<u>Market Commentary May 25, 2017</u>

In my latest Portfolio Manager commentary which was included in the 1st Quarter portfolio reports sent out last month, I wrote that the U.S. stock market was technically very strong and was set to break out above recent highs at 2403 on the S&P 500 Index. Sure enough, after a brief period of consolidation, the S&P 500 Index did exactly that this week and has closed today (May 25) at 2415. I expect we will indeed see follow through over the next week or so with the S&P 500 holding above 2400, and **then continuing to work its way higher as we head into the summer**.

This remains a powerful and very strong BULL MARKET for U.S. stocks, one that I believe is <u>in a major, long term, secular up trend that has another decade to run</u>. Yes, there will be a short term Bear market or cyclical downturn at some point tied to the next U.S. recession, but even that short term down cycle event is likely two to three years away yet. The U.S. stock market is now back to its long term outperformance when compared to the TSX (Toronto) Index, with the S&P 500 Index significantly outperforming the TSX Index into 2017, with the TSX up just over 1% year-to-date and the S&P 500 up almost 8% so far into 2017. Recall, that the S&P 500 outperformed the TSX Index in 2011, 2012, 2013, 2014 and 2015. The TSX Index beat the S&P 500 in 2016 thanks to gold, metals and energy stocks—but is now back to lagging behind the U.S. market.

This trend mirrors very closely what happened during the last major, long term secular Bull market which ran from 1982 to 2000. During that 18 year period, the U.S. market outperformed the TSX Index almost every year as commodity stocks collapsed. We are now back to a similar trend—and this is why I continue to emphasize that, as investors, we want to remain heavily weighted towards U.S. companies. In the **Growth/Capital Appreciation portfolio mandate**, we are around <u>50% weighted towards the U.S</u>., with great American companies like GOOGLE (Alphabet), MASTERCARD and RAYTHEON hitting new, all-time highs today (these three companies are 13% of the Growth portfolio)!

Long time clients know that I have been negative on the Canadian currency since 2012/13 and have articulated a strong bias towards owning U.S. equities since that time, a move that has benefited clients nicely as the “Northern Peso”, aka Loonie, collapsed from above 1:1 or Par to the USD, now sitting just above .74 today. Longer term, I expect the Loonie to trade at .69 or lower into the mid .60s at some point potentially over the next 2-4 years. Canada remains and is becoming an even more structurally weak, low productivity country with a hollowed out manufacturing sector, plagued by high personal taxes (and new carbon taxes) and greater business & environmental regulations that act as a disincentive for global capital to invest here versus the United States. And if Trump succeeds at flattening and reducing U.S. corporate taxes dramatically, then Canada will be at an even greater economic disadvantage.

Below is a chart of the S&P 500 Index (June 2014 to present--Source: Thompson One) showing the break out above 2403 this week—after a 2015 to 2016 consolidation/corrective period. A technical case can be made for 2550 to 2600 on the Index over the next 6 to 12 months. Earnings for the 1st Quarter have been very strong for S&P 500 companies on balance and it is earnings or corporate profit growth that carries stock prices higher. The one caution here is the direction of shorter term interest rates and, on this front, the U.S. Federal Reserve continues to keep a very slow pace in its efforts to "normalize" or raise rates, preferring to raise only when we have very clear economic data points to justify another hike.

Please call or email anytime!

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