Infomail

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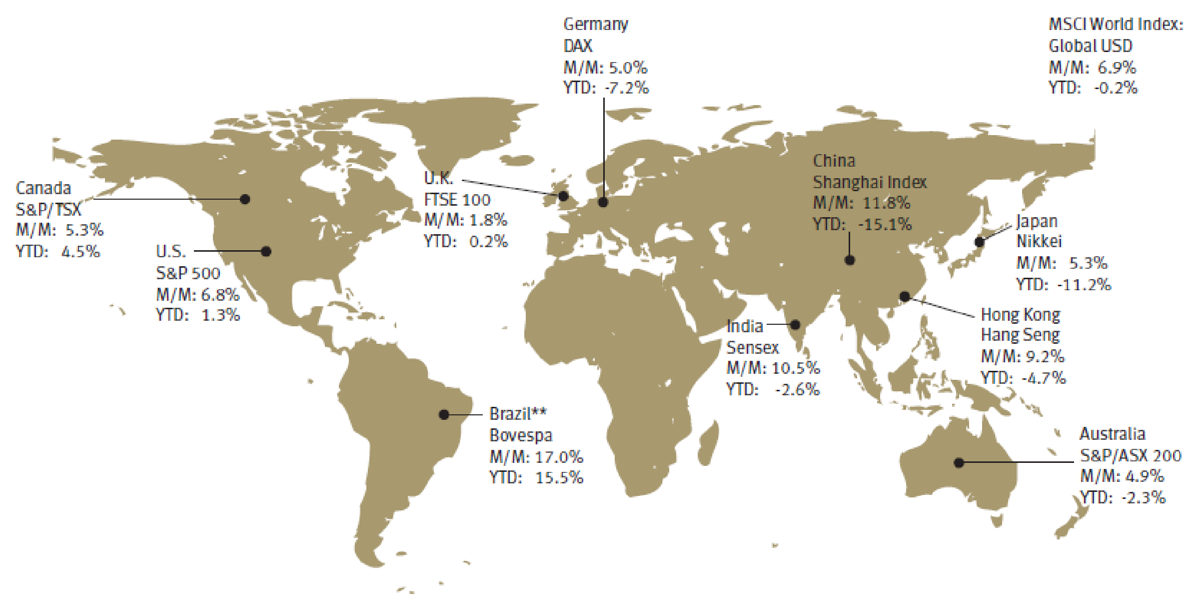
Q1 Update

The year 2016 started with two tough months in January and February which saw North American indices down 10-12% at one point, followed by a March which pretty well made up those numbers. As of writing today, the S&P500 dipped back into slightly negative territory.

The global picture looks something like this for the month of March and year-to-date (YTD):



Source – Bloomberg, RBC Wealth Management, 03/31/16

All returns are on a total return basis unless otherwise noted. All returns calculated in local currency except for MSCI World
** These indices are calcuated on a price return basis

A shift in tone from the US Federal Reserve with respect to the prospect of future interest rate hikes was one of the more notable developments in March. The Fed indicated that only two or more hikes were in the cards verses market forecasts for four hikes.

Oil prices, which started rallying from a mid-20s low in February, continued in March, taking benchmark prices to about $38.00 US a barrel, mainly due to a drop in US production which reduced inventories. Last week numbers showed the number of US oil rigs drilling had fallen for the 16th straight week.

North American indices were all positive for March:

TSX	+5.30%
S&P500	+6.80%
DowJones	+7.20%
Nasdaq	+6.90%

The real surprise is that it seems everything everyone hated last year, is what's really working so far in 2016:

Russia (RJX)	+34%
Emerging Markets (VWO)	+19%
Energy (XLE)	+19%
Gold Miners (GDX)	+59%
Brazil (EWZ)	+20%

It also reinforces why "bottom fishing" is so difficult. Everything looks so much easier in hindsight, but even with those rally numbers posted above, these markets are still down huge from their peaks;

Russia (RJX)	70%
Emerging Markets (VWO)	40%
Energy (XLE)	40%
Gold Miners (GDX)	70%
Brazil (EWZ)	75%

Pundits love to quote moves of investments in terms of gains or losses from the highs or lows, but it always seems tougher in actual real live markets.

Take Brazil for instance. Even though its markets are off about 70% since mid-2008, there have been rallies of 164%, 33%, 35%, 29% and 27% in that period of time.

If investors are looking for an "all-clear" signal in the markets when trying to bottom fish, you're never going to get one. No one can time the bottom perfectly because human emotions come into play, which tend to exaggerate the moves.

So far, 2016 is playing out exactly to historical US Presidential election years:

Figure 212: Ex 2008, S&P performance in presidential election years is in line with other years

				S&P 500 Performance			
Year	President	Senate	House	Feb - Aug	Sep - Oct	Nov - Jan	Whole Year
1960	Democrat	Democrat	Democrat	2.4%	-6.3%	15.7%	-3.0%
1964	Democrat	Democrat	Democrat	6.2%	3.7%	3.2%	13.0%
1968	Republican	Democrat	Democrat	7.2%	4.6%	-0.4%	7.7%
1972	Republican	Democrat	Democrat	6.9%	0.4%	4.0%	15.6%
1976	Democrat	Democrat	Democrat	2.0%	0.0%	-0.8%	19.1%
1980	Republican	Republican	Democrat	7.2%	4.2%	1.6%	25.8%
1984	Republican	Republican	Democrat	2.0%	-0.4%	8.2%	1.4%
1988	Republican	Democrat	Democrat	1.7%	6.7%	6.6%	12.4%
1992	Democrat	Democrat	Democrat	1.3%	1.1%	4.8%	4.5%
1994 (mid-term)	*Democrat*	*Republican*	*Republican*	*-1.3%*	*-0.7%*	*-0.4%*	*-1.5%*
1996	Democrat	Republican	Republican	2.5%	8.2%	11.5%	20.3%
2000	Republican	Democrat	Republican	8.8%	-5.8%	-4.4%	-10.1%
2004	Republican	Republican	Republican	-2.4%	2.4%	4.5%	9.0%
2008	Democrat	Democrat	Democrat	-6.9%	-24.5%	-14.7%	-38.5%
2012	Democrat	Democrat	Republican	7.2%	0.4%	6.1%	13.4%
Election years ex 2008 (avg)				3.7%	1.3%	4.3%	9.1%
All years ex 2008 (avg)				3.3%	0.8%	4.6%	8.8%

Election years in recessions are shaded

Election years with power shift from Democrat to Republican are boxed

1994 midterm election with congress power shift from Democrat to Repulican is marked in Italic

Source: S&P/Haver Analytics, Deutsche Bank

If history is repeated, 2016 is on track for a +5.6% type year, most of which will happen in the last quarter of the year. If one is a bit of a contrarian, might even get double digits because right now most prognosticators are negative, short positions are very high, and no one is expecting much.

No one, but no one, is expecting a big upside move.

Stay tuned,

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