

## Raymond Sawicki, MBA, CFA

Senior Vice President and Chief Investment Officer

**MARKET SUMMARY**— After a very difficult start to 2016, global financial markets improved through February and early March. On a fundamental basis, the fears of deflation and possible recession that took grip through January faded to cautious optimism by late February as most financial markets responded positively by rebounding from the sharp declines experienced in the prior two months. While investor sentiment remains tentative, the extent of the earlier panic was clearly overdone.

Canadian equity markets advanced as the price of oil rebounded. The broader based S&P/TSX Composite index added 0.47% in February while the small cap S&P/TSX Venture gained 8.50%.

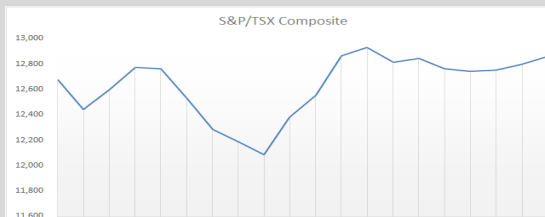
South of the border, the economic outlook was cooler. The S&P500 was primarily flat on the month returning -0.13%, while the NASDAQ fell just over 1%. On the global stage, European markets were mixed, with the EUROSTOXX 50 dropping 3.15% and the FTSE100 conversely adding 0.84%. Emerging markets were relatively muted as the MSCI EM returned -0.16% for February.

Through March the global economy continued to be affected by ongoing shocks that have reduced investor risk appetite to lower levels. With the recent terrorist attacks in Brussels, investor sentiment has again been shaken with ramifications that are not only region specific but also global in nature. The impact of these external events however has been less acute on investor confidence since 2002 as the global economy is now on sounder footing than it was then, and policymakers have been more open-ended in their actions to stimulate and sustain economic growth.

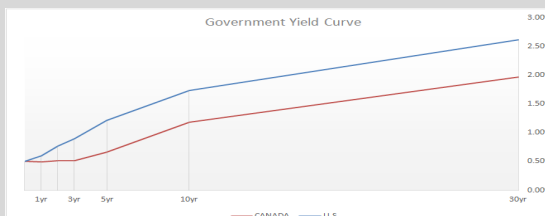
The U.S. and global equity rally that has prevailed through March remains tentative, particularly after the steep losses the markets experienced through January. Corporate earnings expectations (and economic data) have not firmed sufficiently to provide an all-clear signal, and it may take several more months before the foundation for a sustainable up trend takes hold. Capital markets are still unwinding earlier fears of a global economic recession, but regional equity positioning remains dependent on whether or not global growth will regain momentum. While concerns over deflation and recession that took hold through the start of 2016 have dissipated, the rebound in financial markets that has followed has unfortunately not improved investor sentiment to any measurable degree—instead only highlighting the state of elevated volatility and uncertainty. The most poignant question to now ask is whether this rebound will solidify into a sustainable advance, or simply fade as the cyclical bull market draws to a close?

## MARKET DIARY -- MONTH AT A GLANCE

| Equities              | Close Feb 29 | MoM TotRet | YTD TotRet |
|-----------------------|--------------|------------|------------|
| S&P/TSX Composite     | 12,918.07    | 0.47%      | -0.71%     |
| S&P/TSX Venture       | 542.09       | 8.50%      | 3.13%      |
| Dow Jones             | 16,609.66    | 0.75%      | -4.68%     |
| S&P500                | 1,939.89     | -0.13%     | -5.09%     |
| NASDAQ                | 4,568.84     | -1.02%     | -8.76%     |
| FTSE 100              | 6,138.20     | 0.84%      | -1.67%     |
| EURO STOXX 50         | 2,954.59     | -3.15%     | -9.58%     |
| Nikkei 225            | 16,045.68    | -8.41%     | -15.70%    |
| MSCI EAFE             | 4,397.98     | -1.83%     | -8.93%     |
| MSCI Emerging Markets | 318.94       | -0.16%     | -6.64%     |



| Fixed Income                                                                         | Yield | MoM Chg | YTD Chg |
|--------------------------------------------------------------------------------------|-------|---------|---------|
|  |       |         |         |
| BoC Overnight Rate                                                                   | 0.50% | n/c     | n/c     |
| 3mos Canada T-Bill                                                                   | 0.45% | 0 bps   | -5 bps  |
| 2yr Canada                                                                           | 0.52% | 10 bps  | 4 bps   |
| 10yr Canada                                                                          | 1.19% | -3 bps  | -20 bps |
| 30yr Canada                                                                          | 1.97% | -6 bps  | -17 bps |
|  |       |         |         |
| Fed Funds Rate                                                                       | 0.50% | n/c     | n/c     |
| 90d U.S. T-Bill                                                                      | 0.30% | -1 bps  | -13 bps |
| 2yr UST                                                                              | 0.77% | 0 bps   | -27 bps |
| 10yr UST                                                                             | 1.73% | -19 bps | -55 bps |
| 30yr UST                                                                             | 2.62% | -13 bps | -40 bps |



| Currencies | Feb 29 | MoM Chg | YTD Chg |
|------------|--------|---------|---------|
| CAD/USD    | 0.72   | -0.95%  | -0.95%  |
| USD/CAD    | 1.40   | +0.99%  | +0.99%  |
| CAD/EUR    | 0.66   | -0.68%  | -0.68%  |
| CAD/JPY    | 86.68  | -0.21%  | -0.21%  |
| CAD/GBP    | 0.50   | +2.49%  | +2.49%  |

| Market Factors         | Feb 29  | MoM Chg | YTD Chg |
|------------------------|---------|---------|---------|
| Volatility Meter – VIX | 20.55   | +0.35   | +2.34   |
| Advance/Decline – TSX  | 2.65.94 | -3.34   | -2.05   |

Source: Bloomberg

The market in general appears to be turning to commodity prices and oil more specifically as the near term Bellwether. The recent rebound in oil and commodity prices has lowered the danger of contagion from an implosion in resource economies and their financial systems, yet still leaves prices at very reflationary levels. While the rise in U.S. core CPI has not been broad-based, there are few signs of deflation outside of the chronically deflationary goods sector.

**CANADA**—March economic data revealed that Canada's GDP jumped forward a robust +0.6% in January, beating expectations and reassuring markets that the economic trajectory remains intact despite the near term challenges posed by soft global economic growth and commodity price weakness. Dissecting this data indicates that the January growth numbers were broad based and foundational. While this helps instill confidence for a stronger Canadian economic outlook, dangers continue to lurk as the slowdown in the energy sector is far from over, and higher future interest rates pose problems for the housing market which has risen unsustainably in key urban centers supported by increasingly higher consumer debt loads. Housing affordability will succumb to pressure as rates eventually rise, having the expected impact on valuations.

Since exceeding parity with the USD\$ in 2011/12, the CAD\$ in January fell to lows not seen in over a decade, breaching the \$0.70/USD level to the downside. Imploding commodity prices and expectations for increasing interest rate differentials were the primary drivers for what was a grossly oversold situation. Since January 2016, the CAD\$ has improved approximately 10% against the USD\$. This dramatic shift has been led by a rebound in the price of oil and expectations for narrower yield differentials. The constant swinging of the pendulum has led to an overshoot at each inflection point, and with the CAD\$ currently sitting around \$0.78US, it seems likely that the reversal has again overshot, leaving the CAD\$ slightly overvalued.

**UNITED STATES**—U.S. equities have rebounded sharply with the S&P 500 up over 10% through March and bouncing impressively off its mid-February lows. Gains have been partly driven by short covering as the global economic backdrop has proven to be not as tentative as previously feared. The recent bounce in crude oil prices has further alleviated deflation fears and provided some much needed support for high yield credit markets which in turn have helped lift financial asset prices in general.

The U.S. Federal Reserve held steady on rates at its mid-March FOMC meeting, with Fed Chair Janet Yellen subsequently commenting that the Fed continues to remain cautious on the timing and pace of monetary tightening. This dovish sentiment should allow U.S. spreads to widen against the developed world and give foundational support for an extension of the cyclical run for equities.

The Fed continues to take a passive approach to the economic data borne out by its predictable response to the financial market turmoil during the first two months of 2016, which surprised heavily to the downside. This "data dependency" implies that the Fed will be reactive to economic information, and market participants can expect the tone of policy action to follow the economic data curve. But the Fed's lack of credibility on actually guiding rates poses a problem for the central bank, given its desire to avoid large and sharp moves in interest rates as it strives to normalize monetary policy.

The U.S. presidential election and divisiveness of the political process will add to overall uncertainty in the coming months, which is undoubtedly not positive for markets. But a stronger and more sustained economic growth path will likely have greater significance in driving the trajectory of financial markets and therein lies the largest factor.

**GLOBAL**—The global economy still lacks sufficient demand to ensure a steady recovery, but consensus expectations are that global growth conditions will slowly improve, thus enabling stocks to trend higher over the coming year.

The Eurozone has been resilient in the face of several recent shocks, and should continue to recover to the benefit of regional equity markets. While the issues with China's banking system and currency controls have abated to a large extent, ongoing economic weakness there and across the emerging markets in general will continue to subdue prospects for the region and be a drag on growth.

**OIL/COMMODITIES**—Crude oil prices have rebounded sharply as major crude-producing countries have finally acknowledged the global oversupply problem and U.S. shale oil producers have cut capital spending programs significantly. But a sustained period of outperformance is not likely in store for resource stocks given the persistence of over-supply conditions. Recent price improvements have been predicated on expected corrections to the supply/demand imbalance however, so far, a full and sustainable resolution to this problem has not been made.

## **TACTICAL POSITIONING**

- Normalization of inflation expectations has promoted an environment that is vulnerable to utilities and consumer staples sectors.
- Energy and Material sectors may be susceptible to retracement of recent gains given the sustained over-supply imbalance in oil and commodities markets.
- Despite less gloomy economic prospects versus a month ago, financial asset prices will remain vulnerable to a correction until a clear improvement in economic activity occurs. Limiting cyclical exposure to a few select sectors such as financials while remaining anchored on defensive sectors such as consumer staples may be prudent.
- Confirmation of the economic growth trajectory would be prudent before expanding allocations to more cyclical sectors such as industrials.

## KEY ECONOMIC INDICATORS – CANADA



| Event                                  | Date   | Consensus Est. | Prior         |
|----------------------------------------|--------|----------------|---------------|
| GDP YoY (Dec)                          | Mar 1  | 0.5% (0.5 A)   | 0.2% (0.5% R) |
| Quarterly GDP annualized (Q4)          | Mar 1  | 0.0% (0.8% A)  | 2.3% (2.4% R) |
| RBC Canadian Manufacturing PMI (Feb)   | Mar 4  | n/a (49.4)     | 49.3          |
| Int'l Merchandise Trade (Jan)          | Mar 4  | -0.90Bil       | -0.59Bil      |
| Housing Starts (Feb)                   | Mar 8  | n/a            | 165.9k        |
| Building Permits MoM (Jan)             | Mar 8  | n/a            | 11.3%         |
| Bank of Canada Rate Decision (March 9) | Mar 9  | 0.5%           | 0.5%          |
| Capacity Utilization (Q4)              | Mar 10 | n/a            | 82.0%         |
| New Housing Price Index YoY (Jan)      | Mar 10 | n/a            | 1.6%          |
| Unemployment Rate (Feb)                | Mar 11 | n/a            | 7.2%          |
| Net Change in Employment (Feb)         | Mar 11 | n/a            | -5.7k         |
| Participation Rate (Feb)               | Mar 11 | n/a            | 65.9%         |
| Existing Home Sales MoM (Feb)          | Mar 15 | n/a            | 0.5%          |
| Manufacturing Sales MoM (Jan)          | Mar 16 | n/a            | 1.2%          |
| Int'l Securities Transactions (Jan)    | Mar 16 | n/a            | -\$1.41Bil    |
| Wholesale Trade Sales MoM (Jan)        | Mar 17 | n/a            | 2.0%          |
| Retail Sales MoM (Jan)                 | Mar 18 | n/a            | -2.2%         |
| Retail Sales Ex Auto MoM (Jan)         | Mar 18 | n/a            | -1.6%         |
| CPI YoY (Feb)                          | Mar 18 | n/a            | 2.0%          |
| CPI Core YoY (Feb)                     | Mar 18 | n/a            | 2.0%          |
| Industrial Product Prices MoM (Feb)    | Mar 29 | n/a            | 0.5%          |
| GDP YoY (Jan)                          | Mar 31 | n/a            | 0.5%          |

A=actual; R=revised

Source: Bloomberg

5

## KEY ECONOMIC INDICATORS – U.S.



| Event                                | Date   | Consensus Est.        | Prior          |
|--------------------------------------|--------|-----------------------|----------------|
| Markit US Manufacturing PMI (Feb F)  | Mar 1  | 51.2 (51.3 A)         | 51.0           |
| ISM Manufacturing (Feb)              | Mar 1  | 48.5 (49.5 A)         | 48.2           |
| Construction Spending MoM (Jan)      | Mar 1  | 0.3% (1.5% A)         | 0.1% (0.6% R)  |
| Wards Domestic Vehicle Sales (Feb)   | Mar 1  | 13.83Mil (13.74Mil A) | 13.79Mil       |
| Wards Total Vehicle Sales (Feb)      | Mar 1  | 17.7Mil (17.43Mil A)  | 17.46Mil       |
| Initial Jobless Claims (Feb 27)      | Mar 3  | 270k                  | 272k           |
| Factory Orders (Jan)                 | Mar 3  | 2.1%                  | -2.9%          |
| Durable Goods Orders (Jan F)         | Mar 3  | n/a                   | 4.9%           |
| Trade Balance (Jan)                  | Mar 4  | -\$44.0Bil            | -\$43.36Bil    |
| Change in Nonfarm Payrolls (Feb)     | Mar 4  | 195k                  | 151k           |
| Unemployment Rate (Feb)              | Mar 4  | 4.9%                  | 4.9%           |
| Average Hourly Earnings YoY (Feb)    | Mar 4  | 2.5%                  | 2.5%           |
| Labor Force Participation Rate (Feb) | Mar 4  | 62.8%                 | 62.7%          |
| Consumer Credit (Dec)                | Mar 7  | \$16.0Bil             | \$21.267Bil    |
| Wholesale Inventories MoM (Jan)      | Mar 9  | -0.2%                 | -0.1%          |
| Wholesale Trade Sales MoM (Jan)      | Mar 9  | n/a                   | -0.3%          |
| Retail Sales Advance MoM (Feb)       | Mar 15 | n/a                   | 0.2%           |
| Retail Sales Ex Auto MoM (Feb)       | Mar 15 | n/a                   | 0.1%           |
| PPI Final Demand YoY (Feb)           | Mar 15 | n/a                   | -0.2%          |
| PPI Ex Food and Energy YoY (Feb)     | Mar 15 | n/a                   | 0.6%           |
| Housing Starts (Feb)                 | Mar 16 | n/a                   | 1099k          |
| Housing Starts MoM (Feb)             | Mar 16 | n/a                   | -3.8%          |
| Building Permits (Feb)               | Mar 16 | n/a                   | 1202k          |
| Building Permits MoM (Feb)           | Mar 16 | n/a                   | -0.2% (0.0% R) |
| CPI YoY (Feb)                        | Mar 16 | n/a                   | 1.4%           |
| CPI ex-Food & Energy YoY (Feb)       | Mar 16 | n/a                   | 2.2%           |
| Industrial Production MoM (Feb)      | Mar 16 | n/a                   | 0.9%           |
| Capacity Utilization (Feb)           | Mar 16 | n/a                   | 77.1%          |
| FOMC Rate Decision                   | Mar 16 | 0.5%                  | 0.5%           |
| Philly Fed Business Outlook (Mar)    | Mar 17 | n/a                   | -2.8           |

|                                              |        |     |         |
|----------------------------------------------|--------|-----|---------|
| University of Michigan Sentiment Idx (Mar P) | Mar 18 | n/a | 91.7    |
| Existing Home Sales (Feb)                    | Mar 21 | n/a | 5.47Mil |
| Existing Home Sales MoM (Feb)                | Mar 21 | n/a | 0.4%    |
| New Home Sales (Feb)                         | Mar 23 | n/a | 494k    |
| New Home Sales MoM (Feb)                     | Mar 23 | n/a | -9.2%   |
| Durable Goods Orders (Feb Prelim)            | Mar 24 | n/a | n/a     |
| Durables Ex Transportation (Feb Prelim)      | Mar 24 | n/a | n/a     |
| GDP Annualized QoQ (Q4 2015 T)               | Mar 25 | n/a | 1.0%    |
| Personal Income (Feb)                        | Mar 28 | n/a | 0.5%    |
| Personal Spending (Feb)                      | Mar 28 | n/a | 0.5%    |
| S&P/Case-Shiller US HPI YoY SA (Jan)         | Mar 29 | n/a | 5.43%   |
| Consumer Confidence Index (Mar)              | Mar 29 | n/a | 92.2    |

A=actual; R=revised

Source: Bloomberg

Mandeville Private Client Inc. is a member of the Canadian Investor Protection Fund (CIPF) and a member of the Investment Industry Regulatory Organization of Canada (IIROC). Mandeville Wealth Services Inc. is a member of the Mutual Fund Dealers Association (MFDA) and the MFDA Investment Protection Corporation MFDA (IPC).

This publication contains the opinions of the writer. The information contained herein was obtained from sources believed to be reliable, but no representation or warranty, express or implied, is made by the writer, Mandeville Private Client Inc. or any other person as to its accuracy, completeness or correctness. This publication is not an offer to sell or a solicitation of an offer to buy any securities. The information in this publication is intended for informational purposes only and is not intended to constitute investment, financial, legal, tax or accounting advice. Many factors unknown to us may affect the applicability of any statement or comment made in this publication to your particular circumstances. Hence, you should not rely on the information in this publication for investment, financial, legal, tax or accounting advice. You should consult your financial advisor or other professionals before acting on any information in this communication.

MANDEVILLE HOLDINGS INC. and the Lion Design are trademarks of Mandeville Holdings Inc. used under license by Mandeville Private Client Inc.

Mandeville Holdings Inc., 1375 Kerns Road, Suite 200, Burlington, Ontario L7P 4V7 Tel.:1-888-990-9155 • Fax: 1-905-331-4245 • [www.mandevilleinc.com](http://www.mandevilleinc.com)