glc asset management

Market Matters

Summary for January 2018

Highlights

- Stock markets began the year with strong gains before giving way to a shift in sentiment.
- Stock market volatility has returned after months of record low volatility
- Bond yields rose, as did expectations for central bank tightening action.
- Canadian equities lagged as energy and interest rate sensitive stocks declined.

Slipping on the ice

Global stock markets started their year off by continuing their winning ways. Unfortunately, mid-way through January the Canadian stock market hit the proverbial patch of black ice (oil and winter pun intended), slipped, and fell backwards.

Two factors played into the January spill, rising interest rates and weakness in the Canadian energy sector.

- Rising interest rates hit bond prices and the yield-play stocks. These yield-play stocks (think large dividend paying companies) are largely found within telecom and utility sectors, but also include Canadian energy pipeline companies such as Transcanada and Enbridge.
- Meanwhile, the discount the price for Canadian heavy-oil and light, sweet U.S. crude oil hit four year highs in January. This was an added headwind for Canadian oil exploration and production companies. On average, the discount between West Texas oil prices and Western Canadian Select oil prices has run around $15USD for the past four years. Today that discount is upward of $25USD and driving investors away from the Canadian oil producers.

The Canadian market slide foreshadowed a sharper and more dramatic global equity sell-off in the first week of February. There, the U.S markets (which roared out of the gate in 2018) fell dramatically, erasing January gains. In contrast, the Canadian S&P/TSX Composite did not react as significantly during the most dramatic one-day sell-off on February 5, but our slow start to the year meant that year-to-date results remained deeper into negative territory.

Faster…market moves.

Stock market volatility has returned after months of record low volatility (a hallmark of 2017 stock markets).

Market Summary

Canadian Fixed Income[1]			Month	YTD
FTSE TMX Canada Universe Bond Index			-0.8%	-0.8%
FTSE TMX Canada All Corporate Bond Index			-0.2%	-0.2%
Canadian Equities[2]			**Month**	**YTD**
S&P/TSX Composite			-1.6%	-1.6%
	Month		YTD	
Global Equities[2]	**Local**	**CAD**	**Local**	**CAD**
S&P 500	5.6%	3.8%	5.6%	3.8%
MSCI EAFE	1.2%	3.2%	1.2%	3.2%
MSCI Emerging Markets	6.7%	6.5%	6.7%	6.5%
Currencies and Commodities (in USD)		**Level**	**Month**	**YTD**
CDN $		0.812	2.1%	2.1%
Oil (West Texas)		64.73	7.1%	7.1%
Gold		1,345.14	3.2%	3.2%
Reuters/Jeffries CRB Index		197.38	1.8%	1.8%
Canadian Sector Performance[2]			**Month**	**YTD**
Cons. Disc.			-0.5%	-0.5%
Cons. Staples			-1.9%	-1.9%
Energy			-5.5%	-5.5%
Financials			0.3%	0.3%
Health Care			-4.2%	-4.2%
Industrials			-1.8%	-1.8%
Info Tech			5.4%	5.4%
Materials			-0.6%	-0.6%
Real Estate			-1.2%	-1.2%
Telecom			-4.5%	-4.5%
Utilities			-4.5%	-4.5%

Local currency unless otherwise stated.
[1]Total return [2]Price only return
Source: Bloomberg, FTSE TMX Global Debt Capital Markets Inc.

U.S. equity market values increased at break-neck speeds for most of January, running on both fundamentals (like strong corporate earnings) and sentiment. The latter had gotten far ahead of itself as investor's rose-coloured view point continued to factor in the most optimistic of views regarding politics and central bank expectations, while by and large ignoring alternative outcomes. Consider that the U.S. S&P 500 posted 14 new highs for the month (last closing high on January 26, 2018, at 2,872.87), with 62 new highs posted in 2017 (second only to the 77 new highs posted in 1995). With much of the good news (e.g. U.S. tax reform) already priced into stock values, risks of a correction rose steadily. We expect markets will continue to show higher levels of volatility as sentiment has turned more cautious. While volatility is a measure of both up and down movements, human nature is such that the fast downside moves get an awful lot more attention!

Higher…expectations

According to Investopedia: "A bubble occurs when investors put so much demand on an asset that they drive the price beyond any accurate or rational reflection of its actual worth." Such has been the case for bitcoin, and now cannabis stocks. The legalization of marijuana for recreational use in Canada is set to take effect this July, but the buzz around the budding cannabis industry is well underway. A number of Canada's cannabis stocks had risen 200%+ since mid-2017 and into the first few weeks of 2018. The parabolic rise had pushed valuation levels well above those supported by current sales or industry projections for future earnings. We don't see the recent pull-back of weed stock values as butting out all opportunity for these companies, but it does serve as a good reminder of how quickly and dramatically investor sentiment can light up (and snuff out) market gains.

Stronger…gold values

With a number of Canadian athletes in pursuit of precious medals/metals, we decided to take a look at how they've fared over the last four years. Fittingly, gold metal stands out. Gold has benefitted from rising inflation expectations and most recently for its traditional safe-haven values. Of course, this month's real treasure will be the inspiration the athletes offer us all!

		01.31.2014	01.31.2018	% Change
Gold	USD/oz	$1,244.55	$1,345.14	8%
Silver	USD/oz	$19.19	$17.35	-10%
Bronze[1]	USD/lb	$2.99	$3.05	2%

1. (Blend: 90% copper, 10% zinc)

Dealing with changing markets

Market corrections are uncomfortable, but we caution investors against emotional reactions that take you away from well-balanced and risk aligned investment plans. Markets don't move in straight lines. The value of sticking to a well-thought-out investment strategy is that it can help you capitalize on market opportunities, even during downturns. It's an approach that can help you reach your investment goals **faster**, with **higher** risk-adjusted returns, and a **stronger** chance of being more comfortable with the ride along the way.

Christine Wellenreiter

VP Marketing and Communications, has more than 15 years of investment industry experience and has been writing the monthly Market Matters for over 10 years.