La voie des Alizés

Navigating the Trade Winds

April 2019

Dear friends,

The perfect storm that swept over most stock markets at the end of 2018 was followed by a convincing rebound so far in 2019. At the risk of repeating ourselves, it is imperative to hold the course when times are turbulent. For now, volatility has returned to saner levels and the S&P/TSX, as well as the S&P500, have completely erased the losses sustained in Q4. For the last three months, the S&P/TSX finished with a robust 12.4% increase and the S&P 500 posted a 10.6% gain (in C$). In our last edition, we had anticipated a good performance coming from the oil sector and they delivered – thanks to a major rally in the commodity – with an excellent quarter (14.4%). Abroad, the MSCI EAEO index advanced at a 6.7% rate in Q1, ending just shy of recouping the losses of Q4 (-7.9%).

		Closing	Change**	
		31-Mar-19	Quarter	2018
***Stock Indices** (% in C$)*				
S&P/TSX		16,102	12.4%	-11.6%
S&P 500		2,834	10.6%	1.7%
MSCI EAFE*		1,875	6.7%	-9.1%
Currencies				
CAN$ (US$/C$)		0.7493	2.2%	-7.8%
Euro (US$/EUR)		1.1218	-2.2%	-4.4%
Commodities (US$)				
Oil (WTI)	$	60.19	33.3%	-25.3%
Gold	$	1,296	1.1%	-1.7%
Volatility Index				
VIX		13.71	-11.71	+14.38

** MSCI Europe, Australasia and Far East (US$)*
*** Changes are expressed in C$ for Stock Indices.*

This vigorous rebound in stock markets is happening against a backdrop of slowing economies, specifically in emerging countries. We are talking here about a slowdown in the rate of growth, not a decrease, nor a global recession. If some economic indicators, here and elsewhere, are showing signs of a slowdown, this is also bringing positive news for capital markets. First and foremost, the Federal Reserve gave a clear signal that it will now remain on the sidelines after nine rate increases in two years, normalizing rates at a level of 2.5%. The same could be said for the Bank of Canada, which we believe, will not proceed with a rate increase in 2019. With rates stabilizing at these albeit lower levels historically, an uptick in economic growth is possible in the second half of this year, especially if a trade accord between the US and China materialize as we believe it will.

During the first quarter, we cannot ignore the performance of the bond market. The FTSE Canada Universe Bond Index gained 3.9%, while the short-term bond index advanced 1.7%. Over a three-month period, these are impressive returns for prudent investments, especially for the short term ones. Our entire strategy worked very well between January and March. On the equity side, our sector rotation and stock selection were spot on. Our patience was rewarded and the economic picture confirms that our strategy should continue to do well for the rest of the year. Steady as she goes, we maintain our course with equities that are affordable (value stocks), defensive and, ideally, showing a high dividend yield. In general, these particular stocks perform better in the mature portion of the economic cycle, which bodes well for the balance of the year. Furthermore, some specific hedge funds are investments to encourage in this type of environment. We believe that they are a positive addition to a balanced portfolio.