

Market Matters

APRIL 2016 HIGHLIGHTS

- Most global markets managed meager gains in April as firming commodity prices and global accommodative monetary policy helped support the 'risk-on' sentiment.
- Canadian equities posted better than average results, continuing to outperform relative to developed market peers.
- Resource sectors in particular performed well as commodity prices rose, positive investors' sentiment grew, the US dollar weakened, and the fundamental outlook for many resource companies improved.
- Canadian bond market results were weak as the 'risk-on' trade moved yields higher across the board. Corporate bonds managed a small positive return as corporate bond spreads tightened.
- Both the Bank of Canada and the US Federal reserve held central bank rates steady in April. Expectations for a change anytime soon from either central bank have diminished.

Global markets stabilized in April as an overall risk-on sentiment prevailed - a welcomed relief from the difficult start to the year and the mid-February lows.

HOLDING ON TO THE GOLD 'METAL' POSITION

Canadian equities had a strong April and continue to lead their developed market peers. The pronounced outperformance of the S&P/TSX Composite has largely been driven by strong returns within the heavily weighted materials and energy sectors in Canada. The strength of the Canadian dollar relative to the US greenback has helped boost commodity prices, pulling up the results of Canada's resource sector companies. The Canadian dollar reached a high of \$0.80 on April 28th.

Despite no agreement being reached to limit or freeze production at the oil producers' meeting in Doha, Qatar, oil prices managed to rise a dramatic 20% in April. Investors chose instead to focus on the improved outlook for the global supply/demand balance.

Meanwhile gold and base metal companies have rallied on the back of higher commodity prices, improving company fundamentals and a better profit margin outlook. Gold company stock gains have significantly outpaced the bullion gains. Canadian gold company stocks rose 29% in April versus 5% for gold bullion.

Table 1 Summary of major market developments		
Market returns*	April	YTD
S&P/TSX Composite	3.4%	7.2%
S&P 500	0.3%	1.0%
- in Canadian dollars	-3.0%	-8.2%
MSCI EAFE	0.9%	-6.4%
- in Canadian dollars	-0.8%	-10.4%
MSCI Emerging Markets	-0.2%	2.2%
FTSE TMX Canada Universe Bond Index**	-0.1%	1.3%
FTSE TMX Canada all corporate bond index **	0.5%	2.0%

*Local currency (unless specified); price only
 **Total return, Canadian bonds

Table 2 Other price levels/change			
	Level	April	YTD
CAD per USD exchange rate	\$0.797	3.6%	10.2%
Oil (West Texas)*	\$45.92	19.8%	24.0%
Gold*	\$1,293	4.9%	21.8%
Reuters/Jefferies CRB Index*	\$184.61	8.3%	4.8%

*U.S. dollars

Table 3 Sector level results for the Canadian market		
S&P/TSX Composite sector returns*	April	YTD
S&P/TSX Composite	3.4%	7.2%
Energy	5.8%	14.1%
Materials	20.0%	43.2%
Industrials	0.8%	4.3%
Consumer discretionary	-1.9%	0.5%
Consumer staples	-5.6%	0.8%
Health care	15.1%	-62.4%
Financials	1.7%	4.5%
Information technology	-6.7%	-6.7%
Telecommunication services	-3.0%	7.0%
Utilities	-1.1%	7.1%

*Price only
 Source: Bloomberg, MSCI Barra, NB Financial, FTSE TMX Global Debt Capital Markets Inc.

Canada's health care sector continues to be volatile. The health care sector's largest constituent, Valeant Pharmaceuticals, recouped over 22% in April on news that they hired a new CEO and avoided a debt default by negotiating new credit terms. Valeant stock is still down 70% on a year-to-date basis.

STRUCK BY NEWTON'S LAW ... APPLE FALLS

Following a strong performance in March, U.S. equity markets were up only slightly in April. Unfortunately for Canadian investors the currency effect of the strengthening loonie pushed Canadian dollar returns well into the red for the S&P 500.

Oil price strength helped America's energy sector performance, while the US information technology sector struggled. Within the information technology sector, info tech bellwether Apple saw its shares drop 14% in April after it disappointed investors with lower than expected earnings and poor guidance. This was the company's first sales decline in 51 consecutive quarters – citing the company's prospects in China as a challenge. Apple did however increase its dividend, making it the largest public dividend payer in the world. To put this drop in share price into perspective, that equates to taking \$91 billion (USD) away from shareholders - a loss \$3.5 billion (USD) greater than the market cap of Royal Bank of Canada, Canada's largest company by market value.

Looking out over the next half of the year, some additional market reaction/volatility to the upcoming US Presidential election is expected; especially considering how unexpected some results of the nominating conventions have been thus far.

LOOKING OVERSEAS

Figures released for the first quarter showed that Chinese economic growth had 'slowed' to 6.7% on a year-over-year basis. While this is down from the 6.8% annual GDP growth rate recorded in the final quarter of 2015 (and the lowest quarterly figure for seven years), it was in line with expectations.

While economic data provided mixed results for the Eurozone in April, overall the European economic recovery appears to be taking hold. Inflation remains problematic and stubbornly low, but quarterly GDP growth beat expectations at 0.6% and unemployment fell to 10.2% - the lowest since 2011. The ebb and flow of the probability of a "Brexit" in the upcoming (June 23rd) UK referendum to remain a part of the European Union

continues to worry investors and is likely to produce increased market volatility in the weeks to come.

Meanwhile, there was more turmoil in Brazil as President Dilma Rousseff faces possible impeachment proceedings over claims she manipulated government accounts ahead of her 2014 re-election.

NO HURRY TO MOVE

The overall risk-on sentiment contributed to the Canadian bond market weakening marginally as yields rose across the board. Credit products such as corporate bonds outperformed federal bonds in April.

The US economy began 2016 poorly and, as expected, the US Federal Reserve (Fed) made no change to rates at its April meeting. Both strengths (employment) and weaknesses (low inflation and slowing household spending) were cited, but global risks were not mentioned, though they did indicate they were watching developments. While the Fed remains data dependent, the market expectations for rate hikes in the near future continue to fall. The Fed's stance also led to softness in the US dollar, lifting commodities and the Canadian dollar alike.

As for Canada, concerns remain about the success (and slow speed) of Canada's transition to more non-resource based economic growth. That said, Canadian economic data has been solid thus far in 2016, and certainly trending better than in the U.S.

The bottom line is that neither the Canadian nor the American central banks appear to be in a mood to move rates any time soon.

DIVERSIFICATION – THE DISCERNING CHOICE

Significant divergence within (and across) market sectors, along with the buffering effects of currency moves, have made the opening months of 2016 a time when diversification has paid off immensely.

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