alizé capital

Gestion de portefeuilles / Portfolio management

La voie des Alizés

Navigating the Trade Winds

April 2018

Dear friends,

Our January forecast did materialize. After several months with no sensible pullbacks, the major indices registered a 10% correction as of the beginning of February. What surprised us mostly was the swiftness of this retracement, the damage was done in a matter of 10 days with accompanying volatility explosion. The S&P/TSX ends the quarter with a loss of 5.2%, while the S&P500 registers a slight close in the red. In C$, the S&P500 moves from red to black (1.2%) because of a 2.4% advance of the US$ against our currency. Despite the increase in volatility, our strategy worked rather well. Even though this bull market is 77 months long in the United-States, we do not believe that we are on the verge of a bear market. When we are in the late innings of a bull market that is possibly becoming volatile, sector and stock picking is crucial.

		Closing	Change**	
		31-Mar-18	Quarter	2017
***Stock Indices** (% in C$)*				
S&P/TSX		15,367	-5.2%	6.0%
S&P 500		2,641	1.2%	11.8%
MSCI EAFE*		2,006	0.2%	14.0%
Currencies				
CAN$ (US$/C$)		0.7762	-2.4%	6.8%
Euro (US$/EUR)		1.2302	2.5%	14.1%
Commodities (US$)				
Oil (WTI)	$	64.87	7.3%	12.5%
Gold	$	1,323	1.5%	12.6%
Volatility Index				
VIX		19.97	+8.93	-3.00

** MSCI Europe, Australasia and Far East (US$)*

*** Changes are expressed in C$ for Stock Indices.*

The current commercial tensions may explain the latest corrective phase in the markets. In its last confrontation with the Chinese, President Trump employs muscular methods to impose American requests. He is asking for plenty to receive something in return. Even though, international commerce is more vital for the Chinese economy than America, the Chinese leaders can still rely on a few economic advantages for countermeasures, especially imported foodstuffs "Made in the USA". Knowing that the USA can rally support among several rich allies, China will not risk alienating all these partners that could levy their own punitive tariffs. We believe that Americans will view the negotiations in a context where new burgeoning markets are disputed ferociously and where the ultimate prize for enterprises is the growing Chinese middle class. To avoid trade wars, both major players will seek a satisfactory compromise. Still, we might see Twitter and stock markets flare ups from time to time.

Technically, this bull market is still intact and it will remain alive up until we see a 20% correction. Keep in mind, that the markets have advanced 135% since that memorable low back in October 2011. We are witnessing the fourth longest bull cycle of the S&P500 since the fifties. Thankfully, this latest pause that stretched over a few months alleviated pent up pressures and may allow to expand this market's lifespan. We remain vigilant and keep a close eye on a few economic indicators that are demonstrating some weakness. In our opinion, our prudent investment stance will not be affected by the vagaries of the market, we should keep on outperforming. At the very beginning of the year, we pulled some chips from the table and secured some profits. The proceeds were redirected towards "Value" stocks, all the while favoring the industrial, technology and resource sectors.