GLC ASSET MANAGEMENT GROUP

Market Matters

APRIL 2015 HIGHLIGHTS

- The domination of US dollar strength reversed in April. The stumble in the US dollar value was especially visible versus the Euro, the Brazilian real, and the Canadian dollar.
- Oil prices rose 25% for the month, the largest monthly percentage gain since May 2009. A weakened greenback and the anticipation of moderating US oil supplies added strength to the rebound.
- Chinese equity markets continued to soar (the Shanghai Composite has gained 37% since the start of the year). Speculation and excessive investor enthusiasm seem the most likely justification for the continued run.
- The outlook for the Eurozone economy and equity markets strengthened as a result of a weak Euro, low oil prices and improving economic data.
- A rerun of news out of Greece hit the airways in April. Difficult debt negotiations and political posturing amounted to 'all talk and no action' so far. European investors more or less tuned out the familiar noise during the month.
- Canadian bond investors saw a flush of negative returns that reflected the rise in global yields during the month.

REVERSING TRENDS

April brought a quick reversal to trends that influenced the first quarter of 2015. The US dollar, the undisputed front-runner last quarter, fell back under the weight of sluggish economic data and heightened angst over when the US Federal Reserve would begin raising rates. In an inter-related move, oil prices, bond yields and the Canadian dollar (each was weak in the first quarter) rose significantly.

THE GREENBACK BACKS-UP

After hitting its highest level in more than a decade (in mid-March), the US dollar index slipped 5.7% to the end of April.

April was book-ended by sour economic data (poor employment report early in April, and a weaker-than-expected Q1 GDP result at month's end) which contributed to the US dollar losing ground. While the strength of the US dollar has weighed on S&P 500 earnings, what kept investors from turning bearish was the growing belief that the first quarter of 2015 was plagued by one-off circumstances rather than any longer term affliction. The view was shared by the U.S. Federal Reserve who saw first-quarter economic weakness as being transitory (for example, negatively burdened by worse than normal winter weather). A pull back in greenback strength, a lift in oil prices, and the shaking off of the US economy's soft-patch shackles should bring some reassuring spring back into US equity markets. The S&P 500 squeaked out a 0.9% return in April, but the reverse in currency exchange resulted in a pull back for Canadian investors in US equities.

Table 1
Summary of major market developments

Market returns*	April	YTD
S&P/TSX Composite	2.2%	4.0%
S&P 500	0.9%	1.3%
- in Canadian dollars	***-3.8%***	***5.4%***
MSCI EAFE	0.8%	11.0%
- in Canadian dollars	***-1.1%***	***12.5%***
MSCI Emerging Markets	5.5%	10.3%
FTSE TMX Canada Universe Bond Index**	-1.4%	2.7%
FTSE TMX Canada all corporate bond index **	-1.0%	2.5%

*Local currency (unless specified); price only
**Total return, Canadian bonds

Table 2
Other price levels/change

	Level	April	YTD
CAD per USD exchange rate	$0.828	5.1%	-3.7%
Oil (West Texas)*	$59.63	25.3%	11.9%
Gold*	$1,181	-0.2%	-0.6%
Reuters/Jefferies CRB Index*	$229.49	8.3%	-0.2%

*U.S. dollars

Table 3
Sector level results for the Canadian market

S&P/TSX Composite sector returns*	April	YTD
S&P/TSX Composite	2.2%	4.0%
Energy	7.0%	4.9%
Materials	3.3%	6.2%
Industrials	-3.4%	-2.3%
Consumer discretionary	-3.4%	2.0%
Consumer staples	-3.0%	-0.1%
Health care	2.9%	49.3%
Financials	2.3%	1.2%
Information technology	-0.2%	8.3%
Telecommunication services	-0.2%	-1.1%
Utilities	0.6%	3.0%

*Price only
Source: Bloomberg, MSCI Barra, NB Financial, FTSE TMX Global Debt Capital Markets Inc.

KEEPING SCORE ON OIL PRICES

As the US dollar was spiking in March, the price of oil was scraping the bottom of the barrel at under $44 (USD) per barrel, the lowest level in six years. A sizeable rebound emerged as oil prices to the end of April were up 35% from the mid-March lows (closing out April at just under $60 (USD) per barrel). Alas, for those of us keeping score, prices are still down a whopping 40% from a year prior. With most commodities priced in US dollars, the greenback's weakness helped, but so did investors betting on the fact that U.S. crude-oil supplies are nearing a peak (and therefore the amount of supply on the American market would soon be coming down). The S&P/TSX made most of its gains in April on the back of strong returns in both the Energy and Materials sectors.

A MANDATE TO RE-NEGOTIATE

Something is finally working in Europe (just not everything). Whether the new quantitative easing program can take credit is hard to pin point given asset purchases only began in March but regardless, the recent flow of good news from the euro zone continued in April. Consumer confidence is up and the latest Purchasing Managers Index (PMI) readings (i.e. manufacturing results) were better than expected, helped by a weak Euro and low oil prices. There remain country divergences, as Germany, Italy, and Spain's PMI results are all in expansion territory, while France continues to be stuck just below at 48.0 (under 50 is considered in contraction territory).

And who can forget about Greece? It's hard, even if you try. The media loves to dedicate airtime to each beleaguered set of negotiations between the peripheral nation and it's economically dominant neighbours. Consider that Greece's new leaders were elected specifically on their promise to renegotiate the terms of previously defined debt payments and accompanying austerity measures. At the same time, a number of other leaders have the electoral mandate to play tough with the likes of Greece and other peripheral European countries with balance sheet risks. By default (pun intended) this pits the borrower against the lender and makes each negotiation difficult, drawn out, and full of political posturing. For now, European investors seem comfortable setting their sights on an improving outlook based on stronger industrial production and the boost to discretionary spending from lower energy prices. But with the deadline fast approaching for the next debt roll-over, it looks like talks are going to go down to the wire once again. Expect some market volatility to add to the show.

HIGH OCTANE MARKET

Emerging markets outperformed developed markets overall in April. In particular the Chinese equity market posted its biggest monthly gain (+18.5%) in 2015, bringing the Shanghai Composite's year-to-date tally to +37% at the end of April. Expectations of further stimulus and accommodative policies, hopes of state-owned enterprise reforms, and the rise in margin lending have all fueled the sky-rocketing market higher. With investor speculation running hard, Chinese government officials ended the month warning investors once more about market volatility.

APRIL RAINED ON BONDS PARADE

The FTSE TMX Canada Universe Bond index dropped 1.36% in April, chopping back the year-to-date return of 2.74%. The decline was broadly based, with negative results across all major sectors and subsectors. Long government and provincial bonds lead the declines. The negative returns across the fixed income spectrum reflected the rise in yields during the month. Ten-year government bond yields increased +22 basis points to 1.58% in Canada. Yields have lifted globally as deflation worries faded in April with the recovery in energy prices and improving expectations for growth.

BENEFITING FROM REVERSING TRENDS

Shifting market trends highlight the benefits of diversification and professional portfolio management. While diversifying your long-term portfolio will mitigate the overall volatility you experience, professional portfolio managers see times like now as ripe with opportunity to take profit, opportunistically add to positions at attractive price points and/or strategically position their portfolio to mitigate risks and take advantage of emerging opportunities as market cycles unfold.