Jack Way
Vice President

"By The Way"

March 2018

""We learn from history that we do not learn from history"

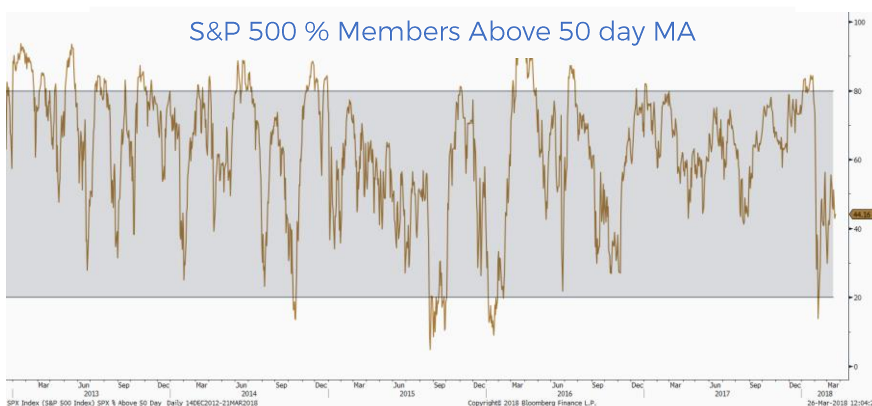
As promised, for the past month we have been closely watching the internal strength of the S&P 500 for signs that this correction/consolidation will resolve itself to the upside and then we would see a continuation of the bull market. In particular we want strong breadth, which is to say that we want to see a large majority of stocks moving higher, not that a few big cap stocks are responsible for the increase in the index. Since the severe decline and then rebound of early February, the S&P has been more or less range-bound with positive and negative days seeming to almost offset one another. Such periods, as the market attempts to regroup before breaking out of a range, are often useful times to gauge which direction the next move is likely to be, and breadth is one key indicator. So far, and it is still only a short period of time, the results have been shall we say tepid. When the market is up, on average only about half the stocks in the index are participating in the rally, and also of concern less than 40% of NYSE stocks are currently above their 50-day moving average. These are not levels that are necessarily alarming, but definitely fall short of giving us total confidence in our bullish outlook. Another thing making me uneasy is the continuing high level of bullish sentiment despite the February bloodbath. For example, the Investors Intelligence Survey shows there are over 3x more bulls than bears, and in addition the put/call ratio is signalling a disturbing complacency among investors. Sentiment is a contrary indicator, and as such we would like to see more people worried about the market. I maintain my positive outlook and expect market breadth to improve, but I will continue to monitor market internals for any further signs of stress. There is still the risk of testing the February lows, although corrections can play out in terms of magnitude or time. So I will remain patient and let the market tell its story, not try to bend a forecast to my preconceived notion of what ought to happen. Fence sitting is not a long-term strategy, but there are certainly times when it is prudent to not act in haste. We all make wrong decisions, but we don't want to make a bad one.

If stock markets aren't confusing enough, now the economy is showing some signs of a pause. Last month, I went to great lengths to advocate the theory that with less monetary stimulus a stronger economy would support higher markets. At that time, the Atlanta Fed was calling for U.S. 1st quarter GDP to grow at 5.3%, but has since walked that number back to a current 1.9%, which is more like the glacial recovery of the last 5 years. That's a big change in a short space of time which has been caused by a myriad of economic releases coming in below estimates. A short list would

include retail sales (which were actually negative), housing starts and permits, and the Citi Economic Surprise Index, (which is now almost half of where it was at the beginning of the year). Still, I am not that easily dissuaded from my original forecast. There are reasons to hope for better things in the rest of the year, given the expectation that fiscal stimulus will kick in. The so called soft data reports, such as Leading Economic Indicators and Purchasing Manager's Index remain expansionary (and that is true globally as well). The December tax reform legislation, a reduced tax rate on repatriated corporate funds held abroad, and budget deals that deliver increased government spending will provide a reservoir of capital that should contribute to economic growth. This time, if surveys are to be believed, corporations intend to use at least some of these windfalls for productive investment.

Geopolitical events have always had at least a short-term impact on markets, and nothing has changed in that regard, but President Trump has taken things to a whole new level. As someone said, predicting what Trump will do or say is not a good choice for a long-term career. But if there is one consolation, it seems, at least to me, that his bark is worse than his bite. Probably a left-over from his business style, he makes outlandish statements as a negotiating position and then backs off to be somewhat more reasonable. Recent examples would be the steel and aluminum tariffs, and the NAFTA negotiations. Nevertheless, he is often walking a tightrope where any miscalculation would negatively impact all of us. Trading barbs with the enigmatic leader of a country with atomic weapons, or challenging the world's second largest economy to a trade war creates uncertainty, and we all know the market hates uncertainty. Protectionism, isolationism and tariff wars are more to be feared than higher interest rates or slower economic growth, and could produce broader and more significant consequences than merely a market downturn (see the 1930's).

On that final note, I think this quote from the Austrian philosopher Hegel is very relevant; "We learn from history that we do not learn from history".



Forward Looking Information and Disclaimer

This document may contain certain forward-looking statements. These statements may relate to future events or future performance and reflect management's current expectations. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Although the forward-looking statements are based upon what management believes to be reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Neither the Funds nor their respective managers assume any obligation to update or revise any forward-looking statement to reflect new events or circumstances. Actual results may differ materially from any forward-looking statement. Historical results and trends should not be taken as indicative of future operations. The Fund is not guaranteed, its value changes frequently and past performance may not be repeated. Unless otherwise indicated and except for returns for period less than one year, the indicated rates of return are the historical annual compounded total returns including changes in security value. All performance data take into account distributions or dividends paid to unitholders but do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns.

strathbridge
ASSET MANAGEMENT

121 King Street West, Suite 2600
Standard Life Centre, P.O. Box 113
Toronto, ON
M5H 3T9

Tel: 416-681-3900
Toll free: 800-725-7172
Email: info@strathbridge.com