Foresters Asset Management Inc.

Market Commentary

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Gregory Ross is Chief Investment Officer (CIO) and Head of Fixed Income investments, with over 25 years investment experience. As Head of Fixed Income, he oversees bond investments totaling more than $6 billion CAD on behalf of retail, institutional and insurance clients.

In his role as CIO, he is responsible for firm wide investment management oversight, policy, direction and execution on portfolios totaling more than $10 billion CAD. Greg leads a team of investment professionals covering North American equities, fixed income, equity income, balanced, asset allocation, money market and ETFs. Greg also serves as Chair of FAM's Asset Allocation Committee, and this report captures the salient points from our most recent asset mix discussion.

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CIO's Mid-year Update

Market Indicators

	Yield	Return YTD	Return 1 Year
Canadian Fixed Income Indices			
FTSE TMX Canada Universe Bond Index	1.68%	5.11%	6.36%
FTSE TMX Canada All Corporate Bond Index	2.39%	4.84%	5.38%
FTSE TMX Canada ST Overall Bond Index	1.06%	1.26%	1.75%
Stock Market Indices			
S&P/TSX Composite Index (CAD)	14,361.88	12.24%	2.85%
S&P500 Index (USD)	2,137.16	5.81%	5.20%
S&P500 Index (CAD)	2,805.88	0.46%	8.60%
Eurostoxx Index (EURO)	2,931.34	-8.67%	-14.90%
Nikkei Index (YEN)	15,708.82	-16.67%	-19.10%

	Level	Change YTD	Change 1 Year
Commodities			
Gold (USD)	1,355.40	27.74%	16.47%
CRB (USD)	187.95	6.00%	-14.45%
Copper (USD)	214.70	0.56%	-15.66%
Oil - WTI NYMEX (USD)	44.76	18.54%	-15.13%

Source: Bloomberg, as of July 11, 2016.

While it is easy to be distracted by market volatility witnessed in the first six months of 2016, it is worthwhile to pause and review the broad performance of the various markets over that period.

Once the dust settled, the Canadian stock market was up 9.8% on a year to date basis, as at June 30th, and has continued to rally since. The greatest contributors to Canadian equity performance were stocks in the Energy and Materials sectors, where the appreciation of oil and gold drove up stock prices. Unfortunately, the bulk of the increase has been concentrated in companies which present weak fundamentals and are not appropriate for inclusion in our portfolios. The Canadian bond market was up a respectable 4.1% over the same period and is now at 5.11%. Corporate bond spreads improved nicely over the course of the first half, as some stability and normality returned, following the Brexit vote.

Commodity prices, as a whole, were up 9.3% YTD, which was led by a 30% move up in oil prices from their lows. Finally, the Canadian dollar strengthened 7.1% by June 30, versus the U.S. dollar. All of these gains are even more significant, given the initial downward price action experienced during the first three weeks of the year.

It is interesting to note the speed at which the market corrected itself and then rebounded. Rapid changes in market tone have become more commonplace in recent years. In the past, bear markets could take months to develop and play out, however now, the same market move can take place over a period of weeks.

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Market movers

At the start of the year oil prices hit lows of less than $30 per barrel. Lower prices were responding to a re-evaluation of anticipated oil supply from the Middle East, following the normalization of relations between Iran and other nations, including the U.S. The increase in expected volume resulted in significant price declines in anything oil related, and were accompanied by dramatic declines in the Canadian dollar and global equity markets.

After the first three volatile weeks of 2016, global markets rebounded rapidly, as market participants began to regain their sanity and focus again on company fundamentals. North American central bank activity was quiet over the first half of the year, with divergent expectations between Canada and the U.S. The Bank of Canada has signaled clearly that it is on hold for any interest rate announcements, while waiting for the effects of the two rate cuts in 2015, the lower Canadian dollar, and the announced federal government fiscal stimulus measures, all expected to have a positive impact on the economy. Concurrently, the Federal Reserve has repeatedly indicated that it may move to increase interest rates, but has so far been unable to do so, due to weaker than anticipated economic growth and global risk concerns.

Many of the concerns regarding global risks presented in the first half of the year coalesced around the Brexit vote on June 23. In retrospect, the market was too complacent regarding the outcome of the vote, and therefore, reacted negatively following the release of the finalized results. While the broader implications to the U.K. and European growth will be felt for some time, the near term reaction was exacerbated by multiple changes of leaders and confusion over the upcoming negotiation process for Britain to leave the European Union. It certainly raises the issue of the viability of the European Union as a whole. Foresters Asset Management believes this is all contributing to the extreme price action we continue to see in the overseas markets. While the Bank of England stands ready to defend the British economy and provide stimulus, market participants are also looking beyond any immediate action to the long range implications.

Outlook for remainder of 2016

For the second half of the year, we are expecting a more stable environment, marked by less “event risk”. We continue to believe, and consistent with the Bank of Canada’s view, that economic growth will build in Canada over the second half of the year. We feel it possible that the Federal Reserve will continue to be “on hold” for the remainder of 2016, though one hike during the second half remains a possibility. While this would normally bode well for markets, we are concerned that markets have appreciated significantly already. This may mean that the returns earned in the first half of the year may account for the majority of 2016’s performance, though valuations remain reasonable and corporate earnings and balance sheets are broadly healthy. What is clear from the volatility experienced thus far in 2016, is that we can expect interest rates to remain low and returns to also remain in the single digits, over the short term.

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