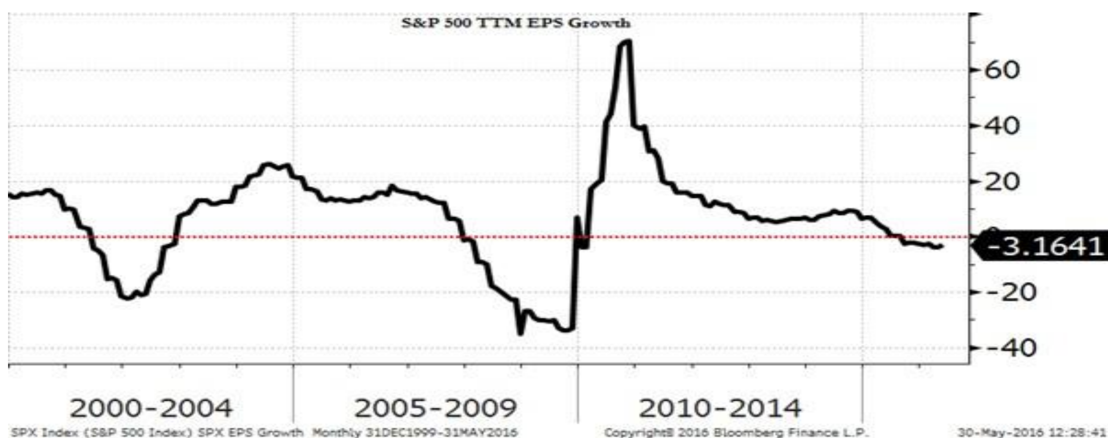
Jack Way
Vice President

A "bunny" market. Credit to Wells Fargo for the analogy. Not a bull or bear market, but one that hops around willy-nilly without a certain destination in mind. Of course there are many good reasons to be confused and uncertain. The investment outlook has always been subject to argument and differing opinions, but current debates are particularly black and white, with little in the way of a middle ground. The Chinese economy is facing a hard landing; no it's not. Japanese monetary policies are reversing a 25-year stagnation; no they're not. European Central Bank stimulus will spark growth and inflation; no it won't. The U.K. will leave the European Union; no it will stay. The Fed will raise rates; no it won't. Donald Trump is certifiable; well, whatever…..

Charts have always been a great way to put masses of data into an easily readable form. However, there are times when looking at the raw numbers can be more impactful, and give context to where we stand today. For example, let's look at a history of the price to earnings ratio of the S&P 500 based on trailing 12 months reported earnings. At year end 1982 the ratio stood a 7.7x. It then rose to 32.9x in December 1999, 46.1x in 2002 as earnings declined, and stands at 19.4x today. It is important to appreciate that the U.S. 10-year treasury bond had a yield of 14.6% in 1982, 6.7% in 2000 and is at 1.8% today. Those are wide spreads, and we shouldn't let ourselves get too bogged down by historical averages or where things "ought" to be. We need to remain aware of valuations, but history is not necessarily useful when we are experiencing unique and unusual circumstances, such as negative interest rates, and relentless Central Bank injections of liquidity. On the subject of earnings, aggregate S&P 500 earnings for 2014 were $118.78, in 2015 they were $117.46, and consensus estimates for this year are at $118.67. That would be 3 years of flat results, which is not what makes for higher stock prices. But, while stocks can be argued to be overvalued, relative to other asset classes, particularly bonds, they certainly don't seem expensive.



The Fed has changed horses again. After announcing last December there would likely be four increases in regulated interest rates this year, it quite quickly backed off, given the market's reaction, and suggested there might in fact be none. More recently, it sounds as if the Fed is preparing the market for an increase as early as the June meeting. However, the Fed is also being careful to calm investors by not indicating further increases this year unless the economy is stronger. This "jawboning" seems to be successful, as it would appear markets are more disposed to accept the increase without the sharp decline we experienced in January. The European Central Bank, and those of China and Japan, are still hard on the accelerator, and should be able to relieve any pressures no matter what the Fed does.

To this point monetary policy has carried the burden of stimulating global economies with a limited amount of success. We are finally seeing signs that governments are prepared to add fiscal stimulus to the package to encourage growth. Here, at home in Canada, the Liberal party won the national election with a promise to sharply increase infrastructure spending, and estimates in the U.S. are predicting fiscal policy there will add 0.5% to 1% to GDP. At the recent G7 meeting in Japan the official release, while stopping short of an "all-in" growth initiative (mostly due to German objections), did vow "a more forceful and balanced policy mix to achieve a strong sustainable growth pattern". Such strong government monetary and fiscal policies can only be a positive for stock markets, assuming some level of success of course. In addition, there has been more and more written about the possible use of "helicopter money" to encourage growth. To simplify, what is mystifying, central banks would print new money and could do two things; either deposit it directly into individual's accounts, or lend it to the government at a low or zero interest rate to promote additional fiscal spending. Sounds a bit hard to comprehend, but in fact the Swiss Federal Assembly will vote June 5th on the introduction of an "Unconditional Basic Income" of around $2,500 per person per month whether one works or doesn't. These are remarkable times to be alive.

On a final note, professors at MIT have developed a program using artificial intelligence and "machine learning" to transform vast amounts of economic data into reliable predictions of likely economic outcomes given different central bank policies. This technology is very real, and considering the fact that all 17 Fed policy makers overestimate growth for 2015, any and all help would be appreciated.

Forward Looking Information and Disclaimer

This document may contain certain forward-looking statements. These statements may relate to future events or future performance and reflect management's current expectations. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Although the forward-looking statements are based upon what management believes to be reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Neither the Funds nor their respective managers assume any obligation to update or revise any forward-looking statement to reflect new events or circumstances. Actual results may differ materially from any forward-looking statement. Historical results and trends should not be taken as indicative of future operations. The Fund is not guaranteed, its value changes frequently and past performance may not be repeated. Unless otherwise indicated and except for returns for period less than one year, the indicated rates of return are the historical annual compounded total returns including changes in security value. All performance data take into account distributions or dividends paid to unitholders but do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns.

121 King Street West, Suite 2600
Standard Life Centre, P.O. Box 113
Toronto, ON
M5H 3T9

Tel: 416-681-3900
Toll free: 800-725-7172
Email: info@strathbridge.com
www.strathbridge.com