REVIEW AND COMMENTARY
1ST QUARTER - 2015

As we had discussed, volatility in the North American equity markets continued into the first quarter of 2015. Oil prices, along with most commodities continued to weaken. The Canadian dollar, along with most other major global currencies, was pressured downward by the lowering of interest rates by Central Banks. While the US economy appeared to be the lone bright star among major economies, it failed to gain enough economic traction to raise interest rates. In fact, during her most recent meeting, Chair Yellen of the U.S. Federal Reserve continued to distance the eventual rate hike enough into the future that the U.S. dollar actually started to slow its rise. Certainly, it was made quite clear that a strong U.S. dollar would not be as beneficial to many large American conglomerates that depend heavily on the export of their products.

Certainly, an important and widely discussed topic is the present level of the North American stock markets. While it is becoming increasingly difficult to predict the direction of the markets it would appear that by comparison to other asset classes the stock market remains attractive. The Canadian equity markets remain heavily influenced by Energy and Financial stocks. Oil has retreated violently in the past 6 months yet still remains very influential in the SP/TSX 300. Where will oil prices be by year end? Our bet is no worse than they are now. And if the EIA (U.S. Energy Information Administration) and IEA (Independent Energy Agency) are accurate then U.S. oil production and demand levels may start to become more favourable in 2015, as presented in a recent article by Art Berman. According to the article, the EIA is predicting that among the bigger US Oil plays (Eagle Ford and Bakken) supply will peak this year. The IEA is predicting that Oil demand will start to pick up this year as well. Increased demand and declining supply should provide stability and possibly higher prices. Understandably, predicting the future isn't easy but it would appear that few people presently have faith in higher priced oil - this generally is a positive sign.

Canadian Financial stocks remain profitable but low interest rates and a fall in equity trading and financing activities, particularly in the commodity sector, will put pressure on profits. Yet the banks remain well run and other areas in the banks provide the earning power and cash flow to increase future dividends. With interest rates low for the foreseeable future we remain constructive about any well run company that provides a decent return through increased earnings and dividends even if they are more modest than recent years.

Commodities remain weak despite the prospects of an improving U.S. economy. Quantitative easing in Europe should keep interest rates low which should in turn make well run companies more attractive. As we stated earlier, even a modest rise in interest rates should not be detrimental to investors. Chair Yellen has made it quite clear that she will wait until economic forces turn convincingly positive before she raises rates and that, in turn, should imply greater demand for most products including resources such as energy, basic material and metals. Thus, we remain constructive on equities.