Wickham Investment Counsel Inc.

Quarterly Review **March, 2019**

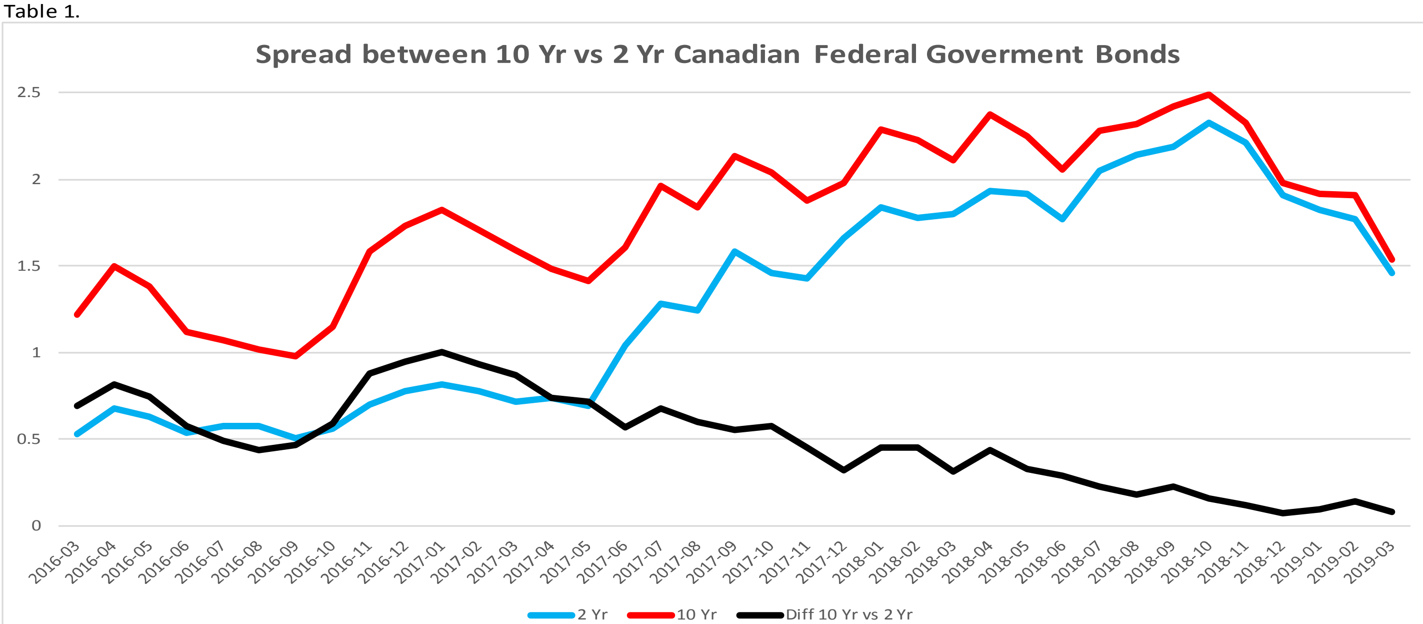
FIRST QUARTER BLOWOUT

As we closed out on the last Wickham Quarterly Review we said, "History shows that in the months following a spike in volatility, equities tend to deliver outsized returns. We try to keep our emotions in check and invest the money when we see opportunities." Well, **the first quarter was certainly one for the history books** with the strongest market performances in the past twenty years. The S&P TSX rose by 12.4 %, the S&P 500 climbed by 13.0 % while the NASDAQ ripped higher by 16.5 %. These are very respectable numbers for a **year**, let alone the first quarter.

The primary driver of the improved market sentiment has been a dovish tilt by central banks around the world. The US Federal Reserve increased the Federal funds rate early in December and then abruptly went on hold. Rather than the expected four rate increases this year, it now appears that rates will remain unchanged or even be reduced. The Chinese central bank aggressively eased monetary policy and rate sentiment changed markedly in Canada, Europe, Japan and Australia.

As shown in Table 1 below, this has created lower interest rates and a flattening of the yield curve. The upper red line shows the Canadian Federal government ten year bond yield, the blue line is the two year yield and the black line is the difference between the two yields. It is evident that there has been a dramatic narrowing in the short and longer rate differential. In normal times, the interest rate curve slopes upward to the right. Markets become very concerned when rates become inverted, that is, short rates become higher than longer rates. This kind of tightening of rates is usually a precondition to an economic recession, so we watch this closely. However, at this point, a recession does not appear to be in the cards for 2019. As well, the central banks actions are supportive of ongoing economic expansion. Inflation is not a problem.

Table 1.



Source: https://www.bankofcanada.ca/rates/interest-rates

The current economic expansion celebrated its ten year birthday in March and although it is losing momentum, it still has legs. Typical forecasts are for 1.5 % growth in Canadian GDP this year compared with 1.8 % last year. For the US, it is slightly higher at 2.2 % compared with 2.9 % last year. The primary growth driver in the world are the emerging markets with growth expected to be in the 5 – 5.5 % range. So, slower growth but sustainable growth is probable. Corporate earnings, which support equity markets are also expected to slow this year, but profit margins remain at elevated levels by historical standards.

One major feature of the market environment has been **record share buybacks** by companies. Companies can return profits to shareholders either in the form of dividends or share buybacks. Buying back shares has the advantage of reducing the number of shares outstanding, which often gives a boost to closely followed financial metrics like earnings per share .When prices plunged in the fourth quarter, it only encouraged companies to spend more. The information technology sector, led by Apple and the financial services sectors were the biggest spenders. In Canada, Dollarama and the chartered banks, for example, have been active purchasers of their shares.

	Dec 31, 2012	Dec 31, 2013	Dec 31, 2014	Dec 31, 2015	Dec 31, 2016	Dec 31, 2017	Dec 31, 2018	Mar 31, 2019	% Change Dec-Mar
Stock Market Indices									
S&P/TSX Comp.	12,434	13,622	14,632	13,010	15,288	16,209	14,323	16,102	12.42%
Dow Jones	13,104	16,577	17,823	17,425	19,763	24,719	23,328	25,928	11.15%
S&P 500	1,426	1,848	2,059	2,044	2,239	2,674	2,507	2,834	13.04%
Nasdaq	3,020	4,177	4,736	5,007	5,383	6,903	6,635	7,729	16.49%
Commodities									
Gold - US$	1,676	1,202	1,184	1,060	1,252	1,309	1,281	1,298	1.33%
Crude Oil - US$	91.82	98.42	53.27	37.04	53.72	60.42	45.41	60.14	32.44%
Natural Gas - US$	3.44	4.25	2.91	2.35	3.74	2.95	2.94	2.66	-9.52%
Currencies									
€ in Cdn $	1.31	1.47	1.41	1.50	1.42	1.50	1.56	1.50	-4.02%
£ in Cdn $	1.62	1.76	1.82	2.04	1.66	1.69	1.74	1.74	-0.03%
US$ in Cdn $	0.99	1.06	1.16	1.38	1.34	1.26	1.37	1.33	-2.57%
Interest Rates									
Cdn Prime rate	3.00	3.00	3.00	2.70	2.70	3.20	3.95	3.95	0.00%
US Prime rate	3.25	3.25	3.25	3.50	3.50	4.50	5.50	5.50	0.00%
Cdn 10 Yr bond	1.80	2.78	1.79	1.41	1.72	2.04	1.95	1.55	-20.51%
US 10 Yr bond	1.63	3.03	2.17	2.27	2.44	2.40	2.69	2.41	-10.41%

Source: The Globe & Mail