

Market Matters

FEBRUARY 2014 HIGHLIGHTS

- Severe winter weather has been a negative influence on recent North American economic data. However, with an eye to spring's thaw, investors looked past the weaker than expected weather-influenced economic data.
- Equity markets made significant gains, with the developed markets leading the way.
- Overall, U.S. fourth quarter corporate earnings beat estimates. Corporate balance sheets look strong, though more is to be desired from top line revenue growth.
- Oil and gold prices rose substantially as geopolitical tensions in emerging markets grew.
 - Global growth concerns (noting weaker U.S. economic data) and gold bullion's traditional safe-haven attributes helped extend the shiny metal's rebound.
 - Cold weather and potential supply disruptions helped support a higher oil price.
- Bond markets rose only slightly, with corporate bonds and longer-term bonds performing best and hanging on to the significant gains accumulated in January.

ENOUGH WITH WINTER!

From cold snaps, to ice storms, to heaps and heaps of snow, the novelty of a great Canadian winter is waning fast.

The record-breaking winter has run roughshod on our commutes, our heating bills, our fashion sense (consider Joe Namath's 2014 Super Bowl outfit) and our economic data. Lest we forget that economics is as much the study of human behaviour as it is the fiscal functioning of a nation. Consider the weather-related disruptions to industries such as entertainment and retail as we nest in the warmth of our homes rather than brave the elements. Who among us has not contemplated a night out with dinner and a movie, only to quickly dismiss the thought because it would involve another round of snow shoveling to get the car out, followed by the very real possibility of frostbite walking from the parking lot to the restaurant's front door. To name a few, housing, industrial production, employment, and retail sales data have all been slushy and weaker than anticipated.

Table 1
Summary of major market developments

Market returns*	February	YTD
S&P/TSX Composite	3.8%	4.3%
S&P 500	4.3%	0.6%
- in Canadian dollars	3.7%	4.6%
MSCI EAFE	3.5%	0.0%
- in Canadian dollars	4.8%	5.1%
MSCI Emerging Markets	2.0%	-2.6%
DEX Universe Bond Index**	0.3%	3.0%
BBB Corporate Index**	0.5%	3.5%

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

Table 2
Other price levels/change

	Level	February	YTD
CAD per USD exchange rate	\$0.904	0.6%	-4.0%
Oil (West Texas)*	\$102.59	5.2%	4.2%
Gold*	\$1,326	6.6%	10.0%
Reuters/Jefferies CRB Index*	\$302.43	6.8%	8.0%

*U.S. dollars

Table 3
Sector level results for the Canadian market

S&P/TSX Composite sector returns*	February	YTD
S&P/TSX Composite	3.8%	4.3%
Energy	3.9%	3.8%
Materials	6.4%	16.0%
Industrials	3.4%	2.4%
Consumer discretionary	1.4%	1.0%
Consumer staples	3.2%	4.9%
Health care	2.1%	20.7%
Financials	4.1%	0.3%
Information technology	3.6%	10.4%
Telecommunication services	0.1%	1.9%
Utilities	-0.1%	3.5%

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

LOOKING FORWARD TO SPRING'S THAW

For the most part, economic pundits (including the new Chairwoman of the U.S. Federal Reserve, Janet Yellen) suggest that the weak economic data is merely a weather-related anomaly that is expected to spring

back to pre-winter form in the coming months. That's certainly the impression the equity markets gave as well. Most major equity markets gained significant ground in February (see Table 1).

In Canada, broad gains were achieved across most sectors and in particular Canada's three major equity market sectors (see Table 3).

- Canada's big banks reported another round of solid quarterly earnings results providing a boost to the Financial sector.
- The Materials sector was helped by strength from the gold subsector. The gold bullion rebound from last year's lows was aided by weaker economic data raising concerns over global economic growth, as well as geopolitical unrest in emerging countries such as Venezuela, Libya and the Ukraine contributing to the 'flight to safety' trade.
- The Energy sector benefitted from the abnormally cold winter and supply disruption concerns for oil as geopolitical tensions rose in various emerging market regions. Consider that Russia is one of the world's largest oil producers and a very significant exporter to Europe.

The Financials, Materials and Energy sectors as a group account for greater than 70% of the S&P/TSX Composite weight.

In the U.S., whatever the market took away in January, it was promptly given back in February. The short-lived pull back on the S&P500 lasted only 11 days (January 15th to February 3rd) before regaining footing, helped by strong corporate earnings results. The S&P500 posted broad gains in February and went on to set another all-time closing high record.

Following January's largest monthly gain in five years, the Canadian bond index held on to the year-to-date gains with a 0.3% return in February (see Table 1). The modest move was led by long-term bonds, as well as corporate bonds which benefited from higher coupon levels, as well as a tightening of credit spreads during the month.

HOPING SALES HEAT UP

While overall the corporate financial results remain good news, economists are also looking for better sales results to boost economic growth and lower unemployment. Higher sales are needed to inspire higher production levels, which would inspire companies to hire more people, which would result in more people with more money to spend. Going forward, cost cutting measures to squeeze out better profit margins may not be enough to appease economic forecasters who are counting on companies to support the improvement in GDP and employment figures.

CLEARING A PATH

Going forward, markets will be impacted by factors that (even if familiar to us today) remain largely unpredictable and unquantifiable. For example, the degree to which the economic recovery has truly been affected by the harsh winter conditions is at best a guess until more data is revealed over the coming months. Likewise, the geopolitical outcome of the current stand-off between Russia, Ukraine and Western countries such as Canada and the U.S. is still days (hopefully not weeks and months) away. At the time of writing, political diplomacy appears to be working toward a peaceful resolution, and capital market reactions have remained muted. But these things are far from clear...far from predictable. We believe a well diversified investment portfolio - aligned with risk tolerances and varying by region and asset class - is the clearest path towards achieving your long-term financial goals, in an unpredictable world.

A LAST WORD ON ICE AND SNOW

Canadian athletes made us very proud in Sochi, Russia, and we look forward to watching more of Canada's best athletes compete in March's Sochi 2014 Paralympic Winter Games. Watching them excel on ice and snow is one thing about the winter of 2014 that we can't get tired of. Congratulations to all our Canadian athletes!

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