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“See-Saw Up and Down”. Apologies for the nursery rhyme analogy but with 3 young ones, it’s the first thing that comes to mind when reflecting on equity returns for the first quarter of 2015. After the strong run in February helped push markets into the black for the year, North American markets gave back some returns in March to end the first quarter with flat to slightly positive returns.

The TSX Composite was down 2.2% in March, while the S&P 500 Index declined 1.7%. That puts the first quarter returns for both indexes at 1.8% and 0.4% respectively.

In Canada, Health Care was the only sector to generate a positive return in March, up 4.2% on the back of Catamaran Corp. and Concordia Healthcare Corp. which advanced 20.3% and 34.3% respectively. Catamaran jumped 24.7% on March 30<sup>th</sup> when UnitedHealth Group Inc. subsidiary Optum Rx announced it was acquiring Catamaran Corp. for US\$13.3 Billion to increase their drug benefits business. The Materials sector was the laggard in March, down 10.3% with weakness in Gold, Metals and Mining and Fertilizer stocks.

Same story south of the border, as Healthcare was also the only sector in the S&P 500 Index to advance, up 0.8% while the Materials sector was again the laggard, down 5% in March. Part of the weakness in the materials sector can be explained by the strength of the U.S. dollar as the U.S. Dollar Index (“DXY”) was up another 2.3% in March and is up 7.1% so far in 2015.

In the rest of the world, European markets continued their ECB Quantitative Easing induced rally with the CAC 40 (France) up 1.7% and the DAX 30 (Germany) up 5%, bringing year-to-date returns to 17.8% and 22% respectively. With Greece’s payment of 430 million euros due to the IMF next week, we expect volatility to increase on concerns Greece fails to meet this obligation which would raise the odds of a possible Grexit. The Chinese Shanghai A-Share market was by far the best performing market in March, up 13.2%, while the Nikkei 225 (Japan) was up 2.2%. The FTSE 100 (U.K.) bucked the trend, down 2.5% on concerns the Bank of England would be right behind the US Federal Reserve in raising interest rates later this year.

Economic statistics reported during the month continued to indicate a soft patch for the U.S. economy in the first quarter impacted by the harsh winter weather as well as the congestion at west coast ports caused by striking workers. The ISM Manufacturing Index declined again in March to 51.5 after reaching a high of 57.9 in October, 2014. Meanwhile, the change in Nonfarm payrolls for March reported on April 3<sup>rd</sup> surprised the market with only 126,000 jobs created vs. 245,000 expected. The February payroll number was also revised down by 69,000 jobs. The only silver lining from the report was that average hourly earnings rose 0.3% for the month, showing some moderate wage inflation that would be expected with the Unemployment Rate at 5.5%.

Growth in Canada also appears to be coming to a halt as GDP contracted by 0.1% in January and the RBC manufacturing PMI fell to 48.9 from a high of 55.3 in November.

While economic growth slows in North America due to a strong U.S. dollar and a lower crude oil price, quite the opposite is occurring across the Atlantic as the Markit Eurozone Composite Purchasing Managers Index came in at 54.0 for February, its highest level since March last year and up from 51.1 in October. A weak Euro along with significant asset purchases by the European Central Bank seem to have stabilized the European economies for now.

We are still in the camp that Janet Yellen and the U.S. Federal Reserve will embark on its first tightening cycle since mid-2006 later this year and expect a bounce back in economic growth during the 2<sup>nd</sup> quarter as the cold weather has dissipated and the strike at ports in the west coast have ended.

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