Infomail
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The Forest from the Trees

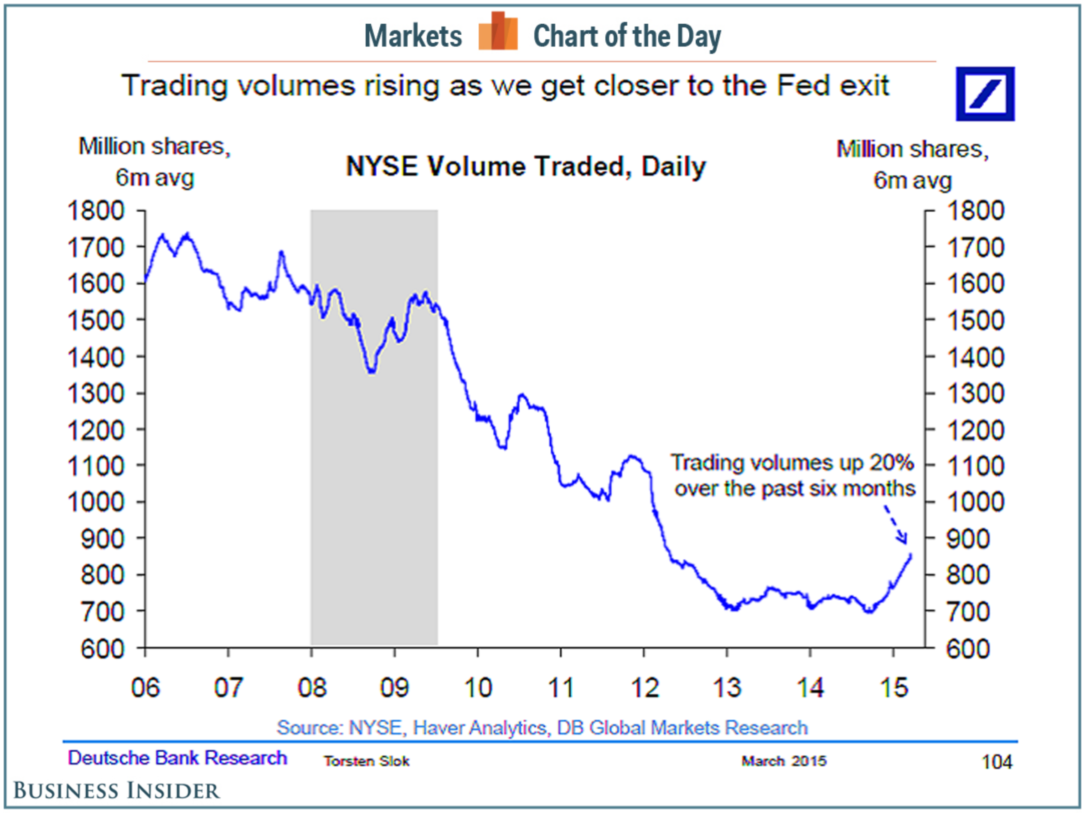
The first quarter of 2015 is now in the record books, and despite a lot of noise and lots of volatility, in the end, most of the North American market indices barely budged after three months of trading. So far in 2015, Euro markets have been the leaders, with most posting double digit gains, thanks to the ECB’s stimulative QE program.

There is plenty being written how a market bubble is forming, and you are going to hear more and more about the comparisons to 2000 and 2007, but that’s not the case.

Right now, the S&P 500 is on the path toward volatility that was last seen in 2011, when the Euro debt crisis imploded. The reality is, so far in 2015, 60% of the big move days have actually been to the upside with 12 upside moves of 1% or more to 8 downside moves of 1% or more.

Still, big losing days in general, or when the big indices move several hundred points at a time, gets people (ie. Investors) worried. Yet, anyone vaguely familiar with any market action in the last several years knows that the right strategy was to “buy the dip,” and it’s paid off since the cycle bottom in March of 2009.

In the past six years, there has also been a lot written about the lack of conviction in the market’s moves because of the lack of volume. But looking at the chart below, people should be careful what they wish for, since despite the lower volume, markets have kept rising:



While the US economy has so many times in recent years appeared to be gaining escape velocity to the upside, you then get a week like last week with terrible jobs numbers and still declining yields on the bond markets which imply things are slowing, not gaining, and one has to wonder how or if the US Federal Reserve can raise rates at all. They've said all along they are data dependent and I've said all along they will err on the side of caution and that rates will remain lower for longer than many believe.

The US recovery is not yet across the board in all sectors, as weakness remains in housing and especially capital spending. The process of deleveraging is more towards the end, and it is the end of that deleveraging which will enable consumers and business to start spending a greater portion of their income, which in turn, should enable GDP's to accelerate.

Note however, the Canadian consumer still remains one of the most levered in the Western economies, mainly through hot real estate markets in centers like Toronto and Vancouver.

In the USA, the economic recovery has been somewhat artificial because of all the Fed's stimulus. Now that QE is done, and natural forces are kicking in, the economic recovery in the USA should begin to ramp up on its own as the "training wheels" are removed. If one believes that the business expansion cycle is early on, then it can continue to expand for several more years, which in turn should be positive for equity markets because it implies corporate earnings will continue to grow as well.

The Eurozone's and Japan's efforts to stimulate and re-inflate seem to be working, but it's still early in the process, especially in Europe. In emerging markets, because their economies are so dependent and so highly competitive to exports, the stagnation in major economic global trade, which has hardly grown in recent years, should start to ramp up later in 2015, early 2016.

The continuing downward pressure on commodities makes it tough for Canada's TSX index to get any traction going. Our favourite areas for exposure remain the USA (especially with a Presidential election coming) and for those who can handle some volatility, some Euro exposure. Price corrections are a given, and I would expect that volatility discussed earlier on, to start rearing its head as well.

There still remain lots of concerns to worry about:

- Iran's nuclear ambitions
- The Middle East in general/ISIS
- Greek debt woes
- Energy prices
- Russia

…among others…so pretty well all the same things that the bears have worried about for the last several years, while markets keep plodding along higher.

One of Wall Street's adages is 'Bull markets climb walls of worry," and this one continues to do so.

Stay tuned,

Vito Finucci
Vice President and Director
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