Market Matters

FEBRUARY 2015 HIGHLIGHTS

While January was turbulent, February saw strong equity markets around the globe and a decline in market volatility.

- Oil prices stabilized during the month
- Greece reached a temporary agreement with its European creditors.
- The latest cease-fire in the Ukraine held (at least more so than previous attempts).

Equity markets responded positively, with developed markets outperforming emerging markets.

- European markets lead the way: France's CAC40 returned 7.5% and Germany's DAX returned 6.6%.
- The S&P 500 had its strongest February gain (+5.5%) since 1998.
- Japan's Nikkei reached its highest level since 2000 (18797.94, returning 6.4% in February).
- The S&P/TSX Composite was up 3.8% and benefited from Valeant Pharmaceutical's acquisition announcement which sent the stock up 21% for the month, our Canadian banks reporting better-than-feared earnings, and a stabilizing in oil prices, allowing the energy sector to experience some reprieve.

Canadian fixed income markets were flat to slightly negative, in-line with a more risk-on investor sentiment during the month.

BABY, IT'S COLD OUTSIDE! (UNLESS YOU LIVE IN B.C.)

This past February helped us gain some unique economic perspectives:

- Sub-zero numbers are real, tangible, and not just for central bank overnight lending rates.
- Salt (as in road salt) is a very worthy commodity investment.
- Oil savings can also be realized through not actually being able to leave your house and get around (a nod to our East Coast friends).

EARLY SIGNS OF SPRING? YES, PLEASE!

Global markets rebounded in February. Several markets posted new highs (including the US), with others returning to levels not seen since the start of the new millennium (i.e. Japan in 2000).

In a case of déjà vu, Greece returned to the front page with back-and-forth debt negotiation with its main international lenders - the 'troika', made up of the European Union Commission, European Central Bank, and the International Monetary Fund. The best they could

Table 1
Summary of major market developments

Market returns*	February	YTD
S&P/TSX Composite	3.8%	4.1%
S&P 500	5.5%	2.2%
- in Canadian dollars	***3.7%***	***10.1%***
MSCI EAFE	6.1%	9.2%
- in Canadian dollars	***4.0%***	***14.5%***
MSCI Emerging Markets	3.2%	4.6%
FTSE TMX Canada Universe Bond Index**	-0.1%	4.5%
FTSE TMX Canada all corporate bond index **	0.1%	3.7%

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

Table 2
Other price levels/change

	Level	February	YTD
CAD per USD exchange rate	$0.800	1.8%	-7.1%
Oil (West Texas)*	$49.76	3.2%	-6.6%
Gold*	$1,213	-5.5%	2.4%
Reuters/Jefferies CRB Index*	$224.08	2.4%	-2.6%

*U.S. dollars

Table 3
Sector level results for the Canadian market

S&P/TSX Composite sector returns*	February	YTD
S&P/TSX Composite	3.8%	4.1%
Energy	1.2%	-1.0%
Materials	-0.7%	14.6%
Industrials	3.4%	2.4%
Consumer discretionary	6.8%	6.8%
Consumer staples	0.7%	3.7%
Health care	17.1%	39.2%
Financials	6.7%	0.4%
Information technology	6.5%	12.4%
Telecommunication services	-3.1%	2.5%
Utilities	-2.1%	4.1%

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

do was settle on a four month extension to their repayment deadline, but markets responded positively to the news all the same. Stay tuned, as we will surely be revisiting the topic later this spring. Notwithstanding underlying structural problems that remain to be overcome and risk flaring up again (such as deflation risks and Greece's debt problems), the euro zone is making small improvements at the margin. Remember US "greenshoots" in 2009? Are these early signs of economic growth coming back to the eurozone? At this stage it's not possible to know with certainty if material progress is shaping up, but Europe is showing some positive signs as confidence surveys and private sector lending growth is improving.

LIKING BANKS MORE THAN SNOW-BANKS

As quarterly earnings reporting season comes to a close in Canada, the negative effect of the decline in oil and commodity prices is starting to materialize. According to data compiled by Bloomberg, corporate earnings are down nearly 10% for the fourth quarter of 2014 when compared to that same timeframe a year ago. The culprit being the energy and materials sectors which have seen declines of approximately 73% and 39%, respectively*. Earnings in 2015 for the S&P/TSX Composite are now expected to decline 8%* compared to the beginning of the year when estimates were projecting 4% growth. Having said that, with low expectations and negativity already priced in, investors were rather forgiving. Seven out of ten Canadian sectors saw positive returns in February, including the Energy sector. *Not all reporting for the index was complete at the time of writing.

The most significant driver of the S&P/TSX in February was the financial sector. The Canadian banks reported earnings that were better than had been feared, and TD, Royal Bank, and CIBC also boosted their dividend rates (Scotia Bank followed suit in early March), which investors tend to like.

THAT'S A LOT OF ~~SNOW~~ DOUGH

The S&P 500 overcame its January decline as February's 5.5% gain put the benchmark index up 2.2% on a year-to-date basis. Economic indicators continue to be positive for the most part, and there is mounting hope that the American consumer will soon begin spending some of their oil savings. Dig down further into the contributors to the rise in the S&P 500 and it's impossible to ignore the 'Apple effect'. According to data compiled by J.P Morgan, Apple alone accounted for 26% of the move in the S&P 500 this year. In February, Apple became the first public company to pass the USD $700 billion level in market value. The stock closed the month up 9.6% (up 16.4% YTD) with a market value of USD $748 billion. To put that into perspective, that's more than the market cap of the entire S&P SmallCap600 index value (USD $692 billion) and around the 20th largest country as measured by GDP (in 2013 Switzerland ranked 20th with a GDP of USD $685,434 billion according to the World Bank)! What can you say? That's just really, really big!

GETTING A READING ON NORTH POLOZ

Central banks remained active into February. China, Australia, Romania, and Sweden joined the ECB, Canada, Denmark, India and Switzerland on the list of countries that have cut rates so far this year.

The Bank of Canada (BoC)'s surprise January rate cut was coined as "insurance' against the downside risks stemming from lower oil prices. In the weeks following that meeting, oil prices appear to have stabilized around the USD $50 mark (WTI). This led BoC Governor Poloz to remark that the January rate cut "buys us some time to see how the economy actually responds", and no doubt influenced the BoC's decision to leave rates unchanged in early March. It also helped give our Canadian dollar a modest boost in February.

CELEBRATING THE YEAR OF THE SHEEP

With special recognition of the recent Chinese New Year celebrations and the Year of the Sheep, we look to two wise and ancient Chinese proverbs to remind us that it is always a good time to ensure your financial plan is well diversified and aligned with your personal goals and risk tolerances.

"*Mend the Fold After a Sheep is Lost.*" (i.e. it's never too late to learn from past mistakes)

"*The best time to plant a tree was 20 years ago. The second best time is now.*"
– ancient Chinese Proverbs