February 2018 Market Highlights:

- Market Indices experience wild ride with average correction - 10%
  - TSX recovers 1/2 of decline by month end
  - S&P500 recovers approx. 2/3rds of decline by month end
  - DJIA recovers approx. 2/3rds of decline by month end
- Canadian dollar continues retreat vs US dollar
- Oil price drops to $58 and rises back to $64
- NAFTA talks continue to weigh down TSX
- US economy is gathering steam; not losing it
- Global growth is gathering momentum
- Commodity prices in general grind higher
- Canada 3rd overall in Winter Olympic medal count (Norway 1st, Germany 2nd)

Portfolio Commentary

We took profits and crystallized losses in the portfolio seeing better opportunities to deploy cash. We felt it was time to cut ties with 2 laggards in the portfolio: Hudsons Bay Company and Cameco. While it wasn’t an easy decision we felt that the recent volatility presented a window of opportunity to redeploy this cash. Originally, we bought HBC for its real estate value, and anticipated the board’s decision to unlock this value. However, it became clear their intentions are to ‘save’ its retail presence by hiring new CEO Helena Foulkes. Although, she is regarded as Super Woman, we believe she has her work cut out for her and the share price likely won’t see any major turnaround within 24 months, hence we agreed to part ways.

Cameco too, has been a major disappointment, as the fundamentals in Uranium signal a much higher commodity price, but quarter after quarter this sector continues to defy reason.

We sold Alimentation Couche-Tard for a profit, and still believe in this story, but it has become harder to see a catalyst that will push the stock higher in the year ahead and given the numerous value created by the market correction we pulled the trigger. New to the portfolio is Manulife Financial Corp (MFC). You may recall we sold MetLife in January before its dramatic price drop, so picking up MFC after the market declined, both fulfills our Insurer position in the portfolio and gives us a good entry point for growth as the Insurers are poised to capitalize on the impending US rate increases. We are eager to add value with more interesting buys in March as information becomes available and the market weighs in on policy changes and trade talks.
Outlook:

- Canada’s GDP expected to barely break 2% in 2018
- The Fed more likely to deliver tightening than the Bank of Canada (BoC)
- BoC expected to move to the sidelines until second half
- Fed likely to move one-rate-hike-per-quarter starting in March
- Lack of fundamental change equates to another year of price gains for S&P 500
- Investors have become too negative
- Bull Case TSX: 19,000*
- Base Case TSX: 17,600*
- Bear Case TSX: 14,500*

*Source BMO Capital Markets