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Gestion de portefeuilles / Portfolio management

La voie des Alizés

Navigating the Trade Winds

April 2017

Dear friends,

There's good news for the stock markets. The autumn rebound of the indices continued this winter. The momentum of the "Trump rally," as many have dubbed the post-election rebound, continued in January and February. Despite a slight downturn in March, the first monthly decline in five months, the S&P 500 ended the quarter with a gain of 5.5%. The Canadian stock market posted a more modest gain due to the energy sector (-6.2%) being penalized by the increase in American production. Finally, what we take away from this cold winter is the warming of the international markets. While the MSCI EAFE index of developed countries closed at +4.0%, the emerging markets rebounded even stronger at +7.5%.

		Closing	Change	
		31-Mar-17	Quarter	2016
Stock Indices				
S&P/TSX		15,548	1.7%	17.5%
S&P 500		2,363	5.5%	9.5%
MSCI EAFE*		1,078	4.0%	2.3%
Currencies				
CAN$ (US$ / C$)		0.7512	0.9%	3.0%
Euro (US$ / EUR)		1.0652	1.3%	-3.2%
Commodities				
Oil (WTI)	$	50.54	-6.0%	44.8%
Gold	$	1,247	7.8%	9.0%
Volatility index				
VIX		12.37	-11.9%	-22.9%

** MSCI Europe, Australiasia and Far East*

Another good news item this quarter, in our opinion, is that most equity markets were buoyed by earnings growth instead of expansion of the price-earnings ratio. While Q3-2016 marked the end of the profits recession in the United States, we previously noted that shares had become less affordable. The continuing rise in equity prices depended mostly on earnings. In this regard, investors were not disappointed with 6% profit growth for the S&P 500 in the fourth quarter. Q1 results, which are about to be published, will be a determining factor for the rest of 2017. Q1 forecasts are +9.5%.

We are pleased to see that the global economy continues to recover and that recent data exceeds economists' expectations. We are aware, however, that, with price-earnings ratios at approximately 18x for both the S&P/TSX and the S&P 500, the potential bullishness of equity markets is becoming more limited and more dependent on company earnings. We believe that profits should see solid and sustained growth this year. But current financial and economic optimism should not blind us to the risks. The recent failure of President Trump and the Republicans' attempt to reform Obamacare must not compromise taxation reform in the United States. Should that happen, the "Trump rally" would clearly be in peril. At the time of writing, America had just launched an attack on Syria, increasing geopolitical risks. We remain cautious, and favour quality and cheap stocks that have not become overvalued.

The Alizé Capital Team