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“By The Way”

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This bull market is now over eight years old. So just to get our bearings here is a quick summary of where we are in 2017 versus where we were in 2009 (thanks to the smart people at Strategas Research).

	March 9, 2009	March 9, 2017	% Change
S&P 500	676.53	2,364.87	249.6%
Eurostoxx	1,809.98	3,409.89	88.4%
Toronto	7,880.41	15,496.84	96.7%
S&P Yield	4.2%	2.0%	-51.9%
S&P EPS TTM	49.51	106.25	114.6%
S&P P/E TTM	13.7x	22.3x	62.9%

End of history lesson; now on to what do we see for the rest of this year. President Trump continues to dominate the headlines, for good and for bad, okay – mostly bad. Nevertheless, despite (amongst other things) Russian conspiracies, failed legislation, and strange tweets, the market continues to shrug off the negatives, and focus on his business-friendly platform. But that is not to suggest we should be complacent. Eventually we will want to see real economic and earnings progress to justify current valuations. If the infighting we witnessed over amending the health care act is any indication, it is going to be a long, tough slog for Trump to get his promised tax reforms and fiscal initiatives through Congress.

Between the Democrats and the conservative Freedom Caucus within his own party, it is very difficult for him to find proposals that meet his agenda, but aren't anathema to one faction or the other. There seems to be little thought of compromise in Congress, and the bigger picture is often being ignored. For example, the passage of the 2017 budget and the “Continuing Resolution”, which will keep the U.S. government funded and paying its bills, is being threatened by the Freedom Caucus until funding for Planned Parenthood is removed. Despite what I consider such irrational behavior, the bottom line for investors is what will get passed into legislation, and how that compares with the market's expectations. There seems to be a consensus that at the end of the day, markets will be disappointed with how little of Trump's economic strategy comes to fruition. I am not so much of that opinion. I believe expectations have been reduced sufficiently that disappointment

won't be that severe, and in fact there may well be room for a positive surprise. Certainly, it should be a boost for the economy that companies can at least feel more confident about growing their businesses, simply because the uncertainties about regulation and taxation from the previous administration have been removed.

The Fed has taken a back seat in the news since the election, but the release of the minutes from its last meeting have put it back in the forefront for at least a few hours. In those minutes, plus recent speeches, the Fed has revealed its intention to continue to raise regulated rates, but also to begin the process of shrinking its balance sheet, which has grown from \$1T to \$4.5T since the crisis. The market handled the quarter point increase in rates from the last meeting, and looked to be comfortable with two more increases this year. But now the prospect of the Fed no longer being a buyer in the treasury and mortgage-backed securities markets adds a new dynamic, which should increase rates at the long end of the market. Bottom line; shrinking the balance sheet should have a more direct impact on loan rates, and the trade-off will be whether those higher rates will make borrowers more reluctant or encourage banks to loan more aggressively. The answer to that question will be reflected in economic growth going forward.

Speaking of the economy, growth in the U.S. labor market continues to encourage us, and our old stand-by the Purchasing Managers Index remains healthy with the manufacturing part of the index at 57.2 in March (anything over 50 indicates expansion), and non-manufacturing at 55.2. The Eurozone also posted impressive numbers with its PMI at 56.2, a new 5 year high, despite the many problems over there; like Brexit, Greece and the Italian banks.

On the subject of Europe, we are seeing an improvement in the relative performance of European stocks versus the S&P 500. It remains to be seen if this will develop into a longer-term trend, but we will be monitoring and reporting on it.

Finally, our ongoing concern that populism was a threat to the future of the European Union has been assuaged by the populist candidate's election loss in Holland and Le Pen's decreased popularity in France. It seems watching President Trump in action has scared people away from moving in that direction, at least for now.

We remain positive on stock markets for 2017. Oddly enough a short term sell-off that led to an oversold condition would be welcomed, giving us a base for further upside.

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