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ASSET MANAGEMENT

"Germane Thoughts"

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"Down goes Frazier! Down goes Frazier! Down goes Frazier!" Apologies to those not familiar with the legendary call by Howard Cosell during the 1972 tilt between reigning heavyweight champion Joe Frazier and number one ranked opponent, George Foreman, but after the August we just experienced in global equity markets, it's hard not to feel like I'm lying on the mat waiting for the ten-second count to end.

After a headline filled July with Greece narrowly escaping an exit from the European Union, Iran signing a new nuclear accord with the U.S. plus a month long crash for the Chinese stock market, August started off poised to gain some stability. However, stability quickly turned into volatility as equity markets started their rout and ended the month down anywhere from 4.2% for the TSX Composite Index to -12.5% for the Shanghai SE A share market. The reasons are varied and include concerns about the U.S. Federal Reserve's strategy (ie. hike or no hike) as well as what the impacts from a slowdown in China and other emerging markets will be for the global economy.

Global equity markets generated negative returns across the board in August. As noted earlier, Chinese markets led to the downside with the Shanghai A share market declining 12.5% in August. As at the end of May, the Shanghai A share market was up 42.5% so far in 2015 but three months later, it is now up only 0.61% year-to-date. Back here at home, the TSX Composite declined 4.2% in August, while south of the border, the S&P 500 Index declined 6.3%, bringing the YTD returns to -5.3% and -4.2% respectively.

The Health Care sector in both Canada and the United States gave up some of its considerable year-to-date outperformance in August as the sector declined 8.9% and 8.0% respectively. Meanwhile, the defensive, high yielding Utilities and Telecommunication Services sectors were the best performing sectors in both Canada and the U.S., but still posted negative returns for the month.

Currency and interest rate volatility remained elevated in August after the People's Bank of China ("PBOC") allowed the yuan to depreciate almost 2% against the U.S. dollar on August 10th in response to weaker trade numbers for the month of July. Meanwhile, yields on 10-year bonds rose across Europe with yields in Spain backing up 28 basis points to 2.12% after the country reported the strongest growth in GDP in Europe for the second quarter at 3.1% on a year-over-year basis. With quantitative easing in Europe and Japan likely to continue as well as emerging market currency wars ongoing, we would expect currency and interest rate volatility to remain elevated for the foreseeable future.

Economic statistics reported in August continue to suggest the U.S. economy remains on stable footing. U.S. housing continues to improve as evidenced by the National Association of Home Builders market index rising to 61, its highest level since November 2005. Also, the unemployment rate remained at 5.3% in July, its lowest level since April 30, 2008.

Meanwhile, growth in Canada continued to remain challenged in the second quarter as real GDP declined 0.5%, technically putting Canada into a recession as the economy has contracted two quarters in a row. This has been reflected in the Canadian dollar which ended August at US$0.76, its lowest level since July 2004.

With the spike in CBOE SPX Volatility Index ("VIX") over the past few weeks from the low teens to 28.4% at the end August, the Funds have been more active in terms of writing covered calls and have also increased the cash positions to provide some downside protection.

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