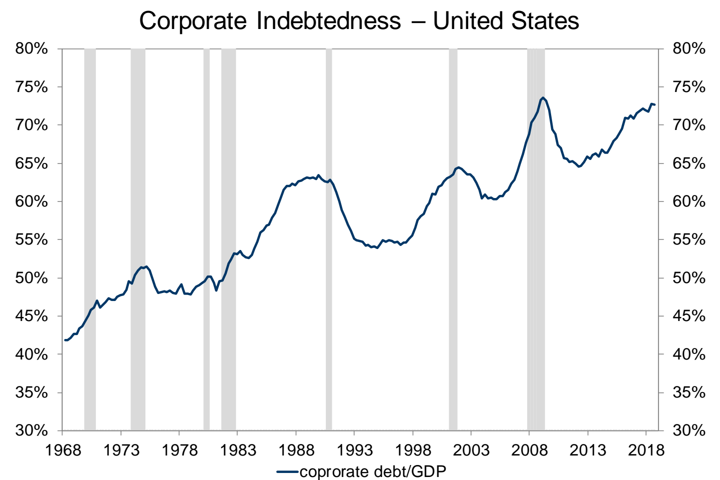
Historically, an inverted yield curve has often signaled a recession up to one to two years ahead. According to studies conducted by the Federal Reserve, the yield spread with the greatest predictive ability is the difference between the 10-year and 3-month rates. This spread is still positive, as is the spread between the 10-year and 2-year rates, which is also widely tracked for the same reason.

In addition, when yield curves inverted in the past and a recession followed, monetary policy had become very restrictive, which is not currently the case. Monetary policy is expected to remain accommodative or neutral for some time. Consequently, the markets are now expecting the Fed to sit on the sidelines in 2019, while Fed officials have determined that two rate hikes would be appropriate, according to their December 2018 forecasts.

Overall, while the recent changes in the yield curve appear to indicate that the probability of a recession has increased, they do not seem to indicate that a recession is imminent. According to a yield curve-based model developed by the New York Fed, the probability of a recession in the United States one year ahead is 21%.



Sources: Datastream, NY Fed and AMF



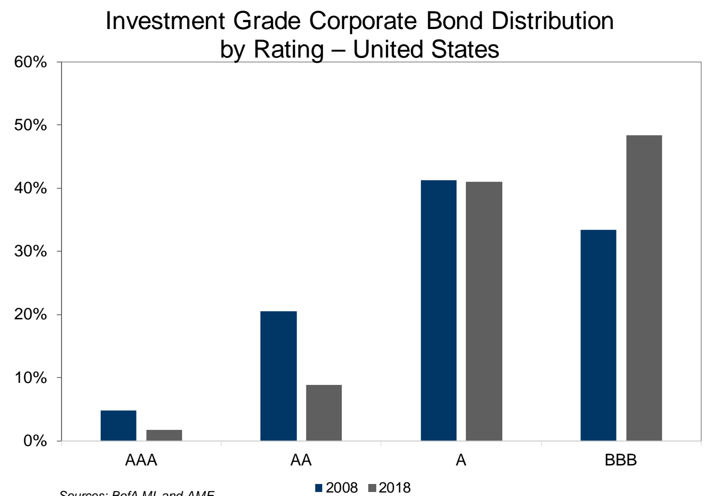
Sources: Federal Reserve and AMF

In Canada, long-term rates ended the year at essentially the same level as at the beginning of the year. They trended upward for most of 2018 owing to the strong performance of the Canadian economy, but then fell sharply at year-end, dragged down by declining bond rates and the sharp drop in oil prices. Falling oil prices will negatively impact Canadian economic growth and have a moderating effect on inflation. As in the United States, the yield curve in Canada has also flattened out substantially.

Pointing to the fact that the Canadian economy continues to operate close to its potential, the Bank of Canada hiked rates three times in 2018, indicating that more increases will be needed to achieve a neutral monetary policy and keep inflation within the target range. However, the Canadian and global economic slowdowns and the fall in oil prices at year-end appear to have tempered the enthusiasm of the Bank, which is expected to remain on the sidelines in the coming months.

The yield spreads between corporate bonds and government bonds have increased in the past year, particularly in the United States. Fears of a global economic slowdown and the decline in oil prices have driven up the risk premium for corporate bonds. In addition, corporate indebtedness appears to be relatively high from a historical perspective, particularly as a percentage of GDP.

The quality of corporate debt has deteriorated in recent years. Strong investor demand for corporate bonds has enabled many corporations to obtain relatively favourable lending terms and increase their indebtedness. Accordingly, there has been a significant increase in the proportion of corporate bonds in the riskiest tranches. In particular, corporate bonds rated BBB, the category just above speculative debt, now account for close to 50% of all investment grade bonds in the United States, compared to approximately 33% 10 years ago.



Sources: BofA ML and AMF

Market Performance

Stock Markets		Level	% change							Last 12 months	
		2018-12-31	1 month	3 months	6 months	9 months	1 year	3 years[2]	5 years[2]	Min.	Max.
MSCI All Country World Index		532	-7.4	-12.8	-9.2	-7.4	-9.5	4.3	3.9	510	622
MSCI EAFE[1]		1,008	-6.0	-12.5	-11.0	-8.9	-13.4	-0.2	1.1	990	1,207
MSCI Emerging Markets		53,420	-2.8	-7.8	-8.7	-12.6	-12.3	6.3	2.5	52,056	65,823
S&P 500		2,507	-9.2	-14.0	-7.8	-5.1	-6.2	7.0	6.3	2,351	2,931
S&P/TSX		14,323	-5.8	-10.9	-12.0	-6.8	-11.6	3.3	1.0	13,780	16,567
Morningstar National Bank Québec Index		261	-6.4	-9.6	-10.8	-5.0	-9.3	5.5	7.9	252	299

Bond Markets		Level								Last 12 months	
		2018-12-31	-1 month	-3 months	-6 months	-9 months	-1 year	-3 years	-5 years	Min.	Max.
Québec	10-year	2.8	3.0	3.0	2.8	2.7	2.6	2.4	3.7	2.6	3.2
Ontario	10-year	2.8	3.0	3.0	2.8	2.7	2.6	2.4	3.7	2.6	3.2
Canada	10-year	2.0	2.3	2.4	2.2	2.1	2.0	1.4	2.8	2.0	2.6
United States	10-year	2.7	3.0	3.1	2.9	2.7	2.4	2.3	3.0	2.4	3.2
United Kingdom	10-year	1.3	1.4	1.6	1.3	1.3	1.2	2.0	3.0	1.2	1.7
Germany	10-year	0.2	0.3	0.5	0.3	0.5	0.4	0.6	1.9	0.2	0.8
Canada	AA Corp. (10-year)	3.2	3.3	3.3	3.1	3.0	3.1	2.9	3.7	3.0	3.5
	BBB Corp. (10-year)	4.0	4.2	4.0	3.8	3.8	3.8	3.9	4.4	3.7	4.2
	BBB - 10-year Gov. spread	2.1	1.9	1.6	1.6	1.8	1.7	2.5	1.7	1.6	2.1
United States	AA Corp. (10-year)	3.7	3.9	3.8	3.7	3.6	3.1	3.2	3.6	3.1	4.0
	BBB Corp. (10-year)	4.6	4.8	4.5	4.5	4.2	3.7	4.2	4.5	3.7	4.8
	BBB - 10-year Gov. spread	1.9	1.8	1.5	1.6	1.5	1.3	2.0	1.5	1.2	1.9

[1]Europe, Australasia and Far East [2]Annualized returns

Sources: Datastream, Bloomberg and AMF

RISKS TO BE MONITORED IN 2019

- The United States is entering the eleventh year of a long expansionary cycle and the risk of a recession is being raised more frequently. The U.S. economy has reached full employment and inflation is very close to the 2% target. The growing labour shortage is putting pressure on wages, which will eventually impact inflation. Despite recent years' monetary tightenings, U.S. monetary policy remains accommodative. In light of this, the Fed must act carefully to avoid going too far, which would end the expansion prematurely, or not far enough, which could lead to runaway inflation.
- From a trade perspective, the unilateral U.S. tariffs on steel, aluminum and Chinese imports and the retaliatory actions taken by the targeted countries are causing trade distortions, pushing business costs up and depressing investment and confidence. The threats of tariffs on remaining Chinese imports and the automotive sector is only making matters worse. The accumulation of these protectionist measures could have major negative repercussions for the global economic growth outlook. It could also undermine multilateral cooperation (including at the regulatory level) and paralyze the WTO.
- In Canada, a correction in real estate prices, particularly in Vancouver and Toronto, could result in a nationwide tightening of financial conditions. This, in turn, would have consequences for Québec, especially if the drop in residential real estate prices were to be accompanied by a deceleration of the Canadian economy. However, the risk of a real estate correction is much lower in Québec than in the rest of Canada.
- Brexit has not happened yet, but the British economy is already feeling its effects. The compromise put forward by the May government has not satisfied anyone and has only further divided the British public, leaving the door open to a no-deal Brexit or a second referendum. With negotiations stalled, both sides have stepped up their preparations for a no-deal Brexit.
- More broadly, in Europe, the rise of populism and the far right in several countries is complicating the formation and functioning of government and could end up paralyzing the European Union. The European elections in May should provide an indication of what the future holds.
- In China, the world's second largest economy, high indebtedness, a slowing economy and trade tensions with the United States are causing concern. A quicker-than-expected slowdown would have serious repercussions for global economic growth.
- Emerging markets remain vulnerable to rising interest rates, a strong U.S. dollar and trade tensions between the two major economic powers. They continue to be highly dependent on exports to advanced economies, and the global economic slowdown is therefore presenting an additional challenge for them. The most highly leveraged countries, such as Argentina and Turkey, are the most at risk, but others could also find themselves in a precarious position.
- Geopolitical risks could lead to slippage and have negative consequences for the global economy. Russia, Saudi Arabia, Iran, North Korea and the tensions in the China Sea are all flashpoints with the potential to add to current uncertainty.
- On the financial markets, a difficult year has come to an end, with the stock market posting negative results. With a weaker economic outlook and climbing interest rates, investors are more nervous, and volatility is on the rise. The materialization of one or more of these risks could worsen or cause a correction in the prices of risky assets. A bleak economic outlook giving rise to a market correction could trigger a negative feedback loop.
- Corporate indebtedness appears to be relatively high from a historical perspective and debt quality has deteriorated. Low interest rates and strong investor demand have prompted many corporations to favour debt financing with relatively advantageous borrowing conditions. Rising interest rates will inevitably result

in higher debt servicing costs and, to some extent, a relative deterioration in some companies' balance sheets.

- From a regulatory standpoint, the Dodd-Frank Act remains largely intact in the United States, despite the Republican Party's determination to deregulate the financial services industry. In May, only measures to reduce the regulatory burden on small and medium-sized banks (less than US$250B in assets) were passed. Pushing ahead with deregulation, including eliminating the Volcker Rule, will be especially difficult following midterm elections that saw the Democrats take control of the House of Representatives. For the moment, the changes that have occurred south of the border are having little effect on the Québec market.
- Cybersecurity remains one of the top concerns of financial market participants. Ever more numerous and sophisticated cyberattacks represent a threat to both investor protection and privacy and financial market stability. Such attacks underscore the need to remain alert to any rapidly evolving threats and strengthen cybersecurity measures (prevention, detection, response).
- Fintechs are presenting opportunities for developers and consumers alike. Limited in scope but growing rapidly, they carry potential risks—for both market integrity and investor protection—that must be assessed. From crypto assets to digital platforms and artificial intelligence, financial regulators must ensure the adequacy of the existing regulatory framework with new business models.

NOTE

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