2016 1st Quarter – Economic & Market Commentary

April 15, 2016

World capital markets were unsettled in the first quarter of 2016, with stocks prices exhibiting heightened volatility, selling off through January and February before recovering in March. While markets were initially affected by the familiar themes of slow global growth, low commodity prices and uncertainty over monetary policy, investors gained confidence as the quarter progressed.

Here at home, Canada's S&P/TSX Composite Index offered a bright spot among global markets. The index gained 4.5% including dividends, as oil rallied strongly into the end of the quarter after dipping to multi-year lows in mid-February. The S&P 500 Index in the U.S. posted a modest gain of 1.4%, which translated to a loss of 5.0% in Canadian dollars as the loonie appreciated 6.7% in value in Q1 relative to its U.S. counterpart.

The MSCI World Index finished the quarter nearly flat with a return of -0.2% in U.S. dollars (or -6.5% in Canadian dollars), with results for local markets varying widely. Stock markets in Europe, Japan and China, for example, were mostly down for the quarter despite central banks' efforts to boost liquidity and keep borrowing rates low, while others including Taiwan and South Korea made small gains. Stock markets in Latin American countries such as Brazil, among the worst performers in 2015, rallied from their lows to post strong increases.

Bond markets, meanwhile, finished the first quarter with mainly positive results. In the U.S., economic data remained encouraging, with strong employment numbers, moderate inflation and a rebounding housing sector. But after announcing its first interest rate increase in nearly a decade in December, the U.S. Federal Reserve sounded a cautious note and left rates unchanged in the first quarter, citing risks including sluggish global growth. Overseas, several other central banks introduced measures to stimulate their economies during the quarter, including negative interest rates by the Bank of Japan, key rate cuts by the European Central Bank and policies to encourage lending in China. These actions, along with muted inflation, helped to drive yields for longer-maturity government bonds lower throughout the period.

The Bank of Canada also left rates unchanged in the first quarter as the Canadian economy defied expectations to post a broad-based 0.6% GDP increase in January, its best month since mid-2013. The FTSE TMX Canada Universe Bond Index, a measure of Canadian government and investment-grade corporate bonds, returned 1.4% for the three-month period.

Overall, global capital markets have exhibited some volatility over the past few quarters, and we expect that this may continue to be the case during 2016. Nevertheless, conditions that support the expansion of the global economy and individual businesses, including low inflation and low interest rates, continue to remain in place. This creates a nice environment for our experienced and well prepared money managers to find quality and value on our behalf. Despite working in a challenging environment, the money managers we are working with have done an outstanding job protecting investment capital. The investment philosophy and processes they employ continues to serve us as well as they have in the past which allows us to keep our eye on the horizon and stay true to a sound, diversified investment plan, which is the best course of action that serves our best interests in the long term.

In closing, I would like to remind you that I am always here to help. Should you have any questions about your investments, please contact me at the office and I would be happy to discuss them with you.

Sincerely,

Brian Golly
Smart Investing Solutions Inc.

The information in this letter is derived from various sources, including CI Investments, Signature Global Asset Management, Cambridge Global Asset Management, Globe and Mail, National Post, Financial Times of London, Bloomberg, Yahoo Canada Finance, and Trading Economics. Index information was provided by TD Newcrest and PC Bond, and all quoted equity index returns are on a total return basis (including dividends). This material is provided for general information and is subject to change without notice. Every effort has been made to compile this material from reliable sources; however, no warranty can be made as to its accuracy or completeness. Before acting on any of the above, please contact me for individual financial advice based on your personal circumstances.