RICHARDSON GMP

MCIVER CAPITAL MANAGEMENT

What You Need to Know

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Indecisive Market Direction

This year continues to display uncertainty and indecisiveness for global equity markets as investors grapple with slowing global growth against the conviction of global central banks to support equity markets through expanded monetary stimulus. The latest example is the Bank of Japan's move to implement negative interest rates on January 29th in order to encourage its citizens to spend and its banks to increase lending. Equity markets remained volatile in February. Volatility may be ideal for day traders, but can be emotionally draining for long-term investors. In this type of environment, it is very important to stick to the plan and focus on risk management and diversification.

After a January month-end rally for the S&P 500, we witnessed a quick pullback and retest of the January low in mid-February before rallying again. The good news is the retest of the January low, which coincides with longer term support, held up as buyers came in to take advantage of lower prices and valuations. The bad news is it's still too early to declare that we are out of the woods. Although as of this writing, North American equity markets are attempting to put together a more significant rally beyond the January highs. Overall, we can likely expect markets to remain choppy for some time.

Despite the negative performance of equities, gold has performed exceptionally well this year as investors bought into the safe-haven asset amid uncertainty. Gold is up about 17% year-to-date, rallying from $1,060/ounce to $1,240/ounce, and has acted as a good shock absorber in the model portfolios. Furthermore, oil prices appear to be stabilizing, trading at around $34 as it attempts to find a sustainable bottom. Energy stocks are also holding up quite well even as oil traded down to about $26 in mid-February. The rally in gold and energy stocks has helped the TSX become the best performing developed equity market year-to-date. Although the TSX is still down about 1% this year, it is fairing much better than other developed equity markets.

The Canadian dollar has also rallied from a low of $0.68 in mid-January to about $0.74 recently against the U.S. dollar. However, we view this run-up as more of a counter-trend rally rather than a trend change. Longer term, the impact of lower oil prices and a slowing Canadian economy will likely keep the Canadian dollar's upside potential limited.

Have a great week!

Ethan

Consistently Working In Our Clients' Best Interest