RAYMOND JAMES | Angas Shick Group
PRIVATE WEALTH COUNSEL

Investment Commentary - Winter 2018

Summary

2017 ended well for investors with the Canadian total return index (S&P/TSX Composite TR) up 9.1% and the US total return index (S&P500 TR) up 21.8%.

All Canadian sectors had positive performance for the year except energy. Although we anticipated that commodities would have a good year last year and they did, share prices failed to keep pace with the advance. Crude prices rose 15.5% as an example while energy sector stocks declined 7%.

The Canadian economy grew by approximately 3% last year driven mostly by the heavily indebted household segments. This stronger than expected GDP growth led the Bank of Canada to raise interest rates resulting in higher long bond yields and a stronger dollar.

US economic activity remains strong and with the introduction of more fiscal stimulus by way of the recently announced accommodative tax policies, we expect the growth to continue.

The global economy continues to be impressive with manufacturing growth firmly above long term averages. Most global equity markets registered healthy results in the fourth quarter of 2017, capping off a strong showing for the year as they responded to encouraging economic data, low interest rates, tepid inflation and expanding corporate activity.

The MSCI World Index, which measures equity results in 23 developed markets around the world, added 5.6% in U.S. dollar terms for the quarter, and an impressive 23.1% for the year.
The S&P 500 Index, a broad measure of U.S. stocks, was up

about 6.6% for the quarter, and finished with a solid increase of 21.8% for the year. Overseas equities also performed well, and were generally up for the quarter and 12-month periods. Emerging markets strongly outperformed through 2017, with the MSCI Emerging Markets Index adding 37.8% for the 12 months in U.S. dollars.

Model performance

Our Canadian Dividend Equity Model Portfolio outperformed S&P/TSX Composite Index TR Index with a total return of 9.4% for the calendar year and the Balanced Growth portfolio which consists of 5% cash, 20% fixed income, 40% Canadian equity and 35% foreign equity was up 8% for the year.

During the month of December, 7 out of the 11 sectors comprising the index contributed positively led by energy, real estate, industrials and health care. The best performing stocks were Dream Global REIT, Suncor, Open Text and CNR. The worst performing stock for the month was North West Company that reported a mixed quarter impacted by hurricane-related store closures in the U.S.

The portfolio continues to benefit from our exposure to the global markets with Black Creek Global Leaders Fund, the newly added Fiera Capita Global Equity Fund, and the other global funds and ETFs which have all outperformed their peers. These include the Dynamic Power Global Growth Fund which was up 53% for the year mostly from its exposure to the emerging markets and technology.

Trades

During the quarter, we sold Corus Entertainment due to declining revenues and concerns about a dividend cut and added Dream Global REIT which pays an attractive yield of 6.6% and is up 10% since we acquired it.

We also added Dynamic Credit Absolute Return Fund to hedge the fixed income portfolio against rising interest rates.

Dividend Increases

During the last quarter, dividend payout increases were announced by BCE, Emera, Fortis, Royal B and Sun Life.

What’s next?

The Canadian economy is linked to the global economy which is forecasted to grow by 3.7% in 2018. This is positive for Canada however the risks associated with the Canadian housing market and the impact of higher interest rates on domestic consumption growth will have to be closely monitored as they could derail any expansion in the overall economy.

We believe the US economy will continue to chug along at a moderate pace and we do not see a recession on the horizon. We expect corporate earnings to improve in 2018 and we also expect consumer spending to remain healthy due to continues job growth and strong manufacturing activity.

Today’s valuations may be slightly higher than long term averages but they are well within normal rage considering the current level of inflation and interest rates. This certainly does not eliminate the possibility of a pullback from either these slightly over-stretched share price valuations. There are several factors that could negatively impact investor sentiment. These include geopolitical uncertainty, the continuing unwinding of the quantitative easing programs of the global central banks and the geopolitical grid lock in Washington. Since any such pullback would not be triggered by any economic crisis or from building recessionary pressures, it would be very short lived in our opinion.

In closing, we would like to thank you for the opportunity of serving you as our valued clients.

We will be contacting you shortly for an annual review but please call us in the meantime if you have any questions about your portfolio or on any other matters regarding your account.

Angas Shick Group PRIVATE WEALTH COUNSEL | RAYMOND JAMES

Linda Shick
Senior Vice President, Portfolio Manager
T: 416.777.7109
F: 416.777.7020
TF: 1.877.363.1024
linda.shick@raymondjames.ca
http://www.raymondjames.ca/angasandshick

David J. Angas
Senior Vice President, Financial Advisor
T: 416-777-7110
F: 416-777-7020
david.angas@raymondjames.ca
www.raymondjames.ca/angasandshick

CJ Angas
Associate Financial Advisor
T: 416.777.7163
F: 416.777.7020
TF: 1.877.363.1024
cj.angas@raymondjames.ca
http://www.raymondjames.ca/angasandshick