alizé capital

Gestion de portefeuilles / Portfolio management

La voie des Alizés

# Navigating the Trade Winds

**April 2016**

***In this edition:***

- ***We are dealing with a bipolar market – but still no gain over the last twelve months;***
- ***Profit growth is limited to a few sectors;***
- ***Energy sector's rebound. Is this the real McCoy?***

*Dear friends,*

*This first quarter was anything but boring. With many abrupt turnarounds, almost every single trading day tried the patience and coolness of even the most experienced investors. As expected, the 1850 support levels on the S&P 500 held quite well in the face of this onslaught. Despite plumbing the depths in January and February, the index finished in positive territory, the S&P/TSX Composite not to be outdone, registered a 3.7% advance. The consolidation in the commodity complex, especially oil, plus the ensuing rally in our currency (6%) brought down the anxiety level by a huge factor in the second half of Q1. Obviously, the mirror image of our rising loonie is a countervailing effect on our American holdings. On the world stage, the MSCI EAFE index of developed countries was down a sobering 7%, while the emerging markets battled their way into positive territory.*

| | Closing | Change | |
|---|---|---|---|
| | 31-Mar-16 | Quarter | 2015 |
| ***Stock Indices*** | | | |
| S&P/TSX | 13,494 | 3.7% | -11.1% |
| S&P 500 | 2,060 | 0.8% | -0.7% |
| MSCI EAFE* | 940 | -7.2% | 2.7% |
| ***Currencies*** | | | |
| CAN$ (US$ / C$) | 0.7689 | 6.4% | -16.0% |
| Euro (US$ / EUR) | 1.1380 | 4.8% | -10.2% |
| ***Commodities*** | | | |
| Oil (WTI) | $ 38.36 | 3.3% | -30.5% |
| Gold | $ 1,234 | 16.2% | -10.4% |
| ***Volatility index*** | | | |
| VIX | 13.95 | -23.4% | -5.2% |

** MSCI Europe, Australiasia and Far East*

*One observation for this quarter is that the stabilization and then surprising but welcome rally in the major indices was built principally on the safeguarding of the oil markets. The rally in oil was not crude; it was real and brushed aside all common recurring concerns that kept equity markets on edge for the better part of two months, the good times were back. The Fed did its part by easing on rate hikes. But do not be fooled, it is not the end of the rate hikes just a pause and probably a slower rate climb. The Fed is once again playing the role of a high wire artist, giving support to the markets while trying to hold to its own agenda.*

*The big winners this quarter were commodity related companies. The energy sector gained 8% on the S&P/TSX, but the real shiner were the Golds, up a whopping 38% in three months. This performance is nothing short of extraordinary but still too early to call it a V bottom. We believe that some retracing and consolidation work is in the cards. With regards to the WTI, it faced some stiff resistance at around $40 US.  This was an important support level back when it was pierced which became resistance. If this hurdle is cleared and retested successfully it represents a good omen for the sector.*

***Growth in profits***

*The twin worries for investors are sluggish world growth and anemic expansion of profits. As we are entering another round of earnings announcements, we will concentrate on the sectors with the best potential. You might have guessed that Energy sector does not make the cut. The major oil companies were hit hard, but the smaller players even harder. Gross margins were under severe pressure on both sides of the border. In the US, 312 listed companies of the S&P 500 will be releasing their Q1 earning within the next few weeks. Analysts have forged a consensus of $240.2 billion (US) of net earnings. This represents a clean 10% shave from the same period last year. The leading sectors are Telcos, Consumer Discretionary and Health Care. In Q1-2016, the US Energy sector should post a loss of $0.4 billion vs. a profit of $13.2 billion in Q1-2015.*

**S&P 500 : Net income growth for Q1-2016 ***
(Q1-2016 vs. Q1-2015)

| *Sectors* | |
|---|---|
| Energy | *Not meaningful* |
| Materials | -21.7% |
| Financials | -14.4% |
| Industrials | -10.9% |
| **S&P 500** | -10.2% |
| Information Technology | -8.8% |
| Consumer Staples | -3.4% |
| Utilities | -1.4% |
| Health Care | 4.2% |
| Consumer Discretionary | 9.5% |
| Telecommunication Services | 12.6% |

** Operating earnings excluding extraordinary items*

*Our current strategy favours the sectors mentioned above, those that are expected to register gains in profits. We are also overweighted in the high tech sector, mainly in old technology companies rather than in new technology ones, choosing to foregone the riskier more volatile stocks.*

***Energy sector***

*The horizon seems brighter than what it was, but albeit still quite uncertain. We are monitoring the current rebound very closely with one finger on the trigger. An important OPEC meeting will take place in Doha on April 16th and 17th. If the members come to some sort of an agreement on production quotas, this will definitely help the consolidation at the present price levels or even slightly higher. Our decision to increase holdings will be based on the results of this meeting and others issues we pay attention to.*

***Conclusions and perspectives***

*This market as yet to lose its bipolar frame of mind, it can still swing wildly changing in the blink of an eye from euphoria to anguish. We can expect some flashes of risk intolerance as investors explore the equilibrium in their risk-return trade-off. We stick to our beginning of the year forecast of modest gains in 2016, a situation contained by sluggish international trade and growth, followed by slowing momentum in company earnings.*

***The Alizé Capital Team***