Angas Shick Group
PRIVATE WEALTH COUNSEL

Investment Commentary

1st Quarter 2017 – The Momentum Continues

Summary

Global markets continue to gain strength with the MSCI-EAFI up 6.5%, the US market (S&P500) up 5.5% and Canada (S&P/TSX) up 1.7% for the quarter.

Market sentiment in the US remains positive since the elections last November and the economic data has been mostly supportive. The market is anticipating a shift in fiscal spending policies that will act as a catalyst for further growth as well. Although these measures are not so easily passed into law as we have witnessed recently with the delay in promised tax reforms, the lack of any news on infrastructure spending, and the failure to repeal Obamacare, the market reaction was neutral. This leads us to believe that as long as there is hope for these fiscal measures, sentiment will remain positive.

Central bankers have also been supportive and as the global economy continues to improve, they will become less and less accommodative in terms of maintaining their bias of low interest rates and bond purchases (quantitative easing in Europe).

Given the positive sentiment and economic momentum, we anticipate both markets to be higher at the end of the year.

Model performance

Our Canadian Growth model portfolio is up approximately 3.8% and the US Growth model is up approximately 10.8% in the first quarter. Our Canadian Balanced model with its current asset mix of 30% cash and fixed income, 35% Canadian equity exposure, and 35% US and International equity exposure is up approximately 4.5%.

Our Canadian models outperformed the general market primarily due to our sector weighting with the strongest performance in order of contribution being information technology, consumer discretionary, utilities and materials.

Our stock selection also contributed to this outperformance.

Contributors

The largest individual contributors were Enercare, Northwest Company, Open Text, Franco-Nevada and Milestone REIT which was recently bought out by Starwood Capital Group for an approximate 18% premium.

Detractors

The two detractors were Exchange Income Fund and CI Financial but we continue to like both these positions because of their attractive dividend and attractive upside potential.

Dividend Increases

Six positions in our model announced a dividend increase; BCE, Canadian Natural Resources, Enbridge, North West Company, Parkway Fuel and Suncor.

Trades

During the quarter, we sold CGI Group to realize profits and Milestone REIT prior to the mandatory takeover. We added CI Financial (a bit early as it turned out) and Shawcor due to their attractive valuations and dividend potential.

We also rebalanced our fixed income component by adding the PIMCO Monthly Income Fund and Horizon Active Preferred Share ETF.

As there is little yield available in Canadian bonds and pricing continues to be unattractive for investors, we are forced to add global bonds and look at different credit qualities. This is why we chose PIMCO which is a fixed income only investment firm with an incredibly strong risk-adjusted performance track record.

Horizon Active Preferred Share ETF is an active exchange traded fund managed by Fiera Capital which has been very successful in the preferred share space. These investments are just coming off lows and should react well in an increasing interest rate environment. They are also very tax efficient.

What's next?

Canadian economic activity has been very solid in recent months, Canadian housing has been strong (new rules in place may slow this down), employment data has improved and consumption growth remains robust. The energy sector was the largest drag on the index as it slipped 6.2% during the quarter but we believe this sector is near the bottom and will contribute positively over the remainder of the year.

The S&P/TSX consensus target is 17.500 for the year implying a return of approximately 15% at the time of writing. Most year-end targets for the US markets have already been met indicating that most of the easy money has been made in the US and also the market may be fairly valued.

We have not changed our asset allocation much as we believe both the Canadian and global markets will contribute to performance. We have made only a very small shift out of US markets in favour of International markets and may look to increase this exposure if progress towards tax policy changes and infrastructure spending in the US are delayed.

Investors will now turn their attention to earnings season and we will be watching closely!