Cidel

Looking Forward – Q3. 2017

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Bill is chairman of Cidel's asset allocation committee, a member of the investment committee, and head of the multi-asset class team. His responsibilities include managing a range of discretionary portfolios and investment products and liaising with clients.

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1. A return to lower volatility and what that means to investors

The VIX index, a common measure of equity market volatility, rose in the first quarter of this year on the back of political uncertainty. In recent weeks, however, it has fallen to multi-year lows. While that may give the appearance that everything in the market is just fine, we are certainly wary of becoming complacent. It is also true that some measures of volatility can be misleading, and Cidel prefers to take a wider view of investment risk beyond simply looking at popular metrics. Our work includes monitoring the market impact of new investment strategies and changes in market activity, to ensure we understand why metrics like the VIX index change and how we should, or should not, react. For example, a number of strategies have been developed in recent years that can artificially inflate the volatility index numbers in the short term due to sudden large buying or selling of equities in the market. Therefore, investors are well-served when they appreciate that the VIX is not an all-encompassing measure of risk. In addition to our analysis of market indices and trends, our approach includes undertaking deep fundamental research of companies that we own, or look to own, in our proprietary portfolios, while searching the world for the best opportunities and constantly monitoring existing asset allocations. This research leads to a better understanding and insight of market forces, and helps us as we strive to balance risk and returns for our clients.

2. Fund flows supportive of global equities

The biggest change over the past year has been the geographic composition of flows. Where previously the majority of equity flows were into US equity funds (and almost entirely into passive exchange traded funds), this year has seen the majority of flows going into global and international equity funds (both actively managed and passive ETFs). Economic activity has been picking up in Europe, and with valuations less stretched than in the US, the overall environment is more supportive of equities. We continue to be overweight Europe and Asia, and underweight US across various risk mandates.

3. Tax Reform in US likely to be delayed by problems with Health Care Reform

Stocks in the US rallied in the aftermath of the Trump election, partly due to what was seen as a high likelihood of corporate tax cuts. The longer the health care reform process takes, the farther out tax reform gets pushed. It appears likely that tax reform won't happen until early 2018, pushing the tax discussion much closer to the next midterm election, greatly affecting one of the key drivers of US equity returns post-election.

4. Bank of Canada and Fed tightening

The Bank of Canada recently became the first G7 country to join the U.S. on a tightening path, raising interest rates for the first time since 2010. Following several years of weak growth sparked by the collapse of oil prices in 2014/2015, Canadian economic growth led the G7 nations over the past year, leading the Bank of Canada to begin a process of normalizing interest rates. The Bank of Canada made clear however that future hikes would remain 'highly data-dependent' and that rates continue to remain very low. We will be watching the impact this action has on real estate and personal balance sheets very closely.