strathbridge ASSET MANAGEMENT

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"By the Way"

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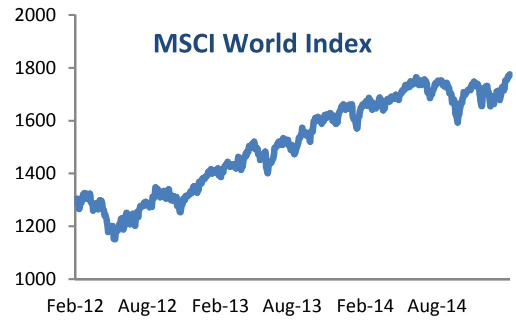
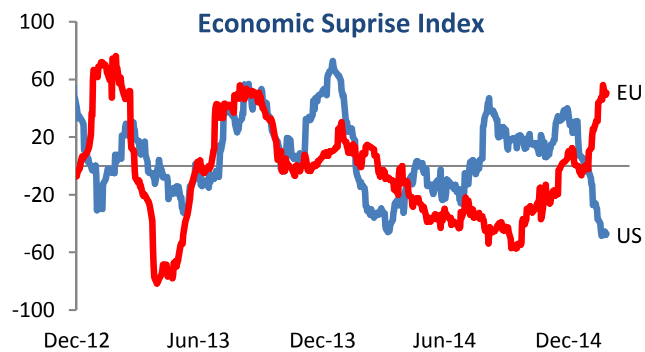
"Don't bury the lead" is the caveat of every news editor. State the important point up front. So here it is…almost every major stock market looks very strong. The U.S., the U.K., Germany, Japan, China and even Canada have either broken out to the upside or look to do so soon. Please take note of any and all concerns expressed here or wherever, but the bottom line (as of today) is that stock markets look to be going higher despite negative fundamentals in many of those countries. The best performing index in 2015 is the Russian MICEX (up 28% in Rubles as of Feb 22) and you couldn't want for a country with more problems than Russia. But before you run out to buy, the index in USD is down significantly. Nevertheless, as a long time cynic and contrarian, I am compelled to present a laundry list of events that could change such a sanguine view. At the same time, that does not preclude me from searching for factors that would confirm the bullish case and suggest there is, in fact, significant remaining upside.



The negotiations between Greece and the Eurozone would be merely a "tempest in a teapot" if not for the fact that if Greece gets a better deal or leaves the Union there is a sizable line-up behind it to do the same. No one, least of all Greece, wins if it leaves the Union. Therefore, we expect some kind of middle ground will be found to hammer out a new deal, not just an extension to the old agreement. There is little chance, in my mind, that Greece will find the will or the means to pay back its huge debts. Its creditors must appear to be acting firmly. But realistically, whether one doesn't get paid in 2020 or 2040, what's the difference? The recent extension allows time for finding a solution, but also presents more chances for blow-ups between the players that will roil markets. Assuming the end result is a new deal, such market volatility should be seen as a buying opportunity. At the margin, European economic news is slightly more favourable than last fall. Combined with a more accommodating central bank, European equities appear promising. The one big risk is, of course, that fallout from the war in the Ukraine and the sanctions on Russia will derail a positive outcome.



The Economic Surprise Index measures the actual outcome of economic data relative to consensus estimates. A number greater than zero indicates actual economic data is surpassing (or "surprising") the street's expectations.

The extension of the bail-out to Greece means the final negotiations will likely take place in June, which by happenstance is a big month for watching what the Federal Reserve's next interest rate move might be. Consensus seems to be centering on the September meeting for the first rate hike, but June is still a possibility. Given the potential for volatility around the negotiations in Europe, plus the debate in the U.S. Congress over the debt ceiling (we've seen that movie), a June rate increase seems more unlikely.

Which is the opportunity to segue to the dysfunction that is Washington D.C. The Republicans won the November election, and President Obama wants to press his agenda, leaving the divide between the parties wider and more entrenched than ever. The possible silver lining is that a stalemate will ensue and a cynic might suggest such inaction means the politicians can't screw things up. The political rhetoric is "a tale full of sound and fury, signifying nothing", but still, as with Europe, potentially a negative for markets. The U.S. economy continues to show good growth, although unlike Europe, the economic surprise index is indicating somewhat of a loss in momentum. We feel this is likely to be transitory and that consumer spending, increased employment and higher corporate profits will provide a platform for a growing economy and better stock markets.

One of our primary beliefs is that the long term direction of the U.S. dollar is upward. However, this has become so much a consensus view that the participation in that trade is three standard deviations above normal. While this doesn't change our long term view, a period of consolidation or mean reversion should not be unexpected. The resilience of stock markets over the last six years has been remarkable. Despite wars, political upheavals and periodic economic malaise, the indices have, for the most part, moved higher. In the absence of a major catalyst to change the direction, I will once again quote Mr. Berra, "Its never over 'til its over".

Forward Looking Information and Disclaimer

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