

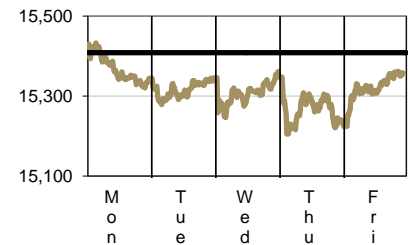
Upturn in Global Growth?

It was an eventful week with a plethora of economic data and companies reporting earnings. So far, 360 of the S&P500 companies have reported first quarter results. Aggregate earnings growth has been +2.2% and sales are down -4.1%. However, almost all of the weakness has come from the Energy sector while nine out of ten sectors have seen positive earnings growth, most notably from Health Care and Consumer Discretionary names. Top line growth has been a bit of a mixed bag, with Materials adding to the weakness. Demand from emerging markets, particularly China weakened in the quarter. However, that trend has reversed this month with the Bloomberg Commodity Index rising over 5% in April. One of the main reasons for the rise has been China PMI data expanding for a second straight month. This has been a boon for base metals, copper is up nearly 5% just this week.

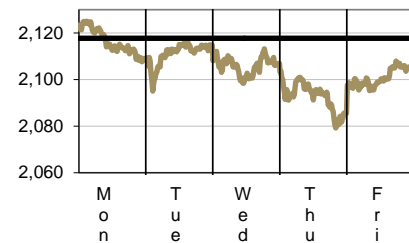
Another reason behind the rise in commodities has been the falling U.S. dollar. The DXY index is roughly 5% off the recent highs. The DXY measures the dollar's move against a value-weighted basket of other currencies, the largest of which is the Euro. This week's gain for the Euro versus the dollar is the biggest in three and half years. Supporting the increase was inflation data that surprised the market showing the ECB's bond buying program is taking effect. Adding to the dollar weakness has been a slew of soft economic data out of the U.S., pushing out expectations of a rate hike. The FOMC concluded their scheduled two-day meeting this week and none of the rhetoric released from their statement implied they are any closer to raising rates.

Underpinning the weak economic data out of the U.S. was the release of first quarter GDP on Wednesday, which came in at 0.2%, notably weaker than the expected 1%. Harsh winter weather and hold ups at west coast ports added to the impact of decreased spending from the energy sector. Corporate spending decreased at a 2.5% annualized rate, the worst rate since 2009. However, the majority of the decline can be attributed to spending on oil wells and mines, which fell by 49%. The strong dollar was the other factor weighing on growth. The commerce department estimates that decreased trade accounted for -1.25% of growth. The bright spot was consumer spending which rose 1.9%. While this does not match the 4.4% last quarter, demand should pick up as the weather warms up, employment continues to improve and gas prices stay suppressed.

TSX COMPOSITE



S&P 500



Source: Bloomberg, Richardson GMP Limited

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Market Cycle Update – Encouraging Signs

We published many of our Market Cycle indicators that feed into our asset allocation work and tactical recommendations. The good news is the preponderance of the evidence continues to indicate we are in the very early stages of the Late Bull phase of the cycle. Which means likely more upside. Market technicals and monetary rates remain supportive. While the U.S. economic data has slowed a bit, we noted a significant improvement in many of our global economic indicators. Valuations are elevated while margins and corporate health remain very positive. It's never a slam dunk, but this does appear well balanced for a continuation of this bull market. Full Report [HERE](#). Below we share a few of the global indicators that go into our asset allocation work.

Upturn in Global Growth?

The global economy, in aggregate, has been a bit of a disappointment during the past few years. After the big recession (2008/09), we experienced strong global growth but this slowed during 2012-2014 averaging a paltry 2.1% (top chart). All were to blame to varying degrees and time periods from the U.S., Europe, Japan and developing economies. But we may be on the verge of an uptick in global GDP growth and that has some big implications.

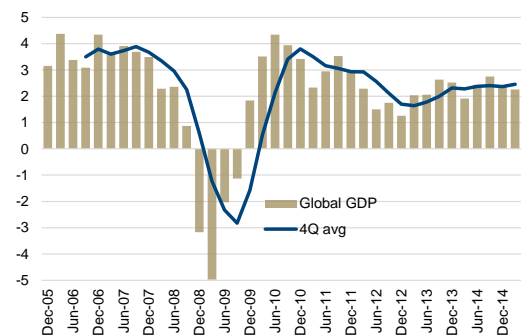
First the narrative version. There are two big factors applying upward pressure to economic growth, and these may be starting to show through in the numbers and activity. The drop in oil prices from \$100 to \$50-60 is clearly a boost for most economies. Everyone of course has been talking about this. But this kind of pressure builds with time or there is a lag through which we may have passed. The other biggie is the U.S. dollar and economy. The U.S. economy has been doing better, including the consumer. However, the spike in the U.S. dollar over the past year or so against most other currencies has the equivalent of the U.S. exporting some of their growth around the world. It is very nice of them. Decent U.S. consumption growth combined with a strong U.S. dollar gives a boost to imports and reduces the competitiveness of exports. Both benefit international economic growth.

Now for some indicators. Global economic data is problematic. Ignoring the differences on how each country compiles their data, it is very lagging as it is sharing what happened months ago. Of course there are consensus estimates for each economy and we do look at the change in these numbers. Chart 2 shows estimates for emerging economies over the past 3 months have stabilized which is a good sign and a change from the downward trend over the past few years. But it is no secret that forecasts tend to be very rosy, then get ratcheted down as the projection becomes closer. This has us focusing on more timely indicators.

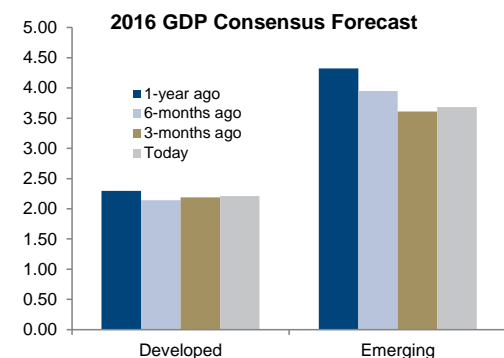
In our asset allocation work focused on getting a read on the global economy we tend to rely on a number of key commodities along with other potential leading or coincidental indicators. Commodities, including oil and copper, are consumed on such a widespread basis, price declines may be indicative of softening demand. Softening demand meaning less global economic activity. While the drop in oil over the past year is more a supply story, there is little doubt that demand growth slowed as well. And while copper and oil are still down, they are both starting to rise, even adjusted for currency. So we would say these are still negative for the global economy but starting to show signs of improvement.

We also track freight costs, Global Purchasing Manager surveys (chart 3) and the price action in emerging market indices (EM). EM have been doing better, and we would pay close attention to the Korean index (KOSPI). Given the composition of their market and proximity between Japan and China, the KOSPI has long been viewed as an early indicator for global trade flows and economic activity. All of these indicators are positive for the global economy.

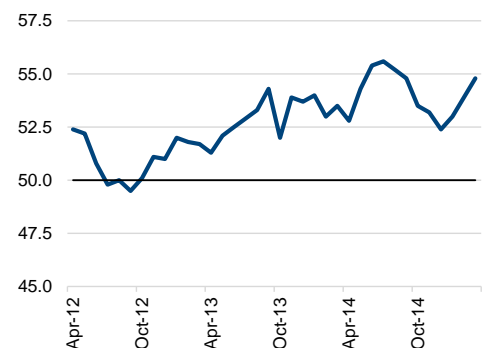
Global GDP has remained muted over the past few years



Emerging market GDP forecasts have stabilized and even rose a little



Global Purchasing Manager's data on the rise



Source: Richardson GMP, Bloomberg

If the global economy is improving, that certainly has some positive implications for the TSX. While certainly diversified, our market still has a very healthy (or sometimes unhealthy) resource weighting.

Chart of the Week

The return of global growth expectations can be seen quite apparently in the global bond market. Over the past couple of weeks, global bonds have undergone quite a large sell-off. In just ten days, the yield on the German 10-year Bund has risen from a low of 0.073% to a high of 0.367%. While the absolute yield is still quite low when compared to other countries, the over 400% gain is impressive, and has caught most on the Street by surprise. On the longer end, this sell-off is even more evident, the U.S. long bond ETF TLT is off over 15% from its highs.

Explanations for the bond sell-off are streaming off the television and in the financial pages. The go-to answers are a lessening of deflation fears, the global economic growth, as well as the lowering probability of potential tail risks.

There are other market related reasons why yields have spiked higher, specifically for the Euro area bonds. The movement of some pretty large positions could certainly be shaping the markets with bond market liquidity much lower than it used to be, as banks across the globe have exited their market making role and the ECB picking up much of the excess supply.

There is also the potential that bond traders are playing the 'me too' trade after Bill Gross went public saying that shorting European debt is the trade of a lifetime. This is certainly true if you're able to put your trade in, then tweet it out to your loyal following. Looks like Bill Gross might very well have his own *effect* much like the Warren Buffett.

At some point, we have to question whether or not government bonds with such low yields alter their risk-return profile. When 10-year bonds are flirting with negative territory, you have to believe that the downside potential of the bond price outweighs an almost nil interest.

It is interesting to note that Japanese bonds have been relatively calm over the past few weeks, still sitting at low yields. They have been trading in a relatively tight range this year and have been somewhat immune to a widening spread with European bonds. The same cannot be said for U.S. bonds which had yields fall almost in unison with Europe.

From a silver lining to rays of sunshine, European growth and economic recovery is becoming very real. Sentiment has swung to a positive note in Europe despite equities selling off and a Greek announcement likely to be made next week. Funny enough this swing in sentiment seemed to coincide with the removal of Greek Finance Minister Yanis Varoufakis from the negotiation table. He was increasingly seen as a polarizing figure who was doing more harm than good in the negotiating process. There are a few dark clouds in the sky such as Greece and the worrisome Q1 U.S. GDP print, but clearer skies and higher yields may be ahead in the summer months.

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