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# Parkland County Economic Update: *May 2016*

**Presented By:**

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# The American Redux: 7th Inning?



# 2015 - A Volatile Year For Investors

## 2015 Price Returns

- TSX 60 Index (Canada) = -11.23%
- S&P 500 Index (U.S.) = -0.69%
- Canadian 1-5 Year Laddered Corporate Bond Index = -1.69%



## So here's the bad news....

- The TSX has quickly become a proxy for the price of crude oil
  - *Resource stocks and anything related remain under pressure in the market*
  - *The Canadian banks have become quasi-‘oil stocks’ to foreigners.*
  - *We are currently deemed by the outside financial world to have a housing bubble on the verge of collapse*
  - *We have a new government with large deficits being discussed (and still growing)*
  - *We have a sputtering economy and a Bank of Canada talking about ‘negative interest rates’*
  - *All of this has put tremendous pressure on the*



## But there's a silver lining...



- The market is great at one thing: *Pricing in the bad news*
- While it's entirely possible in the short term that oil may indeed go lower, the bottom is certainly getting much closer.
- The Canadian housing market isn't on such hollow ground as we're being told.
- Lots of great companies look cheap
- Our largest trading partner is still in good shape, therefore we're somewhat 'kept afloat' by virtue of association.
- While the real economic turnaround in Canada may be slow to materialize, the worst indeed looks to be over.





- The Bank of Canada (BoC) has recently discussed the idea of negative interest rates.
- Although it's not likely something we'll see, there was a strategy to what Stephen Poloz was saying.
- With the banks overnight rate at only 0.50%, the BoC is running out of 'tools in their box' to combat a lethargic economy.

- *The 'Bank vs. Your Mattress'*
- Negative rates have been done elsewhere previously, but to mixed results
- Many countries in the Euro Zone (including the ECB) currently employ negative interest rates

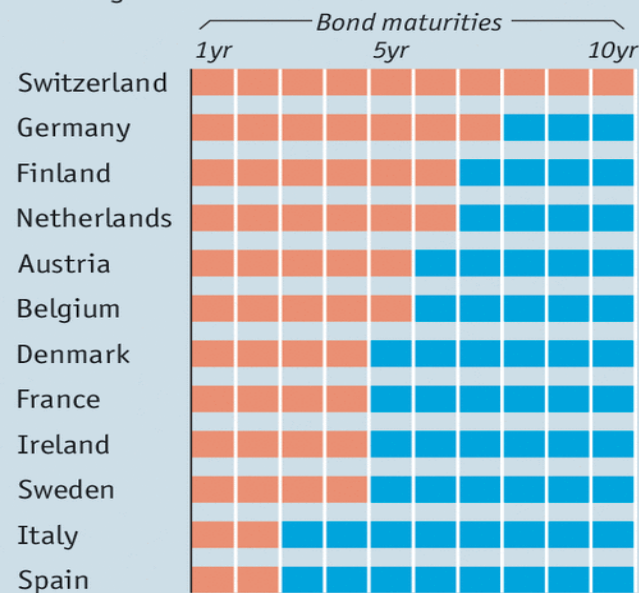
## Money for nothing

Government-bond yields

Selected European countries, November 25th 2015

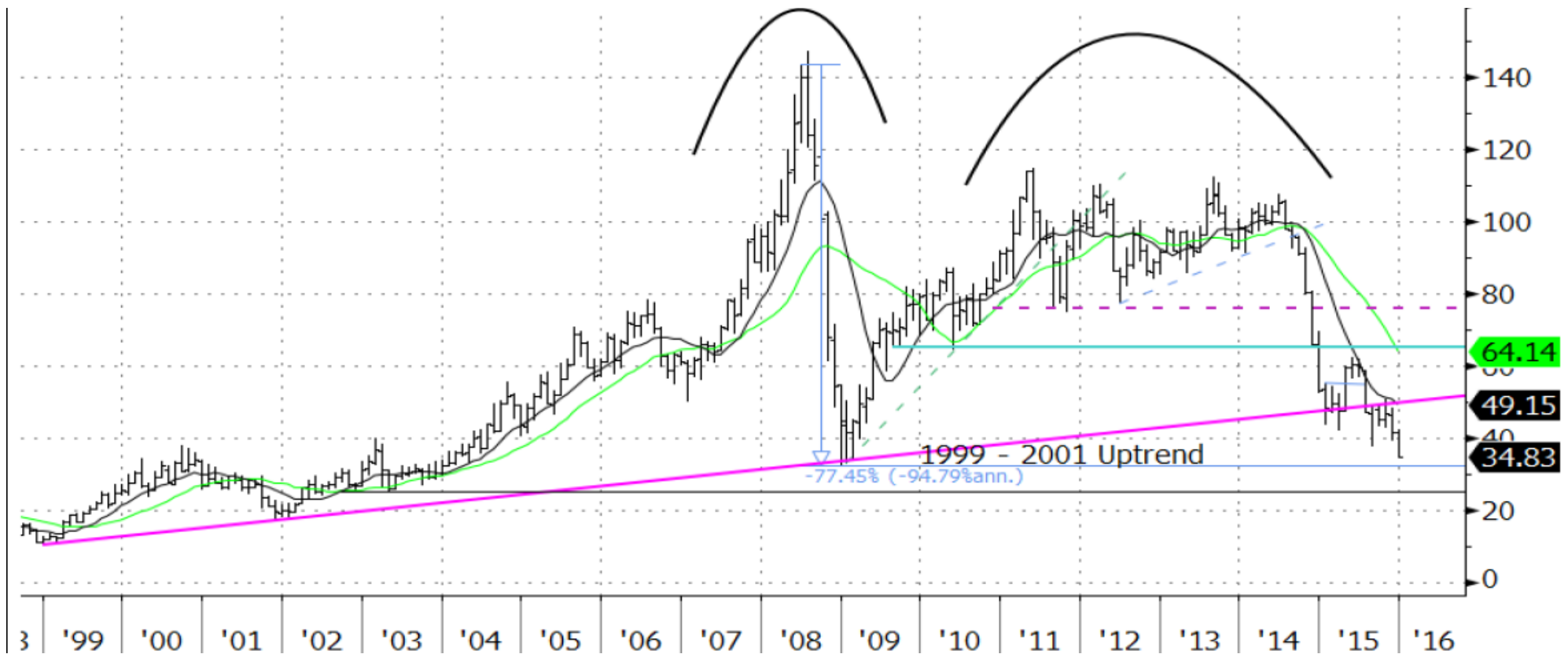
■ Negative

■ Positive



Source: Bloomberg

## The Structural Energy Bear Market



\* - U.S. WTI Continuous futures contract (monthly)

## *Preparing for an inevitable rebound in oil prices*

- WTI crude oil price: +84%
- CRB Commodity price index: +15%
- Canadian dollar: +4% (+10% two years post-trough)
- Winning sectors: Energy, Materials and Tech
- Losing Sectors: Utilities and consumer staples
- Emerging market equities: +31%
- CBOE's equity market volatility index (VIX): -14%
- 10-yr U.S. Treasury bond: -3%
- Small Cap stocks (Russell 2000): +8%

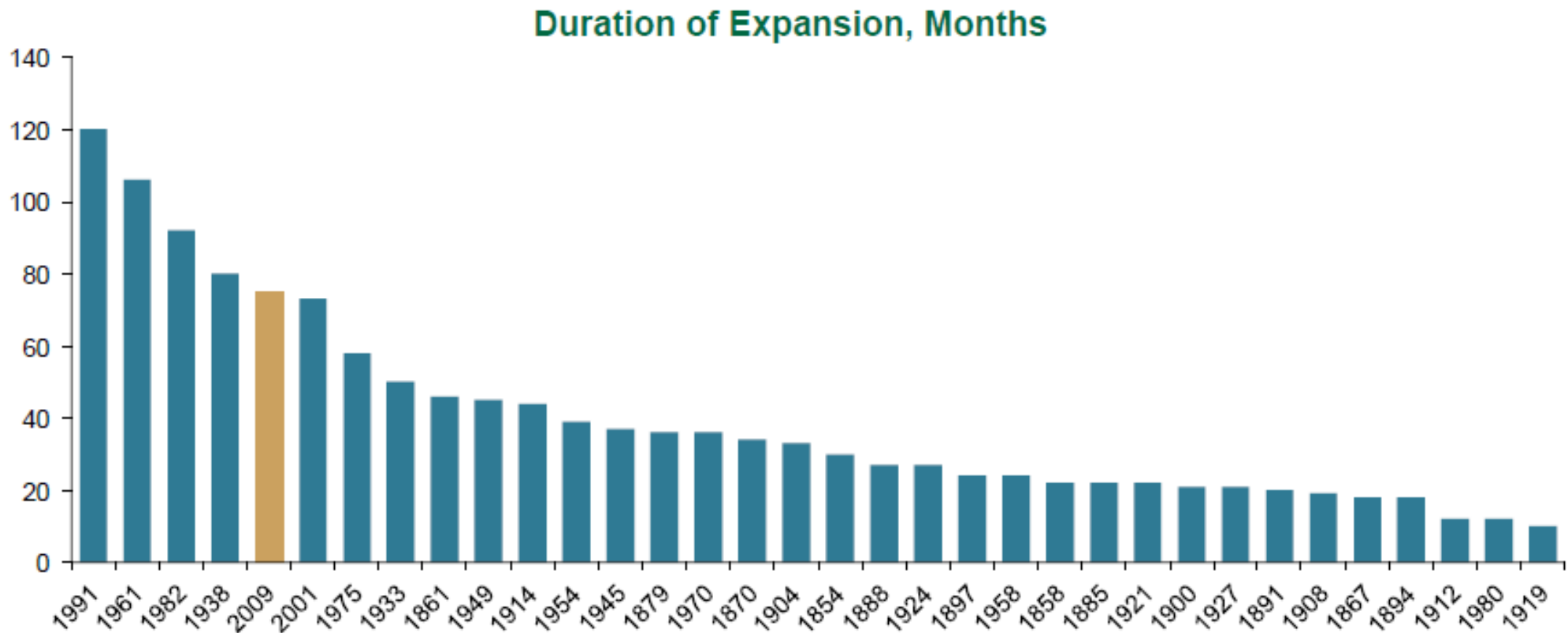
Source: Barron's, David Rosenberg (Gluskin Sheff)

**However this rebound may be slower to materialize than historical precedent**

\* - *Historical results for the ensuing 12-months after previous bear market lows in oil*

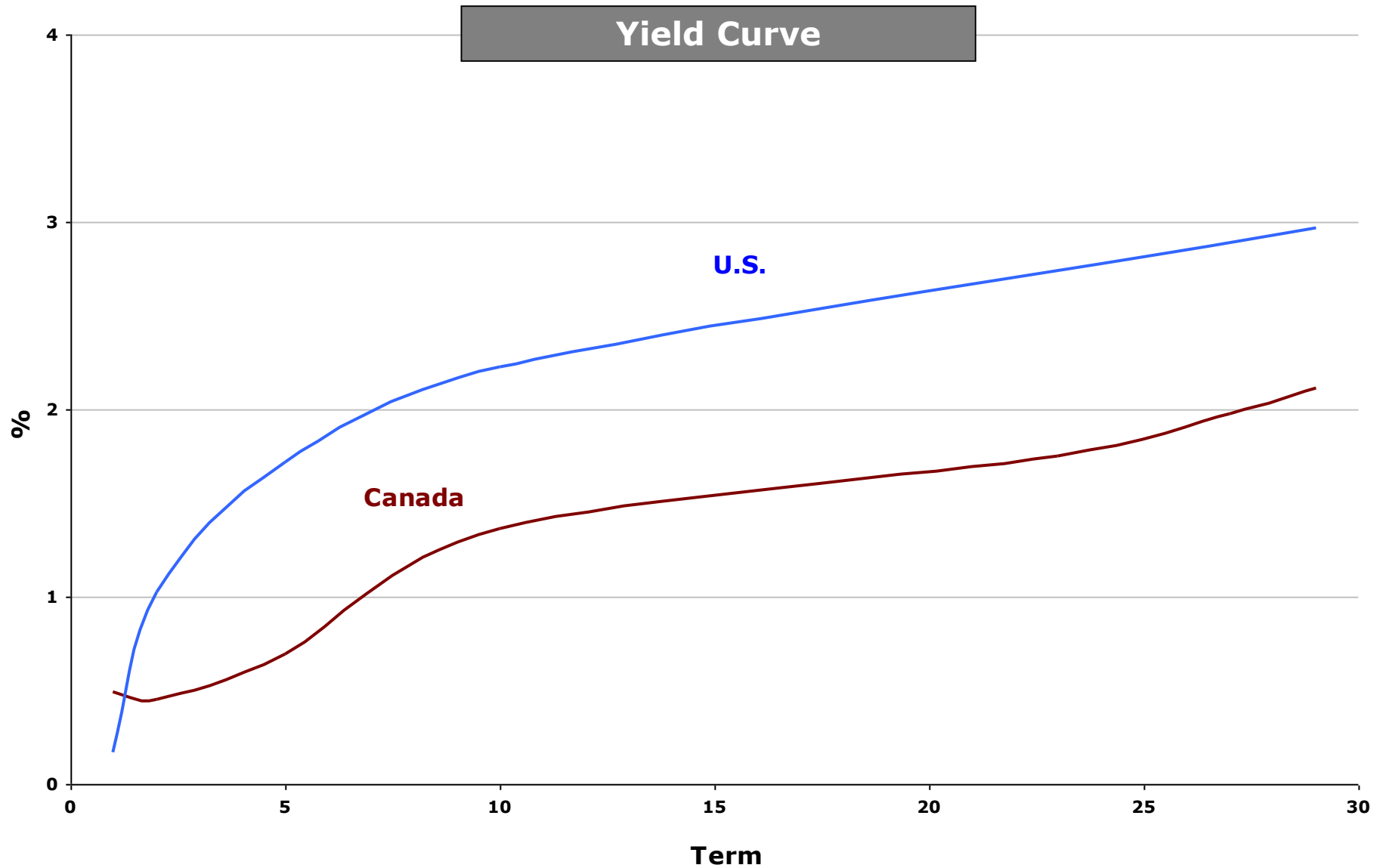


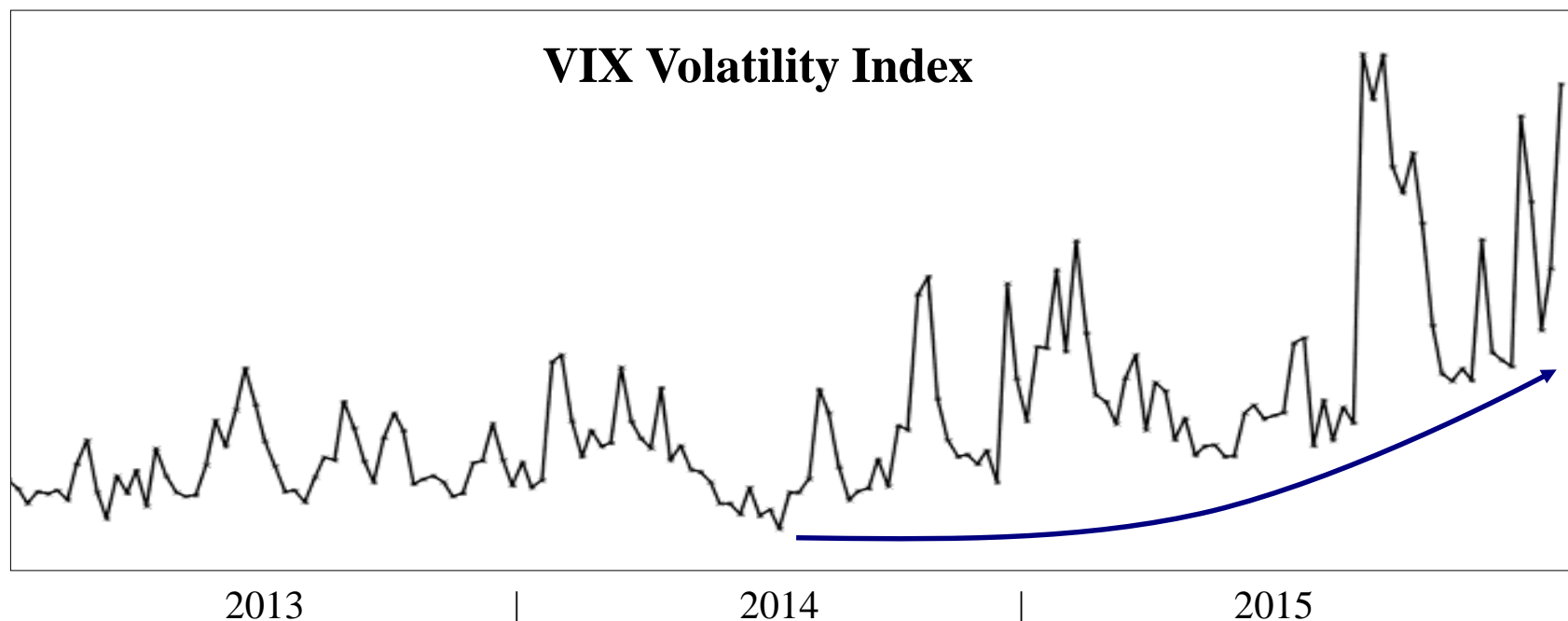
## While Each Time Is Different, We Are Currently In The Fifth Longest Expansion In American History



As of September 22, 2015  
Source: National Bureau of Economic Research

# Bonds: The Yield Curve





## ***Oil Drops to 12-year Low on China Worries***

Bloomberg: Jan 5, 2016

## **Return of the Northern Peso**

Globe & Mail: Jan 7, 2016

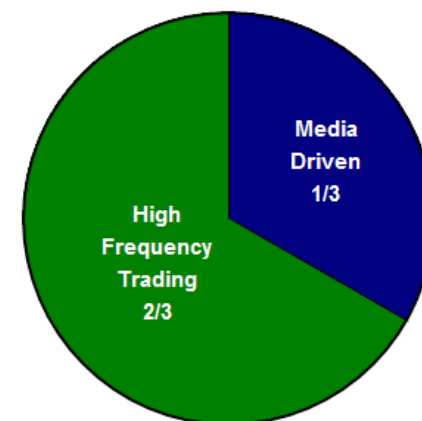
## **Group layoffs in Alberta close 2015 at more than 17,000**

Calgary Herald: Jan 7, 2016

## **Dow Plunges 1,000 Points Amid Global Stock Sell-off**

Fortune: Aug 24, 2015

### Causes of Volatility



Source: Bloomberg, CIBC World Markets

# **How does this effect Parkland County?**

# Questions?