

# Davidson Professional Wealth Management

of RBC Dominion Securities

*Your Money, Well Managed*



## Winter Market Commentary

January, 2015

*PROFESSIONAL WEALTH MANAGEMENT SINCE 1901*



RBC Wealth Management  
Dominion Securities

## In this Issue

- The market for crude oil collapses ..... Good news at the gas pump!
  
- The Loonie dives deep .....Multiple factors driving the CAD down
  
- US Economic Activity ..... What's ahead?



# Oil

- The second half of 2014 brought about another significant correction in the market for crude oil, with the price dropping by over 50% in less than seven months.
- With new technology opening up significant reserves in US shale formations the US is on track to be energy independent for the first time in decades.
- Energy use in the US is on the decline as new technology has enhanced efficiency. Economic growth has also slowed in the emerging markets leading to reduced energy consumption.
- These factors have led to a significant supply / demand imbalance. OPEC's refusal to curtail their production has only exacerbated the situation.

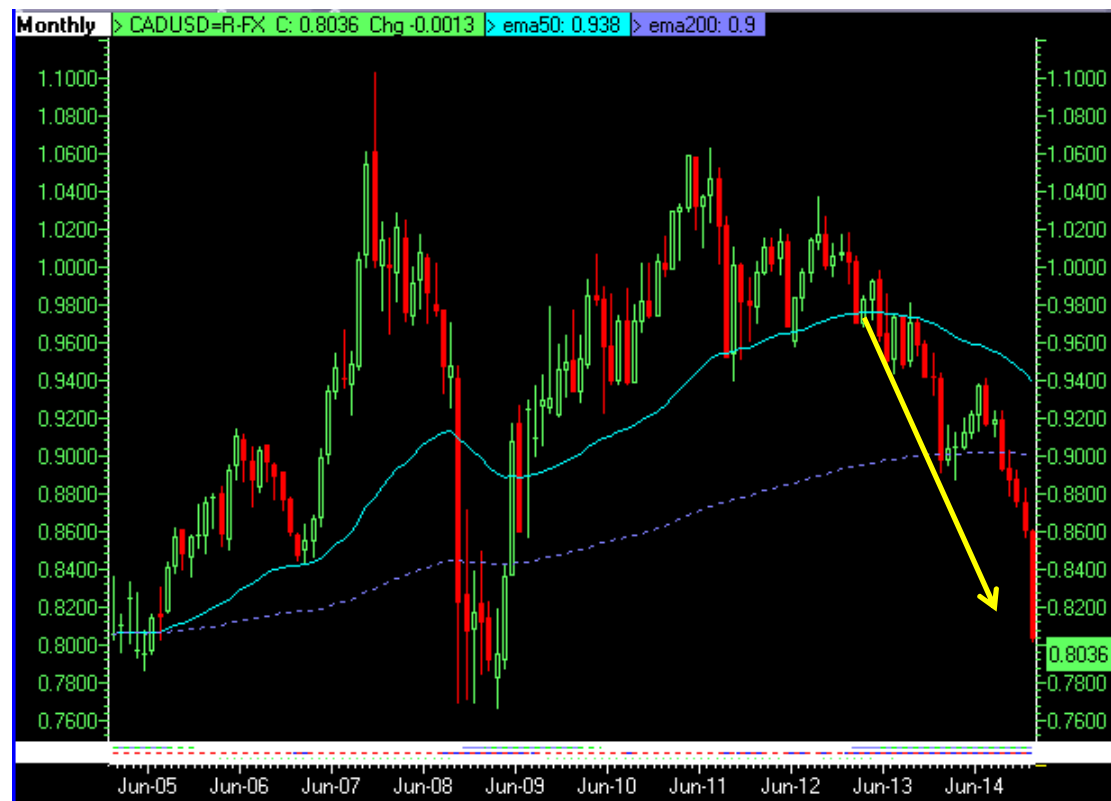


Data Source: Reuters/Thomson One

- Higher cost producers will begin to shut in production as their revenues fall short of their costs. This will reduce supply and eventually work the oil market back to equilibrium, but this may take months or potentially years to resolve.

# The Loonie

- The Canadian dollar has been under significant pressure over the past two years, trading near par with the USD to trading at a 20% discount.
- Some of this weakness can be attributed to relative USD strength as the US economy has resumed its spot as the world's most dynamic economy.
- Another major factor is that the Loonie is tightly tied to the price of oil and, in the world's view, is considered a "Petro Currency". With the recent swoon in oil prices the Loonie has sold off even more.
- While this is bad news for snowbirds who vacation in Florida it is good for Canadian businesses that export to the US.



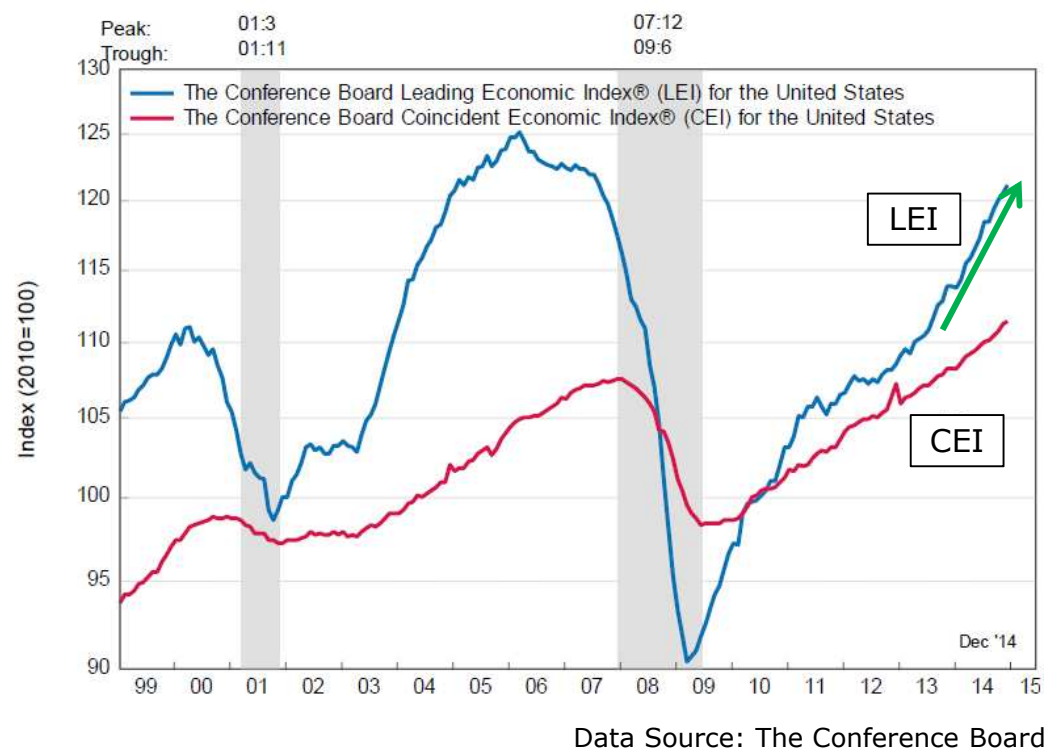
Data Source: Reuters/Thomson One

# US Economic Activity

- The US economy continues to expand near potential despite a slowdown in Emerging Markets and near recessionary levels of growth in Europe.

- Most of the traditional economic indicators are pointing to continued growth over the next year. Employment has been a strong contributing factor, interest rates remain low which tends to spur reinvestment rather than savings and the US consumer continues to find their footing.

- The chart at the right shows two indicators that measure future and current economic growth. The blue line forecasts future growth and can be helpful in anticipating lulls in economic activity. Currently it is showing a strong upward trend and while it offers no guarantees, it does confirm the positives we are seeing in the broader US economy.



# Market Recap

The fourth quarter of 2014 provide a variety of investor experiences across most major markets. We saw continuing growth throughout most of the US economy while Canada began to feel the effects of the deterioration in oil prices. This was offset to some degree by lower gasoline prices, effectively allowing consumers to spend more money elsewhere.

The Canadian market saw a significant return of volatility. Shares in energy companies sold off in tandem with oil prices and even the usually stable financial stocks saw some not insignificant moves over the quarter.

Emerging market and European equities suffered the most again this quarter. With the ongoing slowdown in China and Brazil, the continuing unrest in the Ukraine and the ever evolving Eurozone issues it keeps economic activity low and investors nervous.

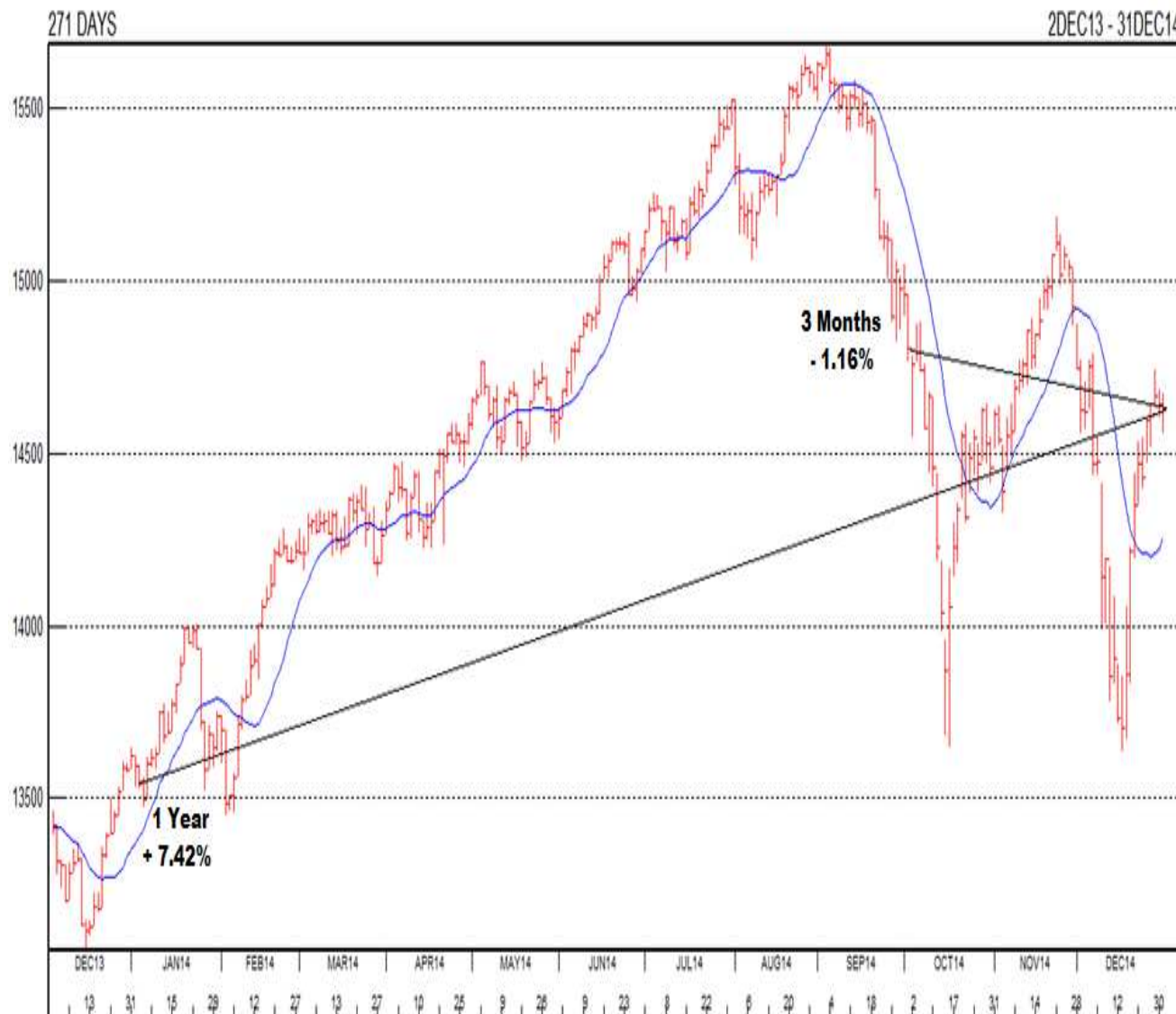
We are well positioned for the current market volatility and continue to focus on good quality companies that have a strong commitment to shareholders. As such we continue to favour dividend paying and growing equities and tactical management of cash levels.

Clients within our Private Investment Management program (PIM) and Third Party Pension Management program will receive their quarterly update and personalized portfolio reports within the next week.

## TSX Performance: Annual, YTD & 3 Months

- Strong first half returns in Canada were offset by a choppy second half of the year
- Commodity stocks suffered the most, with energy in particular leading the way down this fall
- Financials were not immune with little headway made despite significant volatility

Data Source: Trend & Cycle



## S&P Performance: Annual, YTD & 3 Months

- The US market finished the year strongly despite a noticeable selloff in October.
- Most sectors performed well with the notable exception of the energy sector.
- The pattern of “V” shaped selloffs and recoveries continued as investors remain optimistic about future US growth



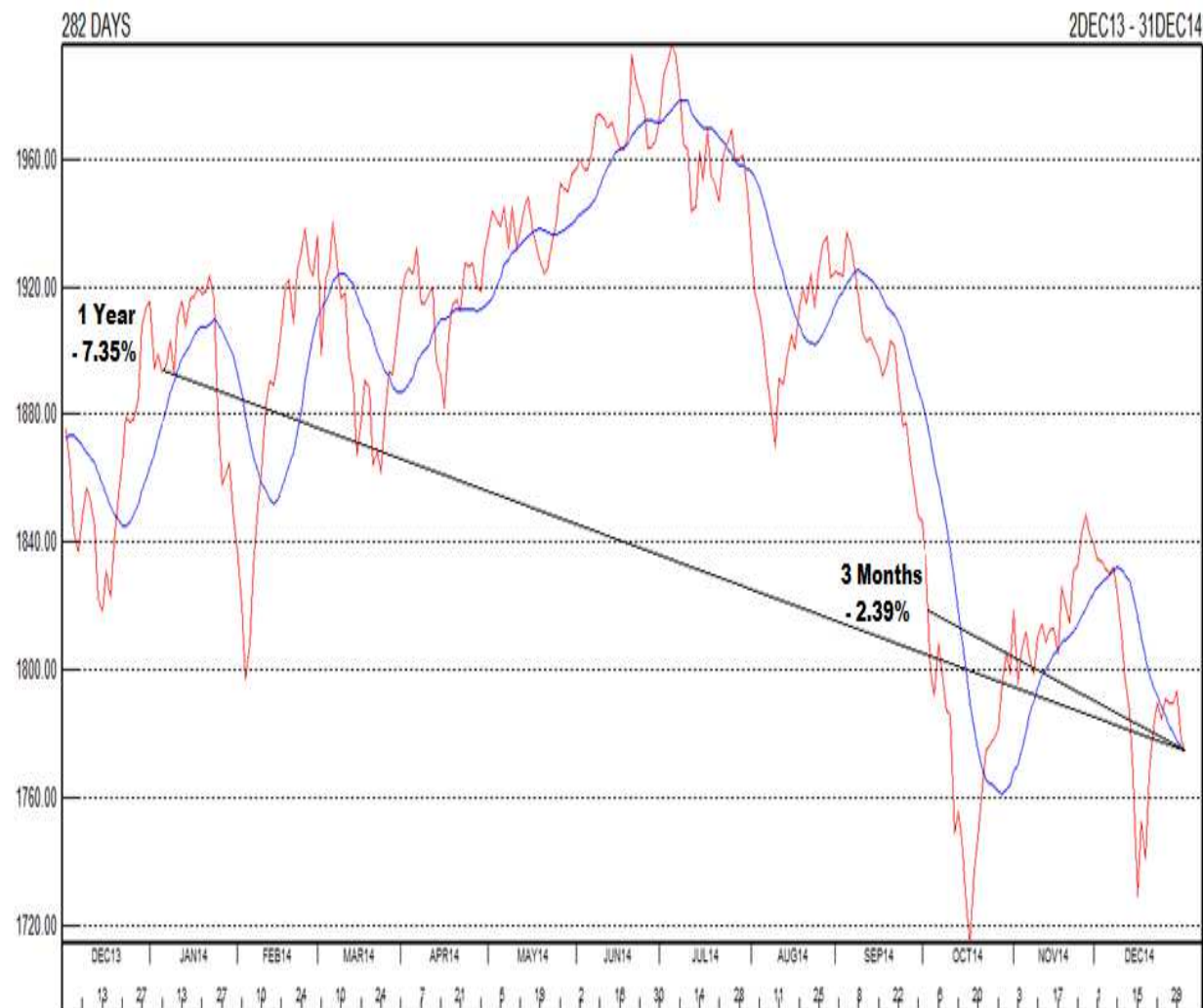
Data Source: Trend & Cycle



## EAFE Performance: Annual, 6 & 3 Months

- European markets finished off the year with a whimper as valuations and growth remain depressed.
- The European Central Bank discussed the need for more aggressive monetary policy but so far has not put anything into practice.
- Elections in Greece have raised the possibility of another round of exit the Euro worries.

Data Source: Trend & Cycle



EAFE = Europe, Australasia, and Far East Developed Markets

## Emerging Markets Performance: Annual, YTD & 3 Months

- In Brazil, President Dilma Rousseff was re-elected for a second four-year term by a small margin. Investors perceived the election as unfavourable as this is viewed as a step away from much needed policy reforms.

- The People's Bank of China announced reductions in its benchmark interest rate for the first time since mid-2012. The change was in response to the weakness in economic growth and falling inflation.

*Data Source: Trend & Cycle*



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