Portfolio Management Monthly Update

April 2018

Highlights

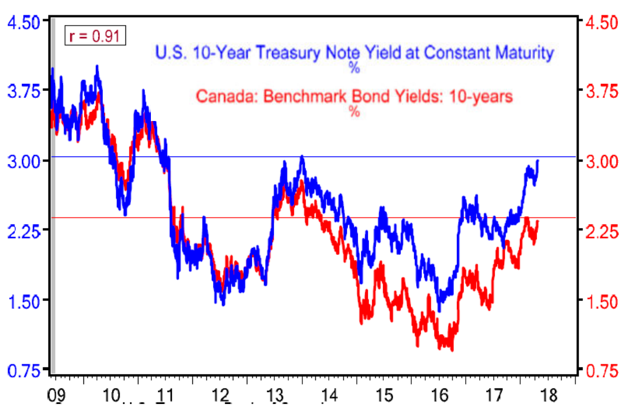
- **Energy finally helping the TSX**
- **Markets bottomed in Feb & are rallying with strong earnings**
- **Great technology earnings offsetting regulatory fears**

February to March looks like the Stock Market Bottom.

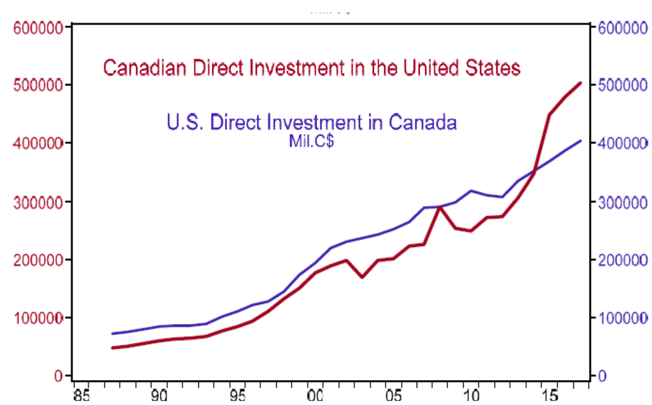
As we suggested last month, the market looks to have bottomed in February. The March pullback wasn't as severe & April is slightly better. With over half the S&P 500 constituents reporting Q1 earnings, the rate for Q1 hit 23.2%, better than the 11.3% expected, and if this figure holds, it will be the highest level since Q3'08. It is not just cost cutting anymore with 74% of firms beating revenue expectations. Energy has by far the most improved earnings, followed by financials, technology & materials. (Chapman, Paul, BMO Nesbitt Burns, Market April 30, 2018)

We don't expect higher Price Earnings multiples with rates creeping up, but earnings should drive the market higher this year. Robert Kavcic, senior economist at BMO Nesbitt Burns, summarizes this well: we're seeing valuations consolidate their aggressive run through 2017, and that's probably not a bad thing. Keep in mind that the forward price-to-earnings ratio entered the year at the highest level in roughly 15 years, juiced up on fiscal policy optimism, low inflation & widely-appealing narratives in the technology sector. Most sentiment measures were also flashing extremely bullish. While earnings growth has held firm, the narrative has changed somewhat—think budget deficit reality, trade spats and Washington zeroing in on the tech sector. As such, the forward p/e on the S&P 500 is down almost two full multiple points since the start of the year. Inflation has also firmed and, while hardly breaking out, core March CPI pushed back above 2%, reinforcing the view that the Federal Reserve will continue raising rates. This combined with the Fed winding down, bond purchases will keep a lid on valuations. *(Kavcic, Robert, BMO Capital Markets Economics, April 26, BMO 2017)*

The Canadian market & dollar are acting better, with higher oil prices & a better tone to the NAFTA talks, but the following charts illustrate more structural reasons why the US is outperforming Canada.



This chart illustrates much higher interest rates in the US vs Canada, further fueling the stronger US dollar. *Source: U.S Treasury, Bank of Canada*



Canadians are investing much more in the US than Americans are investing here. The $100 Billion gap is the widest on record. Source: Statistics Canada/Haver Analytics

Portfolio Management

Canadian energy stocks are finally starting to reflect the big run up in oil prices. We added to some energy stocks & aggressively added to the Vertex Value fund which holds a large position in small energy companies and is paying off nicely. We do see a further rally in energy as the Saudis restrict supply heading into the partial sale of their state oil company Aramco this summer.

Given the market's intense focus on earnings stock picking is increasingly important. Our non-index style fund managers such as Pender Growth Fund should continue to shine.

We do not see the usual seasonal weakness in May & June, due to the February March sell off. Our sector favourites continue to be consumer discretionary, technology (especially on recent weakness) & financials which didn't rally despite great earnings & a very favourable backdrop.

We have found some good return of capital bond funds which treat interest as capital gains for conservative taxable accounts and are performing due diligence on a number of hedge funds for medium risk exposure.