Angas Shick Group
PRIVATE WEALTH COUNSEL

Investment Commentary

2016 – A Year of Change

The year started out with equity markets on the decline and bond markets on the rise. With the rebound in oil prices, a Trump victory in the US presidential election and a return to increasing interest rates, bonds have sold off bringing an end to the decade long bull market and equity markets have strengthened both in Canada and US.

Everyone thought that a Trump administration would bring about negative markets, volatility and uncertainty but so far, we have witnessed the complete opposite. The US economy is grinding higher with extremely low unemployment bringing about a return of inflation. We are also experiencing a narrowing in the economic output gap which is causing upward pressure on wage inflation. Last week, The US Fed increased interest rates for the first time in a year which was largely expected however the tone was more hawkish as Janet Yellen hinted on three wage increases next year versus the two that were expected. Markets are continuing higher as is the US dollar.

We are now focusing on the investment implications of rising inflation and the potential for US fiscal spending to boost near-term economic growth. It is difficult to determine exactly where we are in the business cycle given the extraordinary support from central banks but there are indications that we have entered into a late-cycle expansion favoring energy, materials, industrials and technology.

We have shifted positions in our models to those with a more growth oriented bias including companies that have a history of increasing their dividends. We have exposure to the technology sector with Open Text and CGI Group and have added two industrials; WSP Global Inc. and Exchange Income Fund. We believe a Trump administration will bode well for pipelines and energy and we are maintaining our current exposure to these sectors with TransCanada, Enbridge, Suncor, and Parkland Fuel which we have recently added. We have also added Franco-Nevada to the portfolio. Although gold producers typically benefit from inflation, the near term performance has been disappointing due to the stronger US$ and backup in longer yields. We believe this is short term and have added this position as a hedge against mounting inflationary pressures. The model was held back this year by its global exposure but we expect this to change next year with Canada's economy most likely underperforming U.S. and other countries.

The effect of rising interest rates is lower bond prices. As a result, we have been holding some of our fixed income allocation in cash to offset this risk and will reduce our weighting in favour of equities. We believe that the equity markets will remain positive over the next 12 months and while interest rates may rise, we expect it will be very gradual.

As mentioned earlier, the initial thought on the night of the election was that a Trump administration would be bad for the equity markets. This has not proven to be the case, at least so far. Much of his rhetoric on immigration and trade in our opinion will be toned down and economic activity will continue to accelerate. This does not rule out the prospect of short term corrections which are part of rising markets but we would simply use these pullbacks, as a buying opportunity, if and when they do occur.

As we come to the end of another year, we would like to thank you for the opportunity of serving you as our client and also for the trust you have placed in us as your advisors. Our investment philosophy is predicated on the fundamental principle of do no harm and we remain committed to a best interest fiduciary standard of care in serving you.

We have attached a recent commentary from our investment group which we thought was a fun way to end the year and we hope you find it amusing!

We extend our very best wishes to you and your family during this holiday season and for a happy, healthy and prosperous new year ahead.