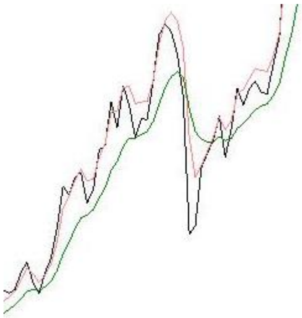


Infomail

March 28 2016

Not Too Hot Not Too Cold

Why I Still Believe in Goldilocks

"There is no way around it….if you want a higher return, you have to have a stronger stomach"

Recent comment by Canadian Portfolio Manager Dennis Mitchell

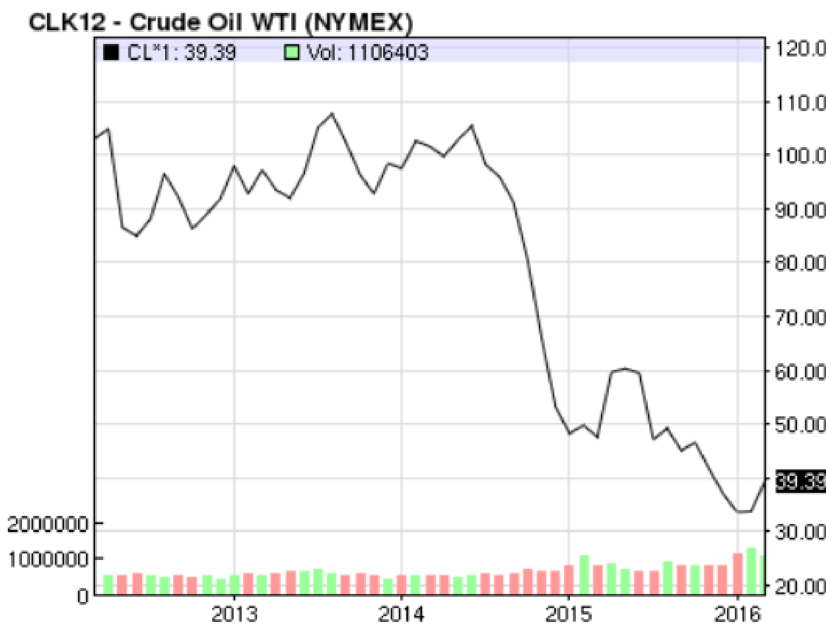
Heading into the Easter long weekend, we had our first down week in six weeks. News flow was light, and sentiment had turned earlier in the week as focus turned on "hawkish" comments from Federal Reserve officials and renewed weakness in oil prices. Other factors in play include worries about corporate profitability, a soft US GDP (which came out Good Friday at 1.4%, weak but better than expected), and dwindling trading volumes.

We've had a decent run the last six weeks, so a pause is not out of the ordinary. In fact, on the US side, if markets can stay flat or rise this week, it will be the biggest quarterly rebound in stock prices…..since way back in 1939. Think about it. The Dow Jones was down 11-12% by the end of February, and by last week had actually recaptured all of that to get back to even. We've been stuck in a tight trading range for 18 months. In fact, as of this writing, the one year return on the S&P 500 was basically zero, at 0.60%.

Indeed, large cap US names are hitting a formidable upside resistance at 18,000 on the Dow Jones, and around 2055 on the S&P500. After last week's Fed policy maker comments, a number of pundits are now increasing the odds of an April rate hike, even though Wall Street had built in one for June at the earliest. So it not only put the brakes on stock prices, but it also is contributing to an energy price pullback due to the higher US dollar which strengthened on the Fed comments.

Turning to earnings, first quarter reporting kicks off in a couple of weeks (April 11) and right now analysts expect an 8.14% year-over-year DECLINE in S&P500 earnings. That would also equate to four consecutive quarters of declining profitability for the first time since the Great Recession ended. That needs to turn to get higher stock prices, valuations, in general, are still supportive, but the earnings and liquidity concerns have been coming under increasing pressure.

Like the market indices, energy prices are hitting some resistance. After peaking well over $100 in Oct 2014 *(Nasdaq.com)* and touching around $27.50 in late January, West Texas crude prices had settled in around the $40 market before leaking this week:



It only makes sense after seeing an approximately 50% move in about a month that it would take a rest as well. Crude prices hit upside resistance around $42-$44 US and the recent upward move hit just under $42 before fading.

So while the short term we might have some challenges and sideways action, I still believe longer out things are grinding along as expected. The global economy is not too hot, it's not too cold.

So….I still believe in the Goldilocks economy.

The fuel for the global growth engine remains the USA, and there are lots of positives:

- Demographics
- Automobiles on the road are at highest age ever (11.5 years average)
- The personal savings rate is rising, albeit slowly
- Housing has settled down and is actually improving
- The employment picture appears to be steady
- There will be a new President in the next eight months

In Europe, ECB Head Draghi seems to have figured it out and Europe was seeing improvement as pent up demand finally got to work. It is still not certain what impact the recent terrorist attacks will have (especially in tourism), but time will tell.

The main issue had been the strength of the US dollar in 2015 which had an impact on the energy and commodity complexes, but also on debt and credit markets. There was approximately $10 trillion in debt held in US dollars overseas, and it was putting a lot of pressure on economies, especially in places like Brazil and Russia.

What we are going through has many similar parallels to the late 1990's- US Fed tightening, a strong US dollar, oil prices collapsing, problems with Russia, the Long Term Capital Collapse (LTCM)- and the S&P500 fell 20% in 9 weeks. I remember it well. It took 6-8 months to sort out, but was followed by a pretty good run from 1998-2000.

In Canada, organic growth remains at almost zero. Despite how our elected officials might spin it, adding $130 billion or so in debt over the next 5 years is going to make it worse. And I would suspect the number will come in much higher than that. Much worse, if we get a recession in the next five years, and the odds are high at some point that happens.

So, let's hope the USA keeps chugging along and keeps the Goldilocks scenario in play, markets generally do AOK in these scenarios. Just don't want the three bears showing up early.

Stay tuned,

Vito Finucci, B.COMM, CIM, FCSI
Vice President and Director, Investment Advisor
Associate Portfolio Manager