

MARKET OUTLOOK QUARTERLY

Q1 2015 MARKET OUTLOOK QUARTERLY



The year of divergence

In 2015, we believe the markets are transitioning into the Late Bull phase of the current market cycle that started six years ago – how time flies! But don't fret just yet as the Late Bull phase tends to last for a while and often comes with outsized returns. There is no doubt that the current cycle has followed a flatter and slower trajectory than the norm, one of the lingering effects of deleveraging, but this bodes well for a longer Late Bull phase.

During this phase we typically see divergence in global economic growth and monetary policy. This appears to have begun with the U.S. starting to expand at a healthy pace, enough for the Fed to likely raise overnight rates this year. Going in the other direction are Japan and Europe, slow growing or shrinking economies that have their respective central banks pouring on the monetary stimulus. With this divergence comes increased volatility, which we had a taste of in the final quarter of 2014 and we expect to be the norm in 2015.

Key themes

- Divergence in economic growth and monetary policy around the world will continue to drive higher volatility in most asset classes in 2015.
- The U.S. and the U.S. dollar are still attractive, as America stands to be the primary driver of global GDP and thanks to slow growth elsewhere, there is virtually no signs of inflationary pressures. Housing, corporate spending and a de-levered consumer create a very strong combination.
- Bond yields will likely end the year higher than they are today but not by much. And there may very well be a deflationary scare along the way.
- The oil glut appears here to stay for a while, but energy will likely be one of the great opportunities at some point this year.
- Within Canada, staying defensive on global cyclicals and focusing more on companies with direct or indirect U.S. exposure.



Contributors

Craig Basinger, CFA
Chief Investment Officer

James Price, CFA
Director, Capital Markets Products

Gareth Watson, CFA
Director, Investment Management Group

Derek Benedet, CMT
Research Analyst

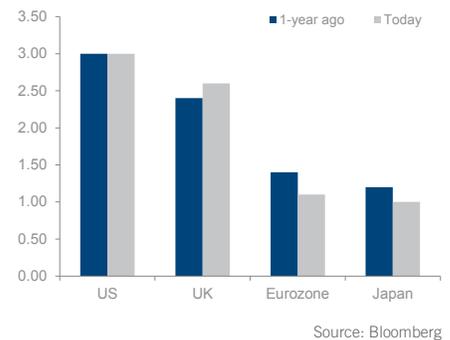
Chris Kerlow, CFA
Research Analyst

Joey Mack, CFA
Director, Fixed Income,
GMP Securities L.P.

For the past four years, we have seen central banks around the globe implementing very easy monetary policies to foster growth or at least keep the recovery puttering along. We are now seeing a divergence in policy and underlying economic growth among countries. This divergence has important investment implications for return expectations and for volatility in 2015. Top marks go to the U.S. economy which is now doing well enough that, barring any external shock, should see the Fed raising interest rates later this year. The Fed already stopped their quantitative easing program in late 2014. Current forecasts are for the Fed to begin increasing rates in the summer months finishing 2015 with the overnight rate between 50-75bps. The UK is also doing well, even though momentum has waned in the past few months.

While the U.S. and the UK are taking their foot off the monetary policy gas pedal, others are flooring it. Japan continues to experiment with their version of Dr. Jekyll and Mr. Hyde economics – pouring on the monetary stimulus, yet counteracting much of it with fiscal austerity. Didn't Europe's actions over the past few years teach them anything? Europe did learn something themselves, as the calls for austerity are much quieter now, and there is rising optimism the European Central Bank (ECB) will transition from Quantitative Teasing to actual Quantitative Easing this year. Give credit where credit is due, the ECB did stop (or at least postponed / delayed, time will tell) the European debt crisis by saying "we will do whatever it takes," but then did very little beyond providing almost unlimited financing to the banks. While the number of times the ECB has talked about open market bond buying are plentiful over the past couple years, buy tickets have yet to be submitted. So the Eurozone and Japan are the areas of economic softness, which is certainly apparent when contrasting consensus GDP estimates for 2015 across the various regions (chart 1).

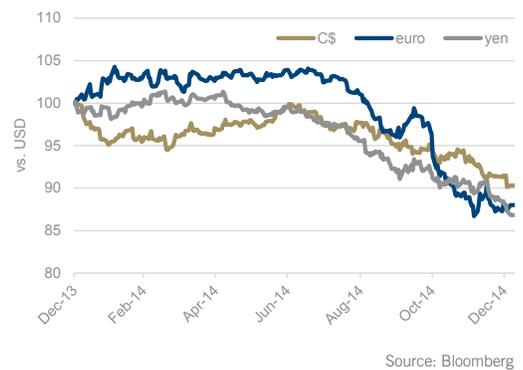
1. 2015 GDP estimates – some good or rising, some not so much



In general, the developed economies are simply becoming more divergent. For years they were all poking along with very low, single digit economic growth rates as deleveraging and other "hangover" factors from the last recession lingered. Now we have seen back-to-back strong quarters of U.S. GDP growth, 4.6% and 5.0% respectively. These are quite impressive numbers for the world's largest economy. Especially while Europe is stalling again/failing to launch. Divergent economic growth prospects have certainly been felt in the currency markets over the past six months. The U.S. dollar has been on fire, surprising even the most bullish currency traders. As evidenced by the S&P 500's +13.7% advance last year, including dividends. In Canadian dollar terms, investors added another +10.7% for a 24.4% advance.

The current environment certainly has some commonalities to the late 1990s. This was a period of U.S. economic strength in a world that was struggling to grow. During that time, the U.S. dollar was charging ahead of just about every other currency. In the 1990s, its strength was a driver of instability among economies, financial systems and markets as currency volatility spread to other asset classes. While there are certainly differences, we would expect the rapid rise in the U.S. dollar to continue to reverberate through the financial markets and lead to pockets of instability this time around as well.

2. All hail the U.S. Dollar



Divergent growth, divergent monetary policies, divergent markets, and divergent currencies all add up to a world that is less stable. We have seen two periods of weakness for the markets in late 2014, and as we start this year, we are expecting more. We believe the rule for 2015 will be greater volatility, which offers both risk and opportunity.

If we were pressed to ‘guestimate’ what could lead to temporary periods of weakness in 2015, a couple of issues are at the top of our worry list:

- With lower oil prices and global growth a scarcity, we could certainly see another deflationary scare worldwide. This would lead to investors further questioning the global economic growth prospects and would also likely lead to lower equity prices and lower bond yields. We are already getting a taste of this to start 2015.
- Russia/Europe continues to be the biggest geopolitical hot potato. A slip back into recession for the region, or more importantly for investors, will reveal how well/if the global banks have insulated themselves from potential shocks. We think this region is much better positioned than in years past.
- The rapid rise in the U.S. dollar could have a negative impact on company fundamentals and margins. Multiple expansions for the U.S. market will be harder to come by with current valuations, thus we will need continued earnings growth to lift markets.
- The biggest concern will likely be how the market will react to changes in the U.S. monetary policy. Don't expect a Taper Tantrum like 2013, but changing direction rarely results in a smooth ride.

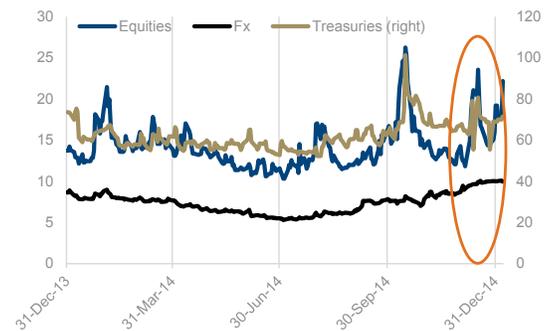
Since we do not currently believe this is an end of cycle, any weakness in 2015 should be viewed as a potential opportunity.

U.S. economy – one more Goldilocks year?

If you just looked at GDP growth, one would think the U.S. economy is starting to heat up. The annualized growth rates of 4.6% and 5.0% enjoyed over the last two quarters is the fastest quarterly expansion in over a decade. If taken in isolation, we would argue this more than justifies a rapid rate hike by the Fed and believe longer yields should move abruptly higher, ending this period of Goldilocks. (For those not versed in the fairy tale, Goldilocks liked her porridge “not too hot, nor too cold.”) Just like how the capital markets like the economy, growing but not too fast, which keeps inflation in check and yields stable.

The GDP growth would make us concerned that the U.S. economy is getting too hot and yields were poised to rise, if not for numerous factors that should limit any appreciation in bond yields. We have already discussed the rapid rise of the U.S. dollar against just about every other currency. This is deflationary as imports become cheaper and those savings can either be passed onto consumers in lower prices or feed higher margins for corporate America. We welcome either scenario. Oil prices have been halved in the past few months and the U.S. is still a net oil importer. Again this reduces input costs and expenses, putting downward pressure on inflation and providing a margin lift for more companies than it hurts.

3. 2015 – Here comes the volatility



Source: Bloomberg

There is also still plenty of slack in the U.S. economy. Unemployment has fallen, but still sits at 5.6%. The output gap, which is an economic measure of the economy’s potential vs. actual output, remains elevated. Simply put, it will take more solid growth before the pressures begin to build that would drive yields higher. That is not to say yields won’t move higher than current levels, as the 10-year is yielding 1.9%, but the upside move may prove rather limited in upcoming quarters.

Do not underestimate the U.S. economy though. It can continue to grow and it can grow alone if need be. Corporate spending has been coming back, consumers are doing well, plus austerity implemented during the debt ceiling shenanigans are starting to fall off. The drop in oil will likely curtail employment gains and wage pressures coming from the oil patch, but every drop in the price of oil adds to U.S. economic growth on a net basis. And the higher U.S. dollar won’t hold back exports much given American exports tend to be high price and high value add, and tend not to be as sensitive to currency moves.

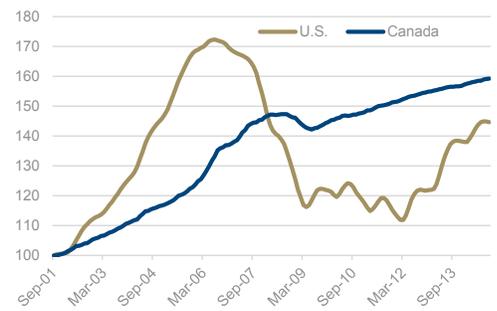
2015—another year of loving America.

Housing – a tail of two markets

Time flies. It has been over seven years since the U.S. housing market crashed. Since that point, there has been a divergence in the anatomy of the Canadian and U.S. residential real estate markets from a fundamental and price perspective. We believe these trends will continue into 2015. On the U.S. side, the consumer has de-levered, capital remains cheap making mortgage rates very affordable, access to capital is gradually loosening and an improving labor market provides a constructive back drop for home purchases. Canadian housing prices barely fluttered during the last recession and prices have moved higher year-after-year since. This dichotomy has maintained consumer confidence but we clearly didn’t have a “great recession” in Canada, which may not bode well for the next crisis as many would say our excesses have not been cleared out.

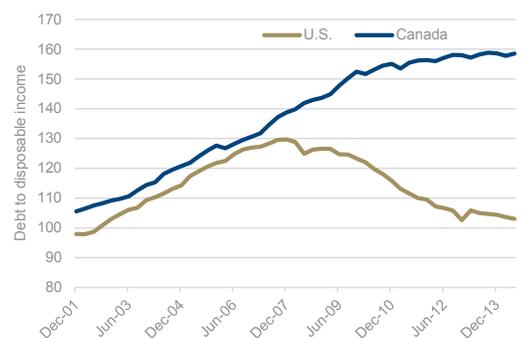
We are positive on the U.S. housing market. Households are no longer over levered as debt to disposable income has come back to much more constructive levels. Mortgage rates remain very low and while we could see an uptick later this year, we do not believe rates will move materially higher. The labor market continues to be supportive with both job gains and some early indications of wage growth. Not to mention home ownership has dropped to below 65%, the lowest level in 25 years. Trends in housing tend to be very long-term, this recovery may not be new but we believe it certainly has a ways to go. Indeed, the only headwind we see, which is diminishing, is that of tight lending standards: it is still difficult to get a mortgage.

4. Home prices – one smooth, one rocky



Source: Bloomberg

5. Americans de-levered, Canadians keep shopping



Source: Bloomberg

Canadian housing prices continue to rise thanks to easy capital and decent demand, but the backdrop is not nearly as healthy. Debt to disposable income is at an all-time high in Canada, north of 160%, far higher than the U.S. market, which is currently at 103%.

We don't believe the Canadian housing market poses a significant risk, especially with rates this low. However, a couple of scenarios could cause a change in course. A rapid rise in interest rates—which we don't foresee happening. A recession is a more likely trigger, but we just don't see this occurring in the upcoming quarters at this point. Canada would have to try really hard to have a recession with the U.S. growing at their current pace (thanks America). The drop in oil may result in Albertans believing the housing market has turned, but we don't think this will propagate nationally. So we do not expect big moves in either direction for Canadian housing in 2015 on a national basis. Worth noting is Canadian home prices are up a marginal 3.1% over the past two years, while for U.S. shoppers looking to buy in Canada, prices have declined 12% (thanks to the weak Loonie).

Europe – the value play

Looking beyond North America, prospects for economic growth acceleration are not particularly strong amongst a number of influential countries and regions. Japan is back in recession after raising consumption taxes despite continuing to turn on the taps of quantitative easing. China continues to see growth gradually decline, and the world's largest economy within the Eurozone, Germany, has also seen its share of trouble in 2014. In fact, there is speculation that Europe could revisit a number of problems that it faced earlier this decade. We would disagree with this assessment as there are a number of differences in Europe today compared to when the Euro debt crisis was at its worst.

To anticipate what may happen in Europe, let's first start with the bad news:

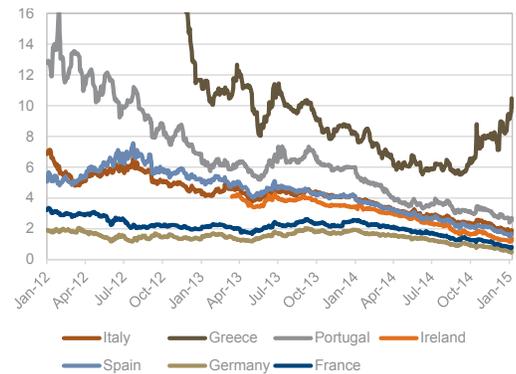
- Recent trouble has been a result of economic struggles in Germany and France. During the earlier debt crisis, these countries prevented the region from falling into a deep recession as periphery countries suffered from material austerity measures. While there are 19 countries in the Eurozone, Germany and France make up about half of the region's GDP, so if growth is going to accelerate then Germany and France will have to be the leaders in that effort. The good news is that a weakening currency could stimulate export activity as policy makers in both countries are more than happy to see the Euro decline.

However, there is also a positive comparison today when we consider the Eurozone's current situation:

- Governments and financial institutions are in a better position financially to absorb sovereign debt concerns (i.e. Greece 2.0). We won't dismiss the risk of financial contagion if a country like Greece were to default (again), or somehow leave the Eurozone, depending on the results of upcoming elections; however, the fallout would not be as severe today as it might have been back in 2012.
- Credit remains cheap and the European Central Bank (ECB) wants us to believe that it will be there to help if needed. The ECB hasn't done the best job of reassuring markets recently as policymakers appear divided and policy announcements have been much slower than what we've seen in places like Japan or the U.S. However, if push comes to shove, the ECB is expected to show up with quantitative easing measures to help keep borrowing costs low and fight deflation. As we've learned from the U.S. experience, equity markets love monetary easing, so the stronger the support from the ECB going forward, the greater the chance for equity market support in 2015.

- To highlight the Euro again, a few years ago nobody wanted to touch the U.S. dollar, so the Euro became a default go-to currency even though the region was dealing with sovereign debt concerns. Today the roles of these currencies have reversed as it appears everyone wants to own the U.S. dollar and the Euro has fallen out of favour. While a falling Euro won't necessarily solve all of the Eurozone's problems, it won't hurt a recovery either.
- The pressure for austerity measures, namely in countries such as Greece, Portugal, Spain, Italy and Ireland have eased. The ECB won't let these countries return to their reckless spending ways, but at least some of the cost cutting pressure has been alleviated which can only be positive for investment.

6. Time to start fighting deflation

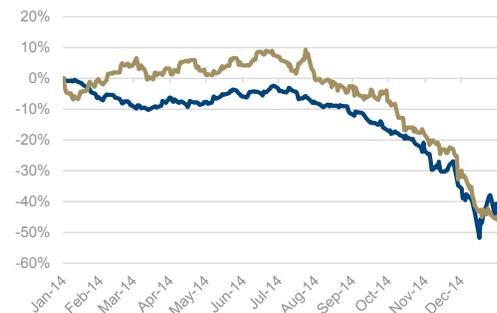


Source: Bloomberg

While Europe continues to face a number of economic and financial hurdles, we do not believe the region will revisit the same problems from a few years ago. In fact, if the Euro continues to fall, energy prices remain low, China stabilizes and the ECB comes to the table with some quantitative easing, then European equity markets could be in a position to post positive returns in the year ahead.

One risk that we have not mentioned is Russia. We suspect most Canadian investors have not put a large portion of their savings in the Russian stock market or the Ruble, so we won't dwell on risks for direct exposure to this part of the world. And if you had put money into Russia, it's not worth nearly as much today. However, there are two indirect reasons why Europe and Canadian investors should keep their eyes on Russia: 1) Energy and 2) Debt/Financial Contagion. The Russian economy relies heavily on the energy industry as it's estimated that approximately 50% of government revenues and 70% of exports are related in some way to oil and gas. The recent decline in oil prices has had a material impact on Russian government finances and the currency, which could result in the Russians bringing more oil to market in an attempt to raise more U.S. dollar denominated revenues since the Ruble is now worth almost half of its value relative to a year ago. Oil prices may be down 50% over the past year but in Ruble terms oil is only down 8%. Adding more supply to a market that investors believe is already oversupplied can only push prices lower, thus hurting our producers here at home but keeping European energy consumers content.

7. Russian Ruble and WTI Crude Oil Prices Tumble



Source: Bloomberg

On the debt front, there has been speculation that Russia could revisit its debt crisis of 1998. While we can't rule out this possibility altogether, we would note that Debt-to-GDP today in Russia, estimated around 10%, is much better than what it was 17 years ago. If there is to be a debt problem in Russia in the near term, it would likely be corporate debt rather than sovereign debt, which puts the lenders of Russian corporate debt in a precarious position. Exposure to this debt will elevate financial contagion risks amongst global financial institutions, including those in Europe.

While our comments here have focused on Russia, we would note that it's not the only economy in the world that benefitted from the commodity bull market of the last decade but it is now coming under pressure as government and corporate revenues start to decline. Brazil is another major economy that faces such headwinds along with other

emerging markets in South America and Asia. Therefore, a number of countries face default and financial risks in 2015, which has put lenders in developed markets on alert and could keep investment dollars away from commodity exporting emerging markets in the near term.

Bonds and Rates

Writing an outlook for the coming year after coming off a pretty bad call in 2014 can be a challenge. While our interest rate forecast was accurate — The Bank of Canada overnight rate remained unchanged as did the Fed Funds rate — boy were we wrong on the bond market and longer term yields! Luckily, we were closer to the mark on currency and other markets, because long bonds rallied 17% in Canada and 27% in the U.S., and the broader bond markets rose 9% in Canada and 6% in the U.S.

The theme of global disinflation continues and even looks to be accelerating as energy prices fall, which should keep a lid on bond yields. Indeed, we are starting out 2015 with some of the lowest global sovereign yields on record. Consider this assortment of 10 year bond yields: Germany – 0.50%, Japan – 0.30%, France – 0.80%, UK – 1.65%, Canada – 1.70%, U.S. – 2.15%, Australia – 2.81%.

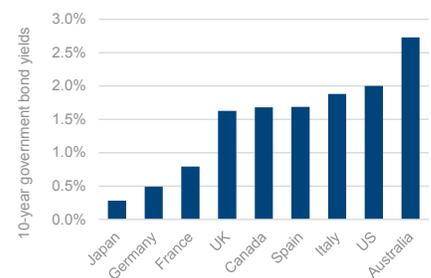
A year is a long way out to make forecasts, but we will be looking for flat to negative returns for bonds in 2015. Given the scope of the returns in 2014, and the forward-looking nature of the markets, we think that yields can stabilize at this level or slightly higher. However, the year-end number has the potential to mask some significant volatility during the course of the year. With softening economic data in most of Europe, and steady non-inflationary growth in the U.S., it is quite possible we see a deflation scare that would see bonds get bid up (resulting in, yes, yields going even lower). The probability of the opposite scenario—the return of inflation that sends yields substantially higher—seems unlikely. Europe moving from Quantitative Tightening to Quantitative Easing, should it become a reality, will also be a big factor.

Let's just remember that with the exception of the “taper” where the Fed announced they would start cutting back quantitative easing (QE) bond purchases, the bond markets have generally rallied into the announcement of QE, and not as much during its implementation. That could very well be the case occurring now in Europe with the massive rally in German bunds. If this is the case, the 150 basis point rally in 10-year German bunds over the last year should be nearing its end.

Credit

Our call of picking corporates instead of duration didn't turn out to be the right one, but it still proved to be a winner because we opted to do so in U.S. dollar, making our Canadian dollar returns look great. That masked an underlying weakness in high yield credit that had junk bond returns barely positive for the year. For 2015, we will be watching two competing forces closely. On the one hand, Zero Interest Rate Policy (ZIRP) has pushed default rates to incredibly low levels, driving returns for corporate bonds over the past five years. Now that the U.S. Federal Reserve is aiming

8. Living in a yieldless world



Source: Bloomberg

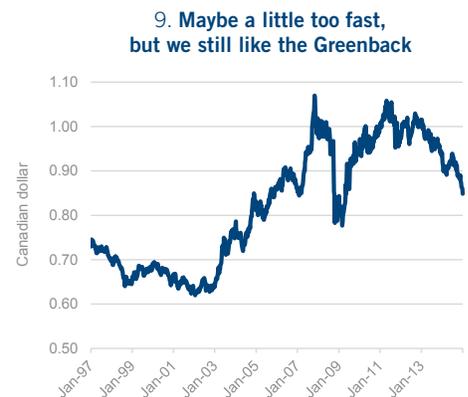
to raise rates in 2015, we are cautious that default rates will rise along with them. On the other hand, as the economy continues to grow, the financial stability of many of these companies should also improve. The net outcome? We'd expect the return for high yield to be around the coupon rate – roughly 6%.

Within the corporate bond market, we think it is time to be selective. That means buying the index may not work like it used to. Certainly given the energy sector problems specifically, there will be a great divergence within the index as to which sectors and companies are the winners and losers.

Currency

Believe it or not, the Canadian dollar has been one of the best performing currencies in the latter half of 2014. We routinely measure ourselves against the U.S. dollar though, which has been an absolute ripper, so it looks weak comparatively. There is a bit of “too much, too fast” with the rise in the Greenback that we expect to unwind, but we don't see the fundamentals as having changed. U.S. monetary policy is still the closest to tightening (raising rates) out of the major economies, while Europe appears ready to go the other way and throw some monetary gasoline on their economy with some quantitative easing. Canada has its challenges, with high household debt and a rapidly cooling oil patch slowing down in western Canada – we are unlikely to embark on a tightening policy in 2015. Ultimately, these things favour the greenback, and we are keeping with our view that the U.S. dollar is a better place to be.

Given the recent run-up, we will be tactical with our entry points out of Canadian dollars and into U.S. dollars, but still have no fear of looking south, unhedged, for better investment opportunities.



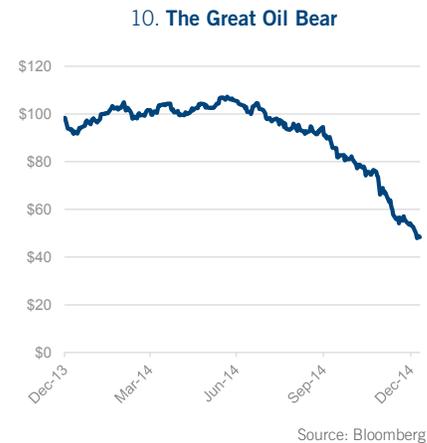
Source: Bloomberg

Commodities

The Greenback's incredible climb has also been contributing to the declining prices for all commodities, since these are priced in U.S. dollars. That being said, some commodities have been hit worse than others. We find it interesting that despite the U.S. dollar strength in 2014, gold managed to finish the year roughly flat. As a result, gold, measured in just about any other currency, rose during the year. While we are not gold bulls, we are becoming somewhat more intrigued. U.S. dollar strength and deflationary pressure will remain a headwind but there are some positives. India's economy is one of the bright spots globally, and they do like to import gold. At a corporate level, oil/energy is a key cost component of production, which has clearly become cheaper. Gold's potential is worth pondering.

Turning to oil, the world went from chugging along to “OMG, where did all this oil come from?” It's actually a bit surprising that it took the markets this long to realize the absolute magnitude and ramifications of the U.S. energy renaissance. With U.S. production back to 1985 levels, it has risen enough to tip the balance of supply and demand towards oversupply. Keep in mind, much of this was known when oil was \$95 but how abruptly perception has changed.

The ~50% decline in oil prices has certainly resulted in a lot of pain. So where to from here? Normally, low prices solve themselves as production is curtailed and there has been no shortage of producing companies cutting capital expenditure (capex). But many are claiming production growth will remain – but somehow that doesn't add up. We are remaining on the cautious side in the short term as spring historically sees the lowest oil demand. We believe this soft demand will be interpreted as a weakening global economy and should keep a lid on energy share prices. We think this will be a long enough period from now to see lower capex actually result in reduced production as well. And who knows, maybe a little elevated geopolitical risk could help too. There is opportunity on the horizon, however with speculators ruling the oil commodity pits at the moment, timing may prove difficult. Stick with high-quality energy assets with a strong balance sheet and predictable cash flows. Integrations also provide a buffer as their downstream business activity insulates against the collapse in crude.

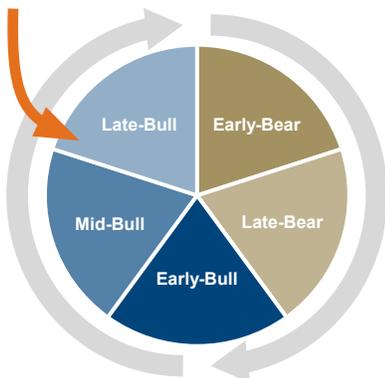


Late-Bull with legs

We have some good news and some bad news as we enter 2015. The bad news is we believe the North American markets have entered, or are about to enter, the third and final phase of the current bull market – the Late-Bull phase. And after a bull market ends, well, what follows isn't nearly as pleasant. The good news is the Late-Bull is often the longest phase and we believe this bull has some room to run.

Our Market Cycle Asset allocation model breaks the market cycle into five phases, Early-Bear, Late-Bear, Early-Bull, Mid-Bull and Late-Bull. Last summer, we published our view that we were in the Mid-Bull phase but getting much closer to the end. So why do we believe we are transitioning from the Mid-Bull to Late-Bull phase of the cycle now? The Mid-Bull phase is characterized by more sustainable economic growth and stabilized monetary policy, both of which have been in place for some time. Plus, the return of credit growth and steadily improving company fundamentals, including not just earnings but sales growth. Many of these factors have been present for the past couple of years and are present today, with credit growth and sales growth just returning more recently. However some of the Late-Bull characteristics are coming to the surface. U.S. Capacity Utilization has crossed above 80%. Sector performance divergence is on the rise, which means we are starting to see market leadership narrow. The Fed is expected to begin raising rates, albeit slowly and from a low base with tightening monetary policy also being a key characteristic of the Late-Bull phase.

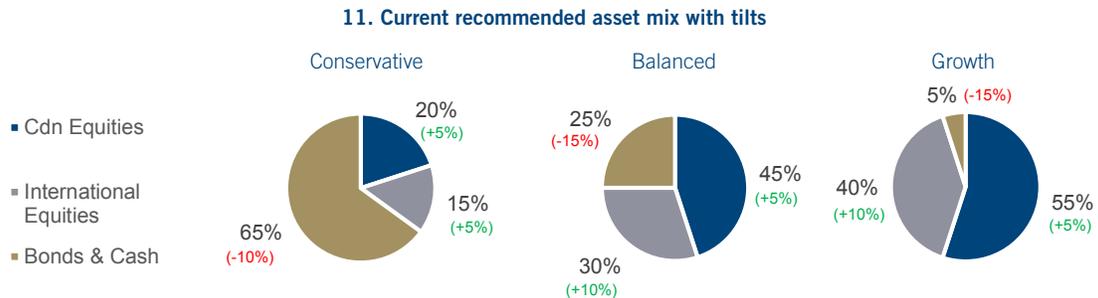
We believe we are here



While pinpointing a time that we transition from Mid to Late-Bull is not realistic, the evidence is mounting that we have already done so or will transition into this last bull phase in short order. The last phase of a bull market tends to have increased volatility but also some of the best gains of the cycle. The economic data continues to improve and during the Late-Bull phase some inflationary pressures begin to surface. We have not seen these yet, but there are some early signs: Monetary policy begins to tighten or becomes less accommodative. Leadership, at the sector or industry level, narrows or becomes established.

Investment implications of the Late-Bull phase

While the Late-Bull phase often enjoys strong equity returns, it is also a bumpier ride. And much like we are seeing divergence between various global economies and the direction of central bank policies, divergent returns between markets and sectors will also become the norm. Entering the Late-Bull phase does not have us altering our asset allocation weights at this time, we are remaining overweight equities, with an international bias, at the expense of bonds/cash. We have included the current tilts to our baseline asset allocation profiles in red and green.



But, as the Late-Bull phase matures, we will change our investment strategies. Here is what we would expect:

Bigger market swings – Divergent economies, divergent monetary policies, and divergent leadership will all contribute to greater market volatility in both directions. Essentially, as the Late-Bull phase of the cycle matures, we would expect to see bigger market swings than we have seen in the past few years. The volatility at the tail end of 2014 was likely a preamble to the coming few years in our view. These swings should offer some investment opportunities as we continue to believe the Early-Bear phase is still a number of years off. So at least in the coming quarters, buying the dips will remain a very constructive strategy. Conversely, during periods of strength, reducing beta in small increments should be embraced. Be tactical and don't be shy about holding cash.

America! – Alright, this is a repeat of so many past quarterlies, but still applies, and this time we are even using the same title. The U.S. economy is poised to be the growth engine for the global economy in the upcoming quarters. We don't see the Fed upsetting the apple cart and believe monetary policy will remain fairly accommodative. Valuations are not cheap but nor should they be. Corporations are healthy, margins are high, labor has limited bargaining power, energy costs are falling, and the consumer and corporations have de-levered making this an okay environment to have valuations slightly above historical averages.

Within the U.S. market, we have a number of preferred strategies or themes:

Corporate spending or capex – We have long believed we are near the beginning of a secular rise in capex and have written this in past installments. Yes, it is still a tad early but becoming more emboldened. With two strong quarters of nominal GDP growth, corporate spending tends to start picking up. Plus, we have seen an uptick in corporate confidence evident in surveys, as well as the near record level of mergers and acquisitions we witnessed in 2014.

12. Price-to-earnings ratios for the TSX & S&P – elevated but reasonable



Source: Bloomberg

With strong balance sheets, decent profits, an abundance of cash, lots of confidence and now rising demand, companies are poised to begin ramping up corporate spending.

However, this view needs a bit of refinement. Energy capex will continue to decline in response to lower oil prices, and emerging markets capex demand may disappoint as well. This has us much more selective on the capex plays among the industrials, focusing more on domestic U.S. demand without too much energy exposure. We remain unabashed that technology spending will rise nicely in 2015.

All hail the consumer – Energy prices are down, unemployment is falling and even wages have seen some mild improvements. U.S. household debt is back to levels akin to 2002, before the housing boom/bust. Personal wealth has been helped by steadily improving home prices and clearly a healthy stock market. Add to all of this a strong U.S. dollar, it is the perfect mixture to have the U.S. consumer once again provide the heavy lifting for the global economy. Okay, maybe “heavy lifting” is a bit overblown, but there are many reasons to believe in consumer sensitive investments in 2015.

Indirect America – As the TSX licks its energy induced wounds, there are a number of pockets in our market that have greater U.S. or international exposure that may be worth focusing on. Canadian manufacturing is a tad sparse these days but looking for Canadian companies that either operate a significant amount of their business in the U.S. or sell into the market should benefit from a weak Canadian dollar and a stronger U.S. economy.

In summary, play the Late-Bull phase:

- Remain overweight equity vs bonds
- Begin trading up the quality spectrum / lower beta
- Active management tends to outperform during this stage
- Buy the dips now, but in a few quarters it will likely pay to stop doing so
- Focus on U.S. domestic demand (this goes for U.S. listed and Canadian listed companies)

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