Issue 5 Friday, February 3, 2017

Yesterday was Groundhog Day and according to Punxsutawney Phil, we are in for another 6 weeks of winter, and in a stroke of irony it is snowing this morning. Go figure. But if you are a skier, get those runs in sooner rather than later, as Phil has historically been right only 21% of the time.

This week we expand on our last commentary as we navigate what Eric Lascelles referred to as an altered landscape to make sure that you stay on the right side of change. While economic conditions continue to improve globally and growth is solidifying, the rise of populist and protectionist politics has made the impact of this growth more uncertain.

Global growth has picked up meaningfully since its trough in early 2016, and today we saw job growth in the United States surge more than expected as business confidence continues to grow. With payrolls increasing at greater than 200,000 per month, an unemployment rate less than 5% along with rising commodity prices we also expect to see a bounce in headline inflation. So you can see where we are going with this, the atypical on the one hand positive and on the other potential negatives. Thus our stance that greater attention needs to be paid to risk outcomes, i.e.: keep you on the right side of change.

The one thing that we do know for certain is that over time earnings growth is what drives capital market value; therefore in 2017 we would advocate that investors forget about chasing high dividend yields, rather that they own high earnings growers. Within the context of expected earnings acceleration, we see the strongest earning acceleration coming from the Global Consumer, Technology, Energy and Material sectors. Thus we continue to suggest that growth investors own companies like Alphabet, Rio Tinto, Amazon, Enbridge, and Suncor Energy etc…

However, we would caution investors to keep expectations in check, as the gradual rise in U.S. interest rates will mean that the higher yielding "bond proxy" sectors such as Telecommunication and Utilities are relatively expensive and represent downside risk to us. While Utility stock dividends provided great value in recent years, they now represent greater risk as bond yields rise. Again, be on the right side of change. It is time to sell Telus, BCE and Algonquin Power as while they are good companies, it is just that they are now high risk companies.

In this challenging environment, it will also pay to consider the full range of the income universe. As yields are driven higher by GDP growth and inflation, U.S. floating rate loans and high yield bonds look set to offer the best value. We have mentioned many times that the IA Clarington Floating Rate managed by Jeff Sujitno, the Fulcra Credit Opportunities managed by Matt Shandro along with the Deans Knight Income Fund are excellent stewards of the capital we have invested for income needs.

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Some have said that the capital markets are already fairly valued given the post-election bump, and that investors should have relatively subdued expectations; and for those investors who do not change their portfolios amid this changing political and economic landscape we would fully agree.

Balanced against this outlook, we have a more optimistic outlook as we adapt to these risk outcomes and keep you on the right side of change. It is our belief that changes that incorporate macroeconomic trends along earnings growth expectations as we assess undervalued opportunities will be supportive of keeping both income and growth investors on the right path in 2017.

This Sunday, Houston Texas will be hosting the New England patriots and the Atlanta Falcons in Super Bowl 51. Whether you watch for the game or Lady Gaga at halftime or just those US commercials (if you can get the feed), it should be a great event. Enjoy cheering for your favourite team.

Thank you and enjoy the weekend with friends and family.

Sincerely,

Dekker Hewett Group

TODAY'S STOCK WATCH

S&P/ TSX Composite	15,473
Dow Jones Indus. Avg.	20,052
S&P 500	2,295
Canadian/US Dollar	$0.7678
US/Canadian Dollar	$1.3024
Euro / Canadian	$1.4016
Gold	$1217.50
Silver	$17.40
Copper	$2.62
Brent Crude Oil	$56.71
WTI Crude Oil	$53.72
Natural Gas	$3.07

*As of 11:25AM on Friday, February 3rd

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