

Market Matters

FEBRUARY 2016 HIGHLIGHTS

- February's market volatility incited a flight to quality, driving up the demand for safe haven assets such as gold and higher-quality bonds.
 - Gold prices rose over 10% in the month.
 - 10 year Government of Canada bonds ended the month yielding 1.19% (down just a few basis points), but had swooned to an all-time record low of 0.9% during the month.
 - Long-dated government bonds did best within fixed-income markets.
- By mid-month global markets found reason for a more hopeful outlook.
 - Talks among oil-producing nations raised hope of reduced production output and support for higher prices.
 - Economic results in Canada and the US came in ahead of expectations.
- Within the Canadian equity market, the Materials sector led the way as gold prices lifted the fortunes of Canada's gold companies. Unfortunately, the Health Care and Financial sector results offset the gains.
- Within Canada's Health Care sector it was company specific news that drove the sector down (Valeant Pharmaceuticals), while the Financial sector continues to be weighed down with global concerns over the financial outlook for banks within the prolonged ultra-low interest rate environment.

MID-MONTH RALLY

February equity markets in particular didn't start off looking very good, but fortunately much of the losses were offset by a mid-month rally.

US markets seemed to find stable ground in the latter half of the month further to some reassuring economic data, including a meaningful improvement in durable and capital goods orders along with continued strength in the US housing market. The turn-around helped offset much of the losses from earlier in the month, though the S&P500 still remains down so far this year. The US dollar also gave up some strength, diminishing US investment results for foreign investors.

Relative to its large industrialized peers, Canada is looking better this year. Stronger Canadian results have come with significant credit owing to the strong rise of gold prices and the resulting stock price lift for Canada's gold companies.

Market returns*	February	YTD
S&P/TSX Composite	0.3%	-1.1%
S&P 500	-0.4%	-5.5%
- in Canadian dollars	-4.0%	-7.5%
MSCI EAFE	-3.8%	-9.5%
- in Canadian dollars	-5.6%	-11.1%
MSCI Emerging Markets	0.0%	-5.3%
FTSE TMX Canada Universe Bond Index**	0.2%	0.6%
FTSE TMX Canada all corporate bond index**	-0.1%	-0.1%

*Local currency (unless specified); price only
 **Total return, Canadian bonds

	Level	February	YTD
CAD per USD exchange rate	\$0.738	3.2%	2.2%
Oil (West Texas)*	\$33.75	0.4%	-8.9%
Gold*	\$1,232	10.3%	16.0%
Reuters/Jefferies CRB Index*	\$163.22	-2.1%	-7.3%

*U.S. dollars

S&P/TSX Composite sector returns*	February	YTD
S&P/TSX Composite	0.3%	-1.1%
Energy	-1.5%	-1.1%
Materials	17.8%	15.5%
Industrials	1.4%	-1.8%
Consumer discretionary	3.2%	-3.5%
Consumer staples	3.8%	5.7%
Health care	-23.3%	-30.4%
Financials	-2.6%	-4.2%
Information technology	0.9%	-2.7%
Telecommunication services	3.3%	6.9%
Utilities	-5.2%	0.3%

*Price only
 Source: Bloomberg, MSCI Barra, NB Financial, FTSE TMX Global Debt Capital Markets Inc.

Other notable market movers on the Canadian market included the Health Care sector and the Financial sector (banking in particular).

A stock specific story: Canada's Health Care sector continues to be weighed down by its largest constituent – Valeant Pharmaceuticals. Valeant's share price dropped sharply amid ongoing turmoil over its delayed financial results, its leader's health (the CEO just returned from a two-month medical leave after suffering from severe pneumonia), and its latest headache – confirmation that the Securities and Exchange Commission is investigating the company.

A global story: The Canadian banking sector has underperformed this year, but such has been the case for banks across the globe and particularly within Europe. Greater uncertainty over the global economic growth outlook, coupled with the ongoing environment of historically low yields, have weakened bank fundamentals. Though neither of those two conditions are new, a number of chronic and emerging issues have drawn increasing concern from market watchers in 2016.

WATCH LIST

Brexit: Owing its nickname to last years' averted Greece exit (Grexit) from the European Union (EU), the U.K. has scheduled a June 23rd, 2016 referendum for the country to weigh-in on the terms of its ongoing membership with the EU. With support growing for the "leave" campaign, the British pound found itself pushed down to its lowest level versus the US dollar since 2009.

Mr. Bombastic: As the US primary season unfolds, few (outside of Mr. Trump himself) envisioned the Trump campaign moving from a punch-line to the front-line. Rightly so, investors are beginning to consider the economic and financial implications of what looks like a very interesting, if not unusual, US election.

Black and yellow gold: Investors remain fixated on oil – which certainly hasn't lived up to its 'black gold' nickname over the last several months. Crude oil prices went south of the \$30USD range mid-month before rebounding back toward the end of the month. While hopes have risen over the possibility of reduced production (with reports of a meeting among oil producing nations like Saudi Arabia, Russia, Qatar and Venezuela), we have yet to see significant change in terms of the fundamental issue of

excess oil supply in the world. Oil-reliant emerging nations like Brazil and Russia have felt the brunt of prolonged low oil prices and are now in an all-out economic recession. Meanwhile, the shiny yellow metal shot up over 10% in February as significant daily swings drove investors to seek out gold's safe-haven attributes.

Sub-zero conditions: In our view and in spite of media conjecture, we don't foresee negative interest rate policy coming to North America anytime soon. Having said that, we function in a global bond marketplace. The recent announcement of the Bank of Japan to turn to negative interest rates policy (NIRP) and the European Central Bank's indication that they may go further into negative territory has created great uncertainty. For example, we have seen a significant reduction in the probability of Federal Reserve raising rates this spring, though market watchers see strong odds that they resume rate hikes later in the year. *[check out GLC Asset Management Group's LinkedIn page for our recent commentary on 'Understanding NIRP']*

Immigration: We often talk of geopolitical risks, like war and political upheaval, as contributing to investor uncertainty and market volatility, but today's immigration concerns are just as troubling. Immigration policies have become more than a humanitarian topic to debate - it's now a political, economic and socially-dividing issue. The ongoing Syrian refugee crisis has strained European leaders relationships and increased pressure on the Schengen free-movement agreement (the EU agreement that essentially abolished the EU's internal borders, enabling passport-free movement across most of the bloc). Beyond Europe, every major world leader has weighed in on immigration (both international and domestic) policies and its impact on their nation.

EYE ON THE BALL

February's mid-month rally is a reminder that markets remain in flux and there are many moving parts to watch. We anticipate market volatility will continue for some time and believe that active management is best positioned for market conditions such as this. Because this is when remaining watchful and vigilant in proven investment processes allows portfolio managers to continuously factor in changing market conditions, evolving risks and emerging opportunities to position a portfolio for strong long-term investment performance.

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