

Market commentary – Third quarter 2015

A DIFFICULT QUARTER ON THE MARKETS

Canada's main equity benchmark, the S&P TSX, had a rather difficult quarter with a 7.9% decline. Weakness in natural resources was largely responsible for this result since both the energy (-17.2%) and materials (-24.5%) sectors retrenched severely.

The story was similar south of the border as the S&P 500 fell by 6.4% in USD. US exporters saw their profits shrink in local currency while earnings in the energy sector fell by 65% compared to the same quarter a year ago. However, things are not as grim as they appear; if we remove energy, profits in the remaining sectors improved slightly year over year. For Canadian investors, the sharp appreciation of 6.6% of the greenback versus the loonie helped mitigate the decline by increasing the performance of the S&P 500 in CAD to -0.2%.

WHAT HAPPENED?

Market participants scaled back their expectations for global GDP growth and corporate earnings on the backdrop of decreasing Chinese GDP growth (now below 7%) and following the strong appreciation of the greenback, the rising burden of US dollar denominated debt on emerging countries.

SHOULD ONE WORRY?

While emerging countries suffer from having their debt burden amplified by the strengthening of the US dollar, OECD countries are doing very well. The US consumer who plays a major role in the US economy is making a strong comeback reinvigorated by strong employment, low energy costs and cheaper imports. Meanwhile the Eurozone and Japan are beginning to feel the benefits of the quantitative easing strategies implemented by their central banks.

In Canada, GDP contracted during the first two quarters of 2015 causing a technical recession. Adversity with resources for the western provinces and temporary production shutdowns in the automotive sector in Ontario both contributed to a disappointing first six months for the Canadian economy. However, the weaker Canadian dollar provides opportunities for the Canada. This is not the first time we see the Loonie lose altitude and in the past these periods have been positive for the economy in many ways – notably for exports and services. The benefits of a weaker Canadian dollar benefited tourism this summer as more Canadians stayed in Canada and as we welcomed more foreigners.

Although China's GDP growth is less vigorous than in the past, it remains very strong and it would be considered remarkable almost anywhere else. Furthermore, Chinese policies remain expansionary. These factors, combined with the renewed strength in OECD countries, should give rise to reasonable economic growth in the near future.

WHAT SHOULD ONE DO?

We believe that one should simply concentrate on fundamentals and avoid listening to the eternal pessimists who constantly predict the end of the world. Hence, focus on companies — their balance sheets, their profitability, their business models, their market valuation and their ability to generate sufficient cash flows to pay dividends. This is what we do and by doing so we come to the conclusion that nothing is broken and that the long term wealth creation potential of stocks remains healthy.

Several factors lead us to believe that stock market returns will be strong in the coming quarters, notably solid profit growth (with the exception of the energy sector) and very attractive valuations. Thus, we see the recent decline as an opportunity to acquire high quality stocks at reasonable prices.

NEWS

Allard Allard & Associés Inc. was recently selected to manage the Canadian equity component for Programme des gestionnaires en émergence du Québec (PGEQ). PGEQ is a Finance Montréal program whose objective is to entrust smaller Quebec investment management firms with mandates in order to help them break into the institutional market. Various experts of the institutional market in the province are involved and numerous pension funds allocated \$200 million in assets to the program.



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