December 2013

Market Matters

NOVEMBER 2013 HIGHLIGHTS

- Global equity markets, particularly those in developed markets, continued onward and upward in November.
- Several factors contributed to the extended rally, including:
    - Accommodative central bank policies,
    - Good corporate earnings results,
    - Improving investor sentiment,
    - Global economic data that is supportive of current expectations for slow growth, but growth nonetheless.
- Another leg down for the Canadian Materials sector dampened Canadian equity market results relative to peers.
- The Canadian dollar weakened relative to its U.S. counterpart (buoyed by strengthening U.S. economic data) and further accentuated the disparity in Canadian dollar returns between Canadian and U.S. equity markets.
- Bond markets faced a headwind of modestly rising yields.

S&P 500 DASHING THROUGH THE SNOW

The S&P 500 hit the year's 38th new closing high in November. While a short-term pull back is possible, a number of factors remain in favour of the expanded rally, including: the relative stability and strength of corporate earnings; the accommodative U.S. Federal Reserve (the Fed) who remain committed to their Zero Interest Rate Policy (ZIRP); and the breadth of the stock market gains. All ten sectors of the S&P 500 are in positive territory with eight of the ten with double-digit returns year-to-date.

In contrast, the S&P/TSX Composite has been one of the weakest performing equity markets among developed countries this year. In November the shellacking of the Materials sector continued. The sharp drop of the Materials sector has created a wintery whiteout of results that on a year-to-date basis has masked the strength of other Canadian sectors, such as our Consumer and Industrial sectors, which have performed well and in-line with their American counterparts.

While not an economically homogeneous group, the emerging market countries have by and large suffered a decrease in economic growth expectations this year which has dampened investor interest. This is particularly true when contrasted with developed countries, such as those in Europe, which have shown progress in their respective economic recoveries.

Table 1
Summary of major market developments

Market returns*	November	YTD
S&P/TSX Composite	0.3%	7.7%
S&P 500	2.8%	26.6%
- in Canadian dollars	**4.7%**	**35.2%**
MSCI EAFE	1.3%	21.9%
- in Canadian dollars	**2.5%**	**25.8%**
MSCI Emerging Markets	-0.1%	2.0%
DEX Universe Bond Index**	-0.2%	-0.8%
BBB Corporate Index**	0.0%	1.7%

*local currency (unless specified); price only
**total return, Canadian bonds

Table 2
Other price levels/change

	Level	November	YTD
CAD per USD exchange rate	$0.942	-1.8%	-6.6%
Oil (West Texas)*	$92.72	-3.8%	1.0%
Gold*	$1,251	-5.5%	-25.4%
Reuters/Jefferies CRB Index*	$274.97	-1.0%	-6.8%

*U.S. dollars

Table 3
Sector level results for the Canadian market

S&P/TSX Composite sector returns*	November	YTD
S&P/TSX Composite	0.3%	7.7%
Energy	-1.0%	6.9%
Materials	-5.8%	-31.9%
Industrials	4.9%	33.5%
Consumer discretionary	-0.3%	36.1%
Consumer staples	-1.8%	21.0%
Health care	2.6%	59.1%
Financials	2.0%	17.9%
Information technology	4.8%	32.3%
Telecommunication services	2.4%	9.5%
Utilities	-2.9%	-8.2%

*price only
Source: Bloomberg, MSCI Barra, NB Financial, PC Bond

GREAT EXPECTATIONS

There is an overall expectation that the Fed will begin pulling back its asset purchasing plan sooner rather than later. The question of 'when' and 'how much' remains, but the question of 'if' has more or less been answered – it's coming. In November, bond yields rose modestly in response to these expectations, meaning that bond returns declined. Some of the summertime losses in bond markets have been reversed, with corporate bonds benefitting more from higher yielding opportunities. Of note, November saw the largest Canadian monthly corporate bond issuance ever, highlighting the strong level of investor interest.

Market watchers have a great fondness for seasonal sayings like "Sell in May and go away" (which wouldn't have worked out great this year). A well-quoted seasonal statistic for this time of year is affectionately known as the 'Santa Claus rally'. It highlights the fact that the S&P 500 has historically been up 74% of the time in the month of December.* (source: Standard & Poor's) Whether these market watchers will see Santa Claus in their starry sky this month remains to be seen.

GAME CHANGERS FOR 2014

As we approach the New Year, we highlight three game-changing events that have the potential to significantly and positively change the playing field for investors in 2014. It's worthwhile to note that in each case; it will be how the events unfold that will tell the final tale for the story.

<u>Resolutions to the take-away capacity energy challenge</u>

With a 25% weight in the S&P/TSX Composite index, Canada's stock market, and to a large degree our economic health, is tied to the energy sector. Currently, North America's system of pipelines and transportation options for moving Canadian oil and gas from production fields to end markets is fraught with delays, bottlenecks and a lack of infrastructure support. This is causing significant oil price differentials for Canadian-sourced oil, limits our access to markets within the continent, and in the case of natural gas, limits our ability to access new and emerging markets outside of North America. Adaptations are taking place and rail has emerged as an alternative mode for transporting oil, and will likely continue to be a good option for smaller companies in need of greater transportation flexibility. Regardless of views towards meeting the world's energy demands, providing sustainable, reliable ways to get energy to meet the demands of more markets will profoundly affect Canada's economic future.

<u>Less central bank intervention</u>

Global central bank actions have been centre stage in virtually every economic discussion over the past number of years. Less central bank intervention will change the capital market picture as much for what it will do, as for what it will symbolize. When economies are healthy and functioning well, central banks don't need to apply extreme measures such as quantitative easing and creating artificially low borrowing rates. Moving toward a normalized interest rate environment, while in the short-term will create a head-wind for bond holders, will eventually reward these money lenders with higher yields. Likewise, equity investors will find greater opportunities to capitalize on an improved economic environment.

<u>Peace on earth</u>

More than just a holiday card greeting, and at the risk of sounding utopian, peaceful resolutions to political conflicts can create additional economic opportunities across the globe. Lifted sanctions mean countries (take the recent example of Iran) may be able to reengage in the world economy. In turn, these advancements can open up trade markets and access to young and growing consumer populations. Moreover, investors simply don't respond well to instability, and geopolitical risks have long been a source of significant market volatility. Finding peaceful resolutions to conflicts among nations has the potential to be a game changer. The positive effects for humanitarian, political, economic and capital market interests for generations to come cannot be under-estimated.

HAPPY HOLIDAYS!

We talk a lot about numbers, but we never forget that we are in a people business. It is your support and loyalty that drive us, inspire us and energize us to be a leading Canadian asset management firm. So from all of us at GLC, we wish to take this opportunity to sincerely thank you for your support and loyalty. May your holiday season be bright and merry, and your New Year be full of rewarding experiences.