"Germane Thoughts"

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"I'm back in the saddle again". After a hiatus to start off the year, I'd like to cover what's been happening in global markets so far in 2015. After underperforming the S&P 500 for the 4th year in a row in 2014, the TSX Composite has had some reprieve to start off 2015 as it has outperformed, up 4.1% to the end of February vs. a 2.2% increase for the S&P 500 Index.

Most of the heavy lifting for the TSX has come from the Health Care and Materials sectors that were up 39.2% and 14.6% respectively. Specialty pharmaceutical company Valeant Pharmaceuticals Int'l. Inc. has continued its meteoric rise, up 48.1% so far this year and more than double the price it was trading at last August. The stock rose 15% alone on Feb. 23rd after it reported it was acquiring Salix Pharmaceuticals Ltd., a U.S.-based developer of gastrointestinal drugs. Similar to last year, Gold stocks had a very strong January, up 28.5% on better than expected fourth quarter results as well as a 7.3% rise in gold bullion as concerns increase surrounding the potential exit of Greece from the Eurozone. However, the rally in gold bullion was short lived as it declined 4.5% in February while the gold stocks declined 6.6% during the month.

South of the border, the broad S&P 500 Index declined 3.1% in January only to bounce back 5.5% in February to new all-time highs. Similar to Canada, the Materials and Health Care sectors were the best performing sectors over the period, up 5.7% and 5.4% respectively. Consumer Discretionary was also strong, up 5.1% due to the improving U.S. employment picture as well the precipitous drop in gasoline prices at the pump, putting more dollars in the consumer's wallet to spend.

The U.S. Dollar Index (DXY) has continued its ascent in 2015, rising 5.6% in the first 2 months and is up 19.5% since the end of June, 2014. The Canadian dollar meanwhile, continued to decline and is down 7.1% vs. the U.S. dollar so far this year. Most of the decline came after the Bank of Canada governor Stephen Poloz surprised the market on January 21st by cutting the overnight lending rate by 25 basis points to 0.75% in order to buffer the economy from the over 50% drop in crude oil prices since mid-2014. With the ECB embarking on its own quantitative easing program, Japan moving along with its own "Abenomics" program and other central banks such as Switzerland and Sweden initiating negative deposit rates, it is still a race to the bottom for many currencies with the main benefactor in our view being the U.S. dollar. No doubt, the effects from the size and speed of the currency moves bears close watching as it eerily resembles the mid 1990's when we experienced the Asian Flu with significant currency devaluation of the Thai Baht as well as the Russian default crisis.

In the rest of the world, most other global Indexes have rallied for the first 2 months of 2015, with Europe leading the way on investor's expectations that Quantitative Easing by the European Central Bank will have a similar effect that the Federal Reserve's QE had on U.S. equity markets. The FTSE 100 (U.K.) was up 5.8%, the CAC 40 (France) up 15.9% and the DAX 30 (Germany) up 16.3%. The Chinese market which was by far the best performing market in 2014, up 53.1%, has continued to rise so far in 2015 up 2.3%, while the Nikkei 225 (Japan) was up 6.4%.

Similar to the equity market, long-term interest rates have also exhibited some volatility so far in 2015, with 10-year Treasuries declining from 2.17% at the end of December to a low of 1.64% on January 30th. Since then, yields have backed up to almost 2% at the end of February.

After a strong second half of 2014, many U.S. economic statistics reported so far in 2015 have been more mixed with the ISM Manufacturing Index declining to 52.9 in February from 55.1 in December while the Unemployment Rate improved to 5.5% in February vs. 5.6% in December. Retail sales have also come in weaker than expected so far this year, partly impacted by bad winter weather again and nominally, due to lower gasoline prices.

We've been espousing for the past little while, our belief that volatility would rise in 2015 as the market started to price in the first interest rate hike by the U.S. Federal Reserve since mid-2006. So far, that has been the case as the CBOE volatility index ("VIX) has average 17.63 so far in 2015 vs. and average of 14.1 for all of 2014. We expect volatility will continue to trend higher as the bond market starts to price in more rate hikes by the Federal Reserve over the coming years which will likely provide more opportunities to write covered calls.

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