Angas Shick Group
PRIVATE WEALTH COUNSEL

Investment Commentary Summer 2017

Summary

The second quarter was disappointing for the average Canadian equity investor as our market lagged compared to its developed country peers. The performance of almost every sector other than the “big three” (financials, energy and materials) was positive so if the portfolio was overweight these sectors and underweight to the “big three”, as our model is, it would have experienced a positive performance.

Political risks and uncertainty continued to grab the headlines but despite this uncertainty the US and other global markets were able to look past the lingering possibilities that Congress may fail to enact the pro-growth agenda that was promised on election day. The market only has very recently experienced a downturn due to the North Korea missile talks. Globally purchasing managers’ indices (PMI) continue to point to steady growth and the latest earning season results were very favorable with over 70% of companies beating consensus earnings and revenues.

The Bank of Canada (BoC) increased the interest rate in July and offered a more hawkish view. In fact we observed subtle shifts from the ECB, BoE, BoC and Fed in what seemed to be a coordinated effort to remove monetary stimulus.

Model Performance

Our Canadian stock model portfolio is up approx. 4.0% year-to-date and the balanced portfolio which consists of 5% cash, 25% fixed income, 35% Canadian exposure and 30% foreign exposure is up 5.2% for the same time period. The Canadian benchmark was flat for the same time period. Our Canadian model outperformed the general market due to sector weighting and stock selection. The strongest performance in order of contribution was: consumer discretionary, real estate and industrials. Corus Entertainment, CN Rail, Pure Industrial and Enercare were strong contributors to the portfolio. The detractors came from financials and energy and include Suncor, Shawcor, and to some extent Enbridge. Exchange Income Corporation was affected negatively by reports of short selling. Our analysis does indicate that there is enough cash flow to cover the very attractive dividend but we are watching this position closely. In July we were vindicated somewhat by our oil positions as the price of crude increased and the oil stocks experienced some appreciation.

The portfolio again benefited from our increased exposure to global markets. Our position in Dynamic Power Global Fund benefited the portfolio as it experienced a significant out performance due to its position in technology. The positon in CI Global Black Global Leaders also significantly contributed to the portfolio due to its exposure in global (ex US) markets.

The positions we added to fixed income including PIMCO Monthly Income fund and Horizon Active Preferred Share ETF both had good quarterly performances and were properly positioned for increasing interest rates.

Trades

During the quarter, we sold TransCanada at a profit to reduce the exposure to pipeline utilities which is very sensitive to interest rate increases. We took profits in Parkland Fuel as they completed a large acquisition and we believe the earnings of the company will not be as robust as in the past due to the cost of integration. We added CI Financial and Canadian Natural Resources to increase the exposure of securities that benefit from rising interest rates and in anticipation for higher oil prices.

There have been 13 increases to dividends in the last quarter.

What’s Next?

As earnings have been quite robust and both Canadian and US leading economic indicators are pointing to a reacceleration in the second half we are constructive on the market for the next six months. The probability of a US led recession is very low. Businesses are making a comeback after several years of restraint, the consumer also remains healthy and the job markets point to ongoing strength for consumer spending. The euro area and emerging markets have been the bright spots this year with the recovery broadening across both sectors and countries. China’s economy remains in healthy shape even as policy makers push to reign-in excessive credit growth and attempt to repatriate revenues. We have maintained our global exposure due to expected future performance from these markets. We expect Canada will experience a better second half due to its current valuation and to the expectation that the BoC will walk a fine line between tightening monetary policy and maintaining the existing accommodative policy to ensure it does not cause a recession.

Despite the increase in global political tensions lately which could lead to a short-lived downturn, earnings growth and consumer spending support current markets and there is growing strength in both of these areas.

As always, summer seems to pass by very quickly. We hope you have been able to enjoy some time with friends and family in the sunshine and we hope there is more sunshine to embrace in the next couple of few weeks!