June 2017

Dear Client,

The second quarter of 2017 started off pretty much where the first quarter left us: mired in uncertainty. On the political front, the election of Emmanuel Macron as French President helped ease some of the fears linked to the rise of populism in Europe. Unfortunately, on this side of the pond, U.S. President Donald Trump executed on his threat to impose trade tariffs – not with China or Mexico as expected, but with his friendly northern neighbour, Canada. Then, he turned the spotlight on himself by firing FBI Director James Comey for no just reason… until we learned there were allegations Trump had asked Comey to hold off on the investigation into National Security Advisor Michael Flynn’s involvement in the Russia scandal.

In such an environment, it was surprising to see U.S. equity markets manage to achieve new highs in June. The reality is that, except for a handful of information technology mega caps referred to as FANGMA (an acronym for Facebook, Amazon, Netflix, Google, Microsoft and Apple), this leadership came primarily from higher-quality stocks. Meanwhile, with oil prices tanking anew, energy stocks took a plunge during the quarter. This mostly explains why the resource-heavy Canadian market continued to lag its peers, posting a negative return during the period. Finally, the reversal of the USD domination of recent years continued to help overseas markets outperform.

This goes to show that diversification is key in portfolio management. Given that nobody holds a crystal ball, the best way to smooth out your returns is through comprehensive portfolio diversification. That is specifically what our all-weather portfolios aim to do. With bond yields low and rising, we are diversifying the interest-rate risk through non-traditional strategies. We continue to value equities as the asset class that offers the highest return potential in an environment where consumer confidence remains high, boosted by strong job momentum. However, after eight years of stellar performance, we think an equity stance oriented toward low volatility and minimum drawdown strategies is the best course of action for the coming years. Finally, we seek additional diversification through private infrastructure and real estate, two asset classes that tend to be uncorrelated to traditional stocks and bonds.

All in all, our prudent approach produced risk-adjusted returns above benchmark in Q2, and for most of our core profiles so far this year. We will continue to closely monitor the upcoming economic and financial developments to the benefit of our clients.

Thank you for your support,

Martin Lefebvre
Chief Investment Officer, National Bank