



REVIEW AND COMMENTARY 1ST QUARTER – 2017

Can Trump make equities great again?

It wouldn't be a stretch to think few investors would have expected the North American equity markets to do as well as they did in the first quarter. The S&P500 posted a gain of 5% (CDN \$) led by technology while the TSX gained approximately 2.4% which would have been higher if oil prices hadn't slumped during the last month. Earnings generally were within expectation and thankfully, for many of the securities we invested in, dividends were increased. While equity markets increased to record levels in North America, many investors continue to worry that a correction is imminent. While we have never tried to time the market, we certainly think that a correction will come. However, we are unsure when. Moreover, we don't see why it would be anything more than an opportunity to employ excess cash reserves, if available. Of course, market pull backs are rarely predicted with any consistency and few can anticipate what might cause it. From what we can see, the U.S. and Canadian economies are improving, albeit slowly, and interest rates will not provide any impediment to equity prices for at least the next year.

Oil prices went through a correction over the last several weeks falling roughly 10%. Compliance with the OPEC production cuts remained at very high levels over the quarter but inventories increased as U.S. shale producers increased their production and several refineries were shut down for temporary maintenance. When these inventories increased beyond expectations many hedge funds, which had historically high levels of exposure to oil and oil stocks, sold pushing prices down. Given the SP/TSX index is significantly weighted toward the resource sector, moreover the Energy sector, it weighed on the returns of the index relative to the SP 500. While it will require continued diligence regarding the adherence to production cutbacks by OPEC and large non US Oil producers, we believe that oil prices will continue to strengthen from present levels. We think, if this were to happen, mid to high \$50's would be reasonable for the latter part of 2017. Certainly the majority of OPEC members need considerably higher oil prices in order to restore their fiscal health.

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Prior to quarter end, the President of the U.S. suffered a setback when he was unable to get the necessary votes to repeal what has come to be known as Obamacare and install his own plan. The equity markets pulled back marginally but have stabilized. This was certainly better than many investors would have thought. Possibly the reason for the equity markets resilience is the prospect of moderating his proposal may appeal to enough congressional voters to pass and it is still felt that he will keep his promise to lower taxes both personally and corporately in the U.S. Thankfully, the Canadian budget didn't increase taxes on any level (or increase the capital gains tax or lessen the dividend tax credit) which we believe would have negatively impacted our markets.

It would appear that the U.S. President will continue to stick to his election promises and time will tell which of them will be passed. While there is some moderation in his tone regarding several of them he continues to discuss re-negotiating NAFTA as well as a new border tax. While it is uncertain how these will affect Canada's economy, the uncertainty may weigh on investors. Though it is hard to predict the timing of any political undertaking, tax reform would certainly be a priority over the trade issues. The economics of the border tax may increase prices to American consumers and inflation is something every voter finds unpleasant. So a wait- and -see attitude will have to prevail which should make our concentration on dividend paying stocks more appealing.