Highstreet Asset Management

CLIENT

NEWSLETTER

MARCH 31, 2016

Message from the Managing Director, Private Client

Since our last Newsletter, we have had the first budget from our new Liberal government. Interestingly the effect on financial markets in Canada was minimal, underscoring the overriding influence of the global economy on domestic affairs. It will be noteworthy to watch the longer term effect of various infrastructure investments announced in the budget. In the meantime, let's catch up on various observations we discussed in late 2015.

At the end of last year, we highlighted the key market themes we saw in 2015; economic and monetary policy divergence, US dollar strength, commodity weakness, growth stocks outperforming value stocks, and low market volatility. We expected divergence to remain a prominent theme in 2016, with expectations for a reversal in many of these key themes. Here's an update on what the Highstreet Team has seen thus far in 2016:

Economic and Monetary policy divergence

The US economy showed signs of recovery late in the quarter while the rest of the world continued to battle with a challenging macroeconomic environment. A strong US jobs reports added momentum to its economic recovery, while inflation showed improvement through the quarter. Conversely, global economies continued to exhibit sluggish growth. The European Central Bank responded with a rate cut and an increased bond purchase plan. Chinese officials followed suit by cutting their required Reserve Ratio requirement. Norway, Indonesia, and Hungary also cut interest rates. The Bank of Japan adopted a negative interest rate policy and discussed the possibility of bringing their key interest rate as low as -0.5%.

Although the US Federal reserve has seen improved employment (unemployment has dropped to 4.9%), it remains concerned about the lack of sufficient inflation and the impact of slowing growth outside the US. The Fed has suggested that it would slow its pace of raising interest rates, leading investors to consider that divergence could actually become convergence.

As a result, the strong US dollar trend of 2015 reversed in 2016, prompting global currency strength as well as a rally in oil prices above $42 a barrel for the first time since November 2015. These developments have helped the Canadian Dollar as it strengthened against the US dollar by 10% since the January 19th low.

Growth VS Value

The S&P 500 celebrated its 7 year Bull Run anniversary in March, returning a gross 193% return since its bottom in 2009.

Growth stocks have significantly outperformed Value stocks in the US equity market during this period, particularly in the most recent three years. The S&P 500 Growth Index, a proxy for growth stocks in the US market, returned a gross 38.3% over the past three years, while the S&P 500 Value Index returned 19.6%.

The move in currencies and commodities has caused a style reversal, with Value stocks outperforming Growth stocks. The S&P 500 Value Index has outperformed the S&P 500 Growth Index by more than 2% this quarter (0.6% vs -1.4% respectively). At the regional level, Canadian and EM equities (the significant underperformers over the past three years) have had strong starts to the year with the S&P TSX Composite Index up 2.7% and the MSCI Emerging Markets Index up 1.1%.

As discussed in past private client meetings, Canadian equities should benefit from a shift in focus from growth to value due to their valuation characteristics relative to the US.

Message from the Managing Director, Private Client continued

Volatility

Volatility in the last few years has been at historical lows as all central banks were on the same page in terms of monetary policy. However, the divergence of strategies was expected to lead to increased volatility.

Most markets started the year on a negative note, with the US experiencing its worst start to a year in history. Volatility was elevated in the first two months of the year with the VIX averaging 23.1 compared to the four year average from 2012 and 2015 of 16.2. The S&P TSX Index was not spared from heightened global volatility as 23 out of 40 trading days in January and February experienced more than 1% moves in either direction. In March, the VIX decreased to about 17.0 as markets stabilized.

The reversal has been quite sharp and near the end of the quarter, we began to see the themes observed in 2016 dissipate somewhat. Highstreet's models have highlighted these themes, and we continue to monitor these developments and take necessary steps in our portfolio positioning.

We appreciate the continued confidence you, our clients, are demonstrating in Highstreet. In the first 4 months of fiscal 2016, new Private Client AUM grew by almost 300% year over year as compared to 2015. We have added resources to ensure our service levels remain high as we grow our business. Many of you are now returning from your winter in sunnier climes, we look forward to seeing you over the coming summer months.

Michael Hodgson

In the Community

Lei Wan at Waterloo:

On Feb 22nd, Lei was invited by Professor Alan Huang from University of Waterloo as a guest speaker for his class – Equity Investment. Lei spoke about the evolution of Factor Investing, from the CAPM to Quantamental Investing.

Corporate Investment Managers' Panelist: Mark Stacey:

Co- Chief Investment Officer Mark Stacey was invited as a panelist for the Corporate Investment Managers' Panel, sponsored by Financial Executives International ("FEI"), to discuss investment management at the corporate level. He spoke about safeguarding investments against critical risks and the importance of developing good governance over investment assets.

Congratulations!

Stephen Duench

All the best to Steve as he and Aja welcome to their family a baby boy named Wolfe, in March.

Save the Date

June 14 – Wealth Preservation Through Tax and Estate Planning:

We will be hosting a reception and seminar by one of Canada's leading estate planning practioners.

Relationship Management

We would love to hear from you!

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