April 17, 2018

<u>"Ladies and Gentlemen, please remain seated with your seatbelt fastened as we will be facing high turbulence for the duration of this flight!</u>"

Dear clients,

These first 110 days or so of 2018 certainly provided market volatility with the early January market run-up reversing by nearly 10% in less than a week by January end. This volatility has been largely manufactured by Donald Trump who has singularly been at the center of most geopolitical and trade tensions. There is little point to rehash all of his tweets and doings as these are well covered by the press.

… and yet global equity markets are down only 1% year to date in local currency terms and a bit less in US dollar terms. The underlying fundamentals remain that corporate earnings are growing steadily with global growth cresting near the 4% range notwithstanding the new fiscal stimulus from lower US corporate taxes. It is based on these overriding realities that the asset mix recommendation remains constructive toward the equity markets, the US and the Emerging equity markets in particular.

For its part, the TSX is down around 5% year to date as Canada remains in an uncertain position regarding the outcome of NAFTA renegotiations, faces up to new US tariffs on its forestry products, and must deal with an extensively leveraged Canadian consumer as interest rates "normalize" to higher levels over the next few years.

One of the recommendations/decisions discussed in our February 2018 market strategy report, was that we would lower exposure in Canadian Equities across all portfolios by 5 to 10% (in a readjustment of investment policies). The rational was that Canadian Equities remain far too exposed to the financial and resource sectors and insufficiently to many other sectors and therefore don't offer the investor the benefits of sound diversification and of higher quality investment opportunities. This equity exposure was reallocated into foreign equities including emerging equity markets. These changes have now been effected in all portfolios.

As we remain unsure as to the direction of energy prices over the next year we opted to reduce exposure in those Canadian Equity funds excessively exposed to the energy sector, the Bissett Small Cap Fund in particular. Oil prices remain in a tug of war between an OPEC/Russia alliance and production restraints versus rising US oil shale production. We note that natural gas, also a significant component of the western sedimentary basin production, remains quite price depressed in Canada due a lack of demand south of the border as well as a lack of LNG export capability to other world markets.

Over the 1st quarter all of the actively managed foreign equity funds in clients' portfolios outperformed their respective indices (just as they did throughout 2017). Within Fixed Income, we remain largely divested of traditional bonds (these are down 1% so far this year) while being singularly invested in the GWL Real Estate fund where the returns are up 1.1% year to date. We also reduced exposure to the High Yield Bond Fund as corporate debt was coming under pressure, somewhat in line with stock market jitters. In turn we have started to take a position in the Brandywine International Bond fund that invests in more attractive foreign bonds and stands to gain should the Canadian dollar continue to weaken.

We remain steadfast in the 4 to 5% exposure to the Precious Metal (gold) Fund even though this fund is down 3% year to date. This position remains a sound insurance against the high exposure to the equity markets. Gold shares are also trading at reasonable levels and in of themselves offer descent value, a secondary benefit.

Since we offered a rather negative and dire view of cryptocurrencies two months ago, these have come under far more regulatory scrutiny around the world and sanity is now starting to settle in this segment of the market place. Cryptocurrencies are certainly not an asset class as some would wish them to be, and are certainly to be avoided.

Within the geopolitical sphere, the markets seem increasingly more discerning between the bluster, actions and changes that are occurring. Whether trade, armament, regional hostilities or political maneuvering all of the global actors are actively engaged, which is fueling worrisome media blitz. Even though the headlines might suggest differently, there remains sufficient checks and balances to prevent catastrophic decisions. As well Donald Trump has shown he is quite conscious that he requires an up US economy and up US stock market if he is to have any chance at reelection in three years' time.

Quite ironically at this juncture, one might argue that the biggest uncertainty would arise if the Mueller enquiry was to lead to impeachment proceedings, which would leave the White House leadership in limbo or in Michael Spence. Perhaps better the devil we know, then the one we don't.

All the very best,

Marc

Marc Lalonde
Partner/Partenaire
Benchmark Investment Consulting
Off: 506-381-0932