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"Germane Thoughts"

May 2015

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American poet T.S. Elliot one said "April is the cruelest month". I assume he was referring to the weather since historically, April has been one of the better months for stock market performance, just before the often referred to "Sell in May and go away" effect kicks in.

April 2015 was no different as most global equity markets posted strong returns, with the Shanghai A share market in China leading the way, rising 18.5%, more than doubling its return for the first 3 months of 2015 of 15.9%. The German DAX 30, which led all global markets in the first quarter of 2015, gave back some of its performance declining 4.3% in April.

North American markets also advanced in April, although only a fraction of what Shanghai posted, with the TSX Composite up 2.2% and the S&P 500 Index up 0.9%. That puts YTD returns for both indexes at 4.0% and 1.3% respectively.

In Canada, Energy was the best performing sector in April rising 7% as WTI Oil bounced back, rising 24.9% during the month to finish at US$59.62 per barrel. Energy stocks followed with heavyweights Canadian Oil Sands and Encana Corp. advancing 33.1% and 21.1% respectively. Both the Industrials and Consumer Discretionary sectors were the laggards in April, down 3.4% each driven by weakness in CN Railway and Magna which declined 8.2% and 10.2% respectively.

The Energy sector also led the U.S. market in April as it rose 6.6%, while Healthcare, after leading all sectors for the first quarter of 2015, gave back some its performance declining 1.4% during the month.

With global economies decoupling and central bank policies diverging, currencies have also been very volatile so far in 2015. The Canadian dollar, for instance, rose 5.1% vs. the U.S. dollar in April after declining 8.4% in the first 3 months of 2015. It was a similar story for the Euro which jumped 4.6% in April after declining 11.3% vs. the U.S. dollar YTD to the end of March.

Economic statistics reported in April suggest the soft patch for the U.S. economy in the first quarter was largely a consequence of the harsh winter weather. The change in nonfarm payrolls bounced back in April with a print of 223,000 jobs created vs. the weak revised 85,000 reported for March. The unemployment rate also declined to 5.4% in April, its lowest reading since May, 2008.

Canada, however, continues to work through the knock-on effects from lower commodity prices and a weaker Canadian dollar. Canadian employment declined by a larger than expected 19,700 jobs in April with the unemployment rate remaining at 6.8%. The silver lining was that all of the decline was in part-time jobs as full time workers increased by 46,900.

Despite a weaker than expected soft patch for the U.S. economy in the first quarter, we maintain our conviction that Janet Yellen and the U.S. Federal Reserve will begin raising rates late this year. We believe this will lead to steeper yield curve which will benefit the Financials sector.

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