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Gestion de portefeuilles / Portfolio management

La voie des Alizés

Navigating the Trade Winds

October 2018

Dear friends,

The quarter ended on a good note with a welcomed decrease in commercial tensions. At least, this was the case for the Canadian economy which benefitted from a last-minute deal in a new trade pact between the 3 Amigos that will be known under the acronym USMCA. The positive impact was felt immediately with a good rally of the Canadian dollar following the news on September 30th. It was too little too late, summer tensions had taken their toll. This third quarter was quite disappointing for the S&P/TSX. Oil, Gold and more importantly, base metals, have dragged down the energy and metallurgical sectors. South of the border, the S&P 500 did rather well, advancing 5.4% when converted in Canadian dollars. International markets were a mixed bag.

		Closing	Change**	
		30-Sep-18	Quarter	2018
***Stock Indices** (% in C$)*				
S&P/TSX		16,073	-1.3%	-0.8%
S&P 500		2,914	5.4%	11.8%
MSCI EAFE*		1,974	-1.0%	-1.3%
Currencies				
CAN$ (US$/C$)		0.7748	1.8%	-2.5%
Euro (US$/EUR)		1.1609	-0.7%	-3.2%
Commodities (US$)				
Oil (WTI)	$	73.16	-1.3%	21.0%
Gold	$	1,191	-4.8%	-8.6%
Volatility Index				
VIX		12.12	-3.97	+1.08

** MSCI Europe, Australasia and Far East (US$)*

*** Changes are expressed in C$ for Stock Indices.*

After a good second quarter for the resource stocks, we believe that worldwide trade tensions go a long way in explaining the poor performance of these equities in Q3. Resource stocks are undervalued and should recover in a context where the world economy remains vigorous and where commodity demand is still strong in emerging markets. Even though President Trump's strong-armed tactics against the Chinese leave a lingering memory, we continue to believe that they are a negotiating ploy. Eventually, an agreement will be reached. On the earnings side, results remain robust with growth rates of 14.5% in Canada and 24.9% in the United States for Q2. For 2018 as a whole, earnings forecasts are one the rise, now standing at 14.4% and 23.2% respectively. Looking forward, the 2019 projected growth rates were stable in the last few months, albeit diminishing slightly vis-à-vis 2018 (14.4% and 23.2%).

In the same way, global economic growth is losing a bit of its momentum. Certain leading indicators are pointing towards a deceleration in the expansion of world GDP. The tariff barriers that were erected and the ensuing slight reduction in trade flows can explain this slowdown in the indicators. Let us be clear, global growth is still on the upside, albeit at a slower rhythm. The silver lining is that this slowdown comes off elevated growth levels. Nevertheless, we are getting late in this economic cycle. We are not saying that this bull market will necessarily end by a major market correction in 6, 12 or 18 months. But, we can conclude that it is time to proceed gradually towards a portfolio review. In the coming months, we will be adding value and defensive stocks. Generally, these stocks command a higher dividend yield and perform relatively better at the tail end of the economic cycle. Finally, international equities should rebound considering that they have under-performed so far this year, are cheaper on a relative basis and are being sustained by a solid global economy.

www.alizecapital.ca 514.595.3503 | 1.855.595.3503 | 418.780.4440 info@alizecapital.ca