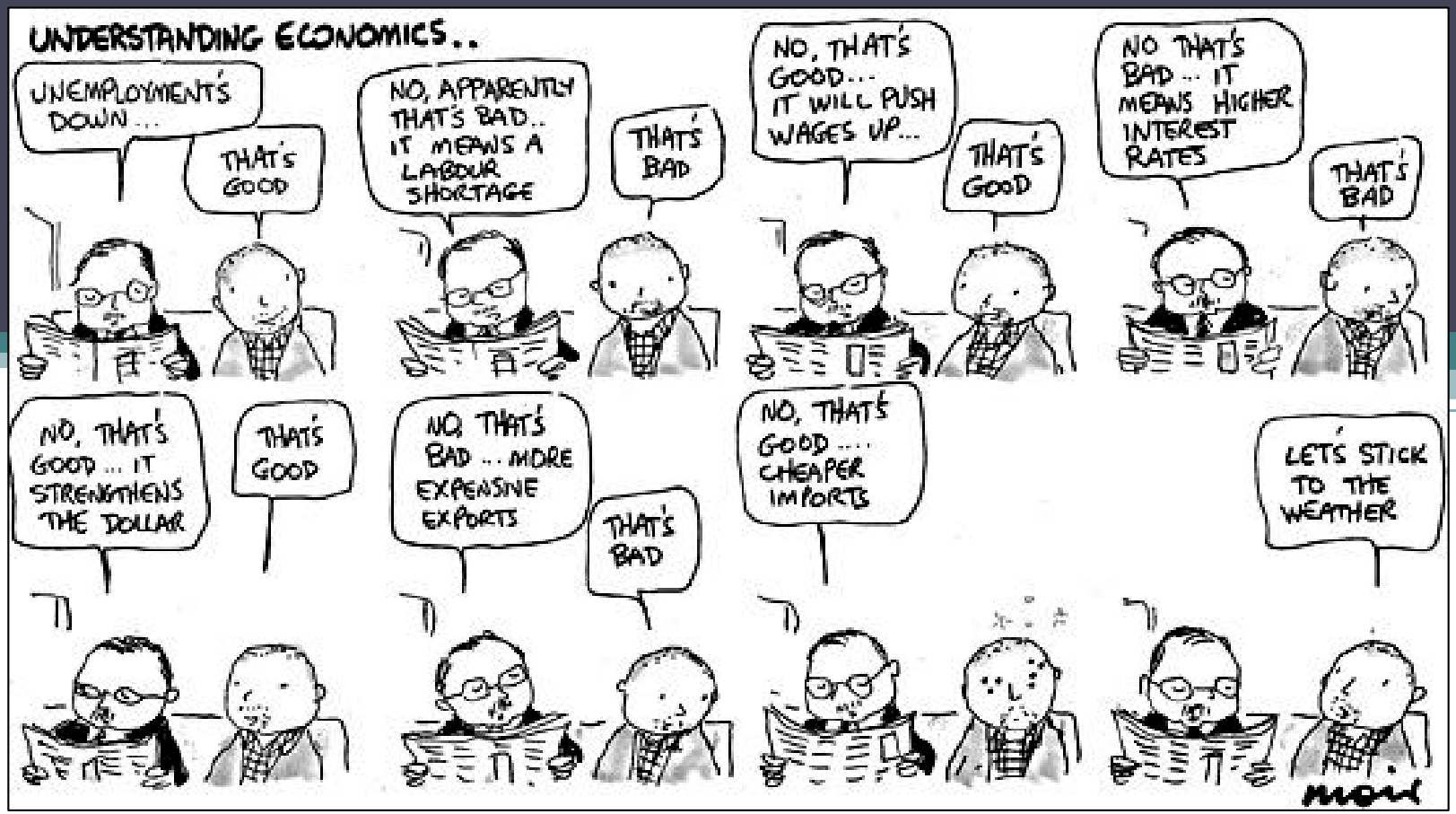
Beyond Fundamentals; How to analyze the markets with economics and key market ratios



Analyzing the market

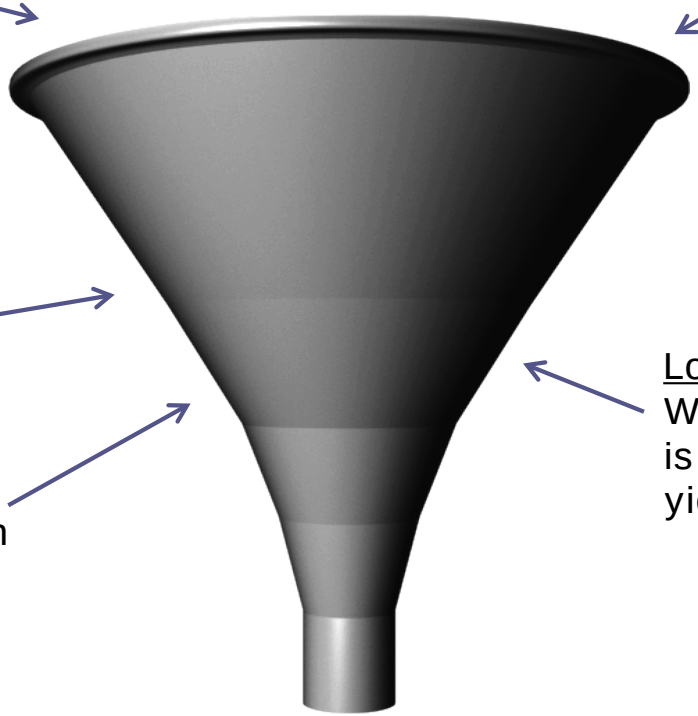
- Topics covered
  - The big, big picture
  - Economics are important
  - Centre hub: the U.S. dollar
  - Key ratios
  - Two favourite indicators
  - Putting it all together: US and Canada (positive tailwinds for 2017-18)

Analyzing the market: The process

Long term: Commodity or stock cycle?

Long term: Improving economics or declining?

Long term
What direction is the US$ trading?

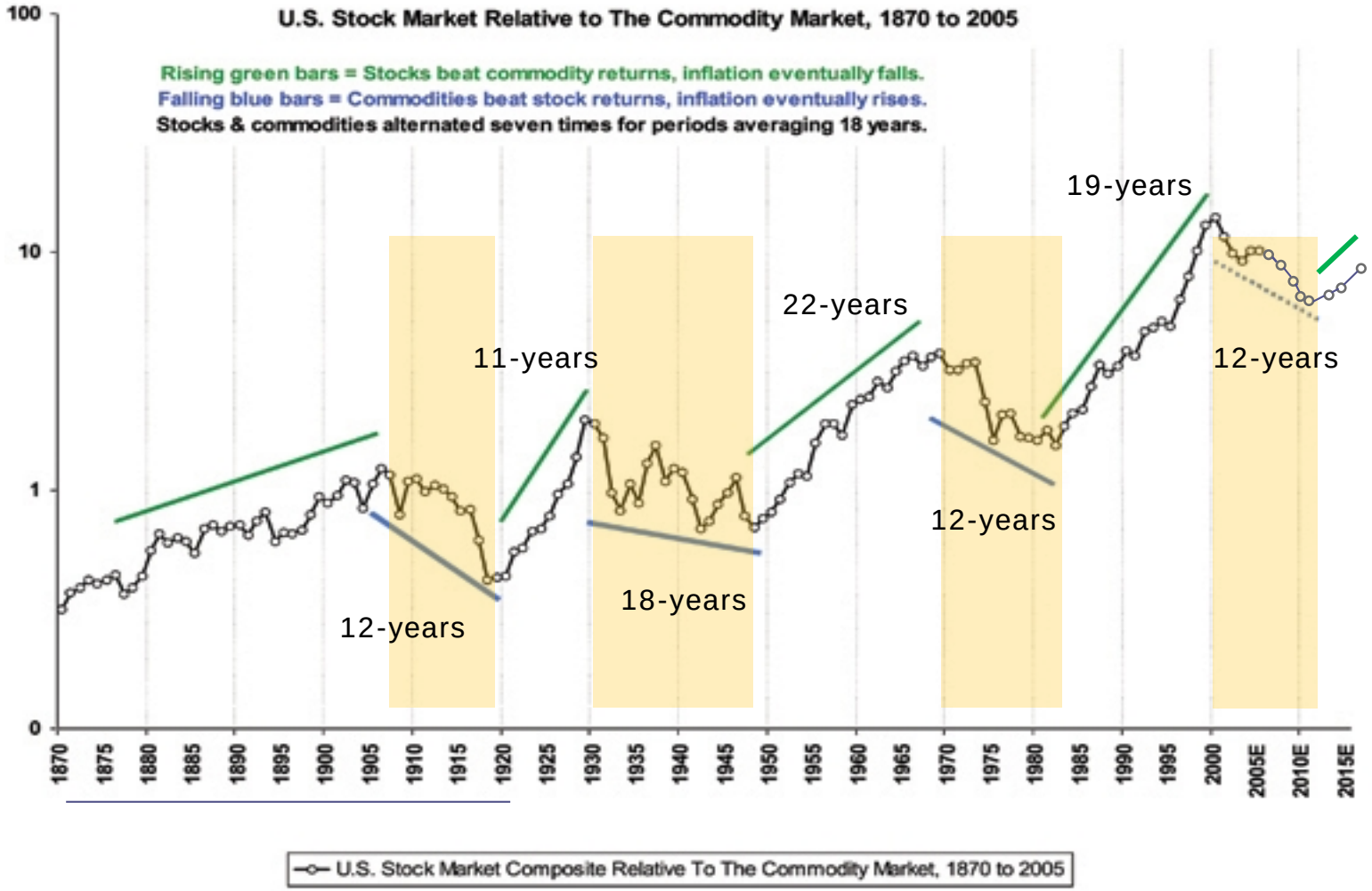


Long term: What position is the U.S. yield curve?

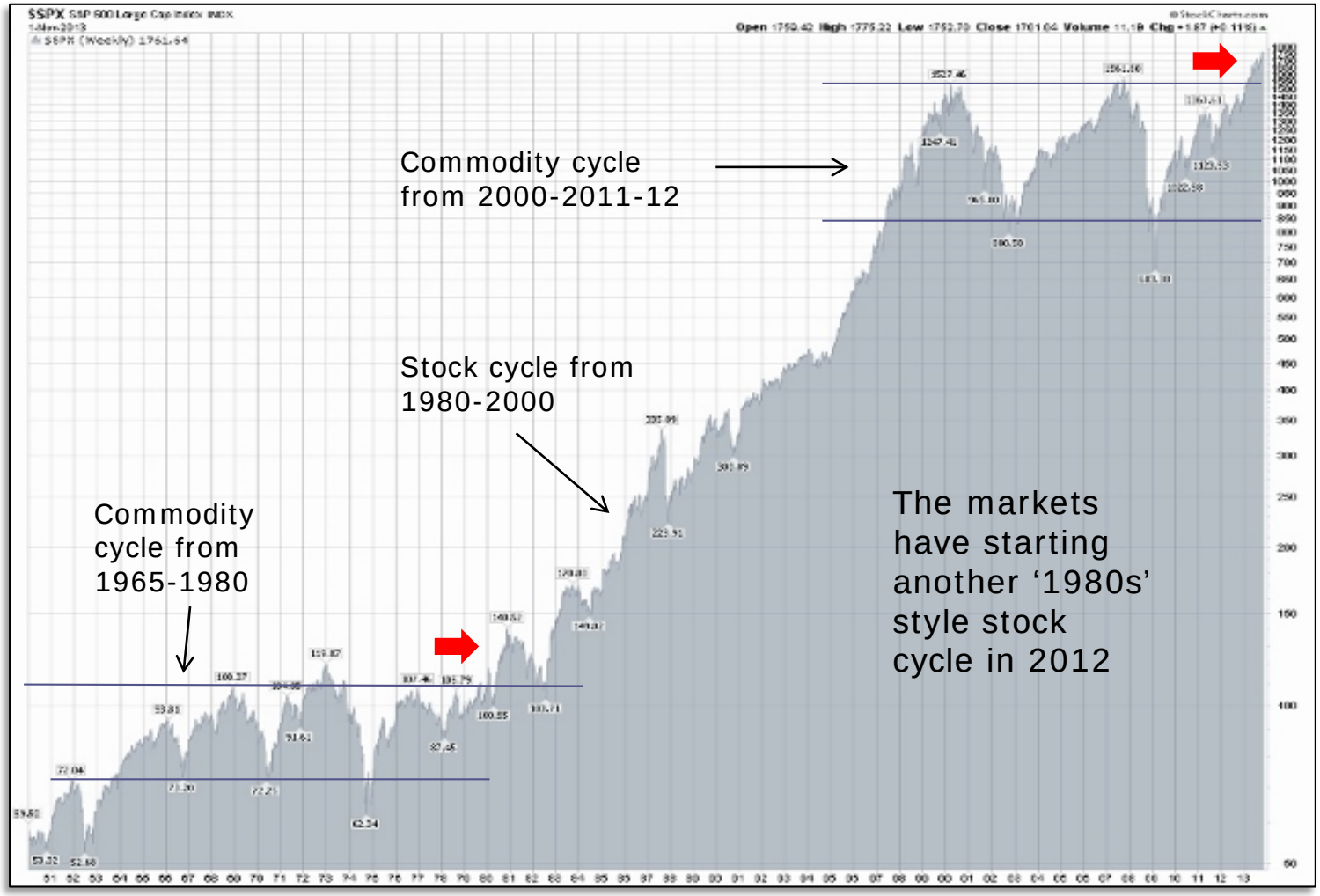
Short term: What is the direction of the global market?

Market Direction in 2017-18

Analyzing the market: Big, big picture



Analyzing the market: Typical Pattern



Characteristics of secular stock and commodity cycles

Stock cycles (S&P 500):

- Extended bull markets and economic cycles
- Lower volatility (VIX 10-16)
- Corrections are less severe (10%-20%) and shorter in duration
- Prolonged smooth advance
- A stable and/or rising US dollar
- Stocks outperform commodities
- Low probability of inflation over 2%

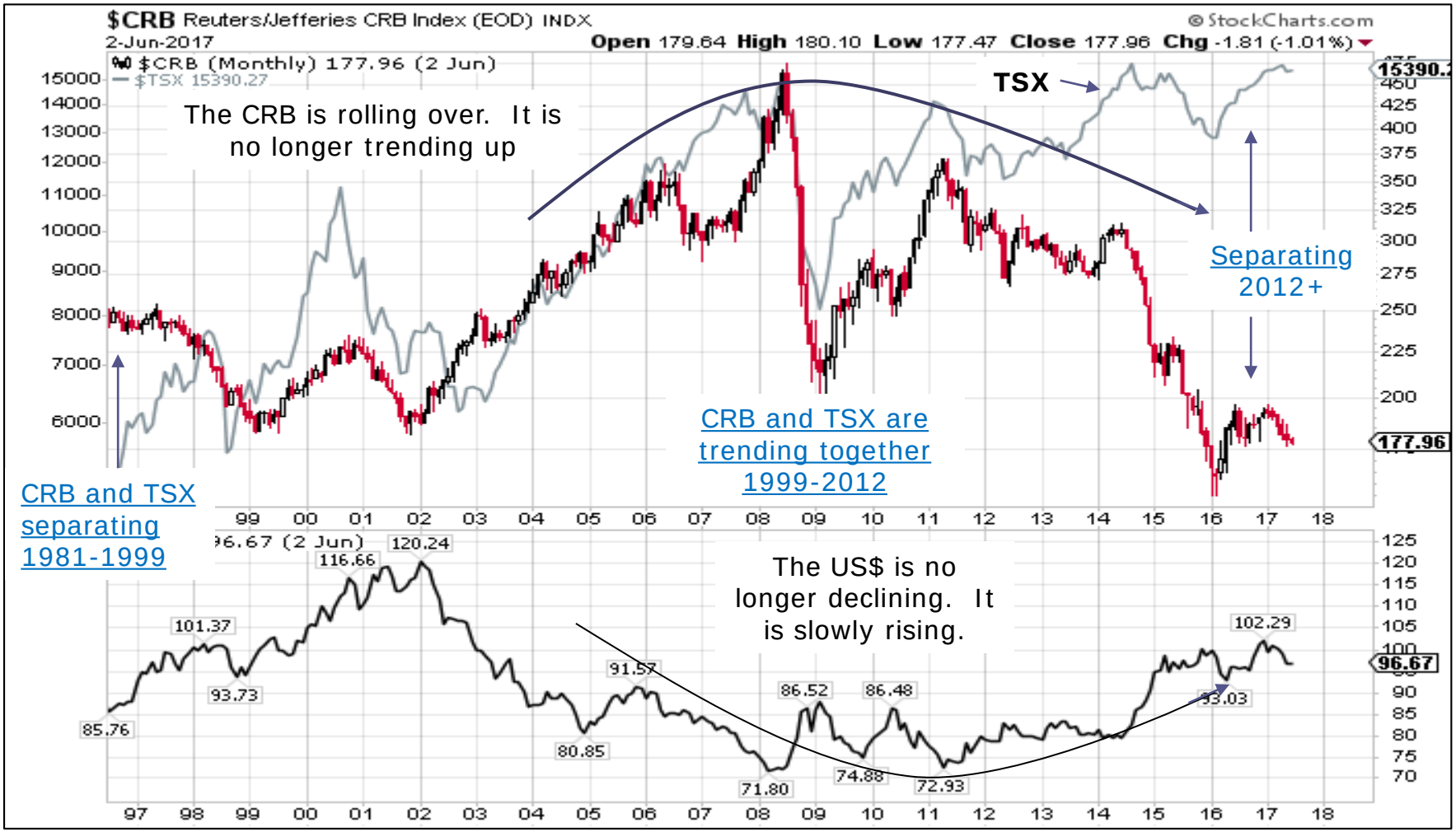
Commodity cycles:

- Deeper corrections in the stock markets (40%+)
- Greater volatility
- Higher probability of inflation
- Declining US dollar
- Commodities outperform stocks
- Shorter bull markets and business cycles

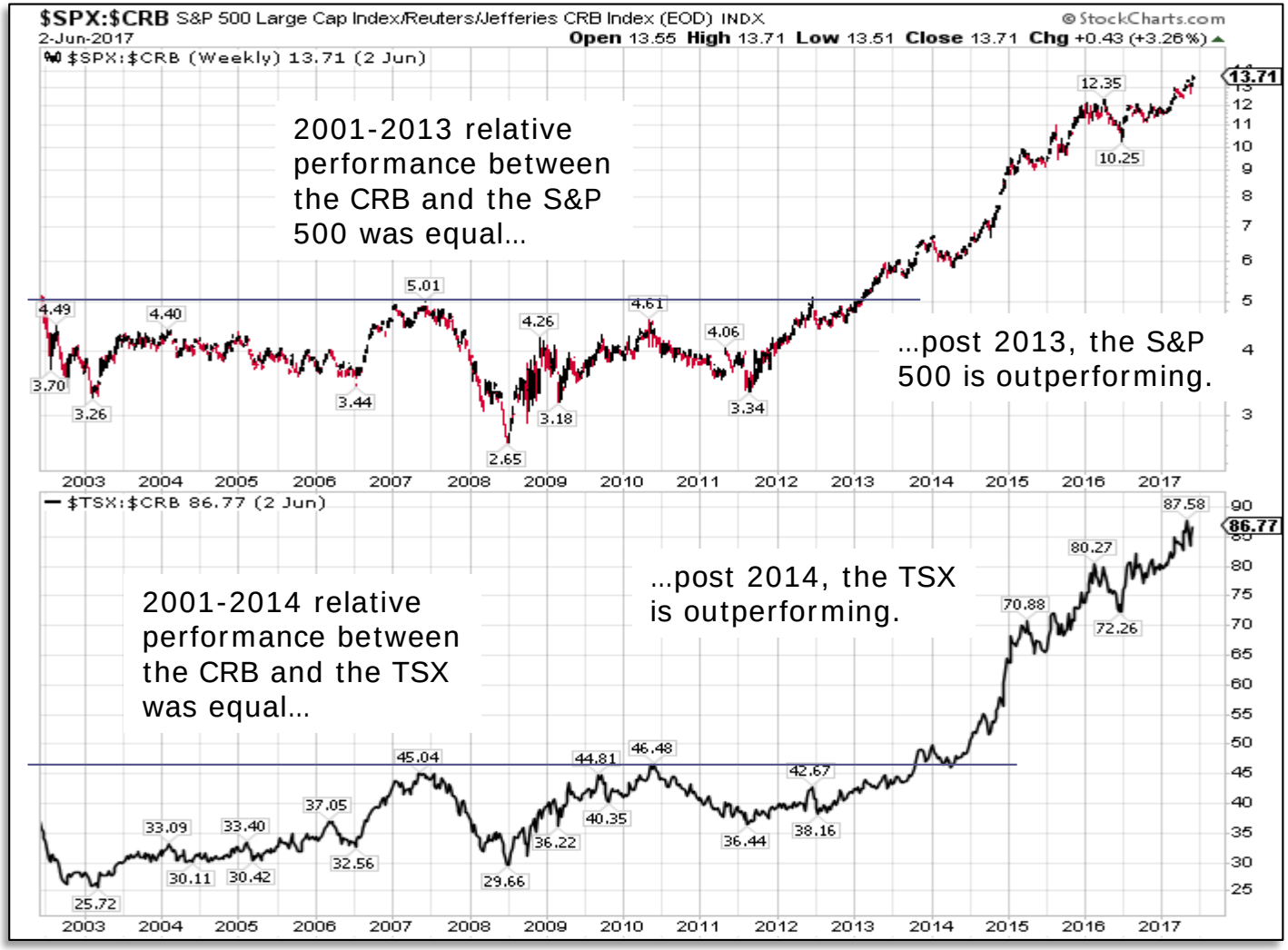
Analyzing the market: Big, big picture

Analyzing the market: S&P 500 & TSX

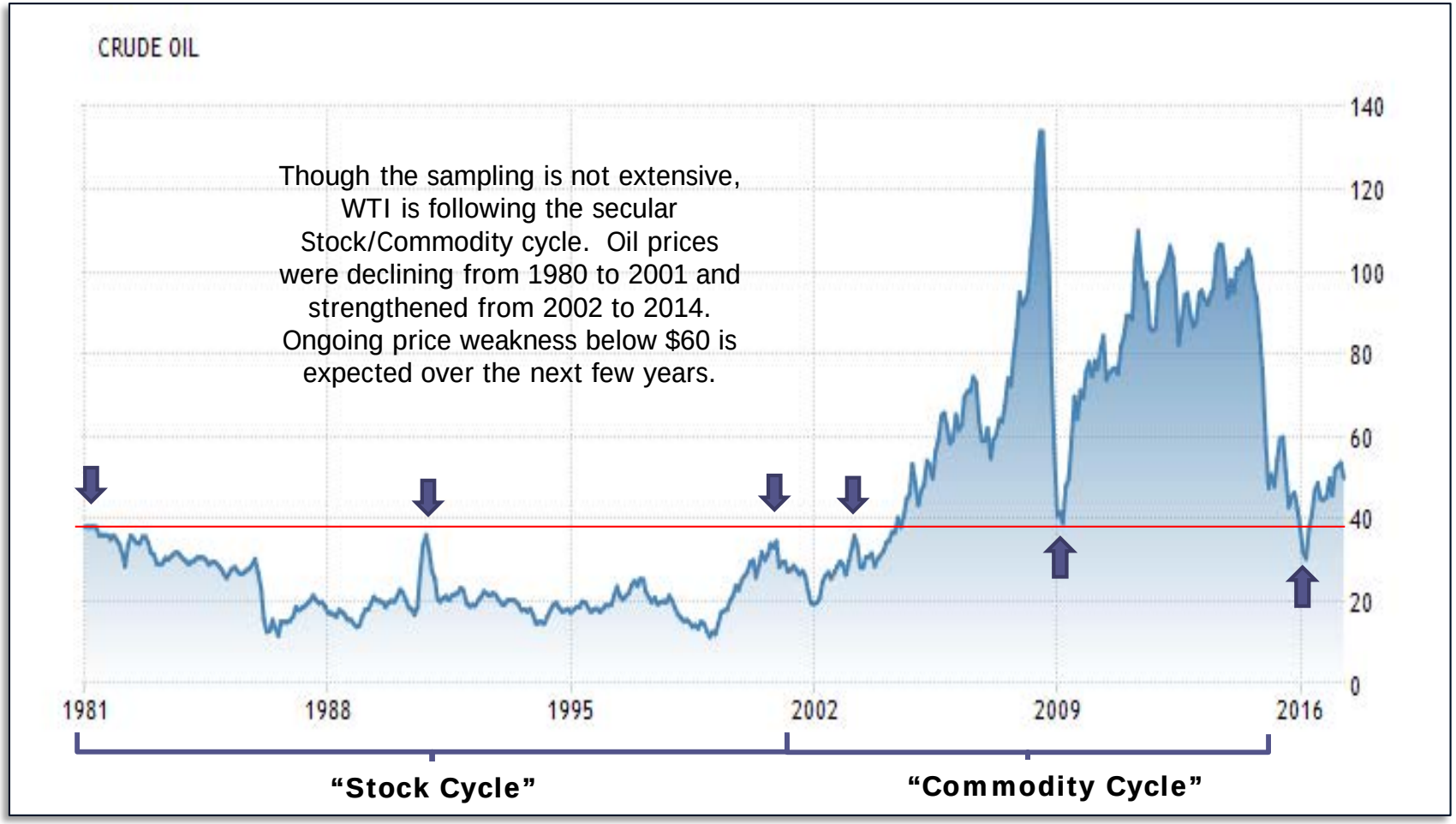
Analyzing the market: US$, TSX and CRB



Analyzing the market: Relative strength

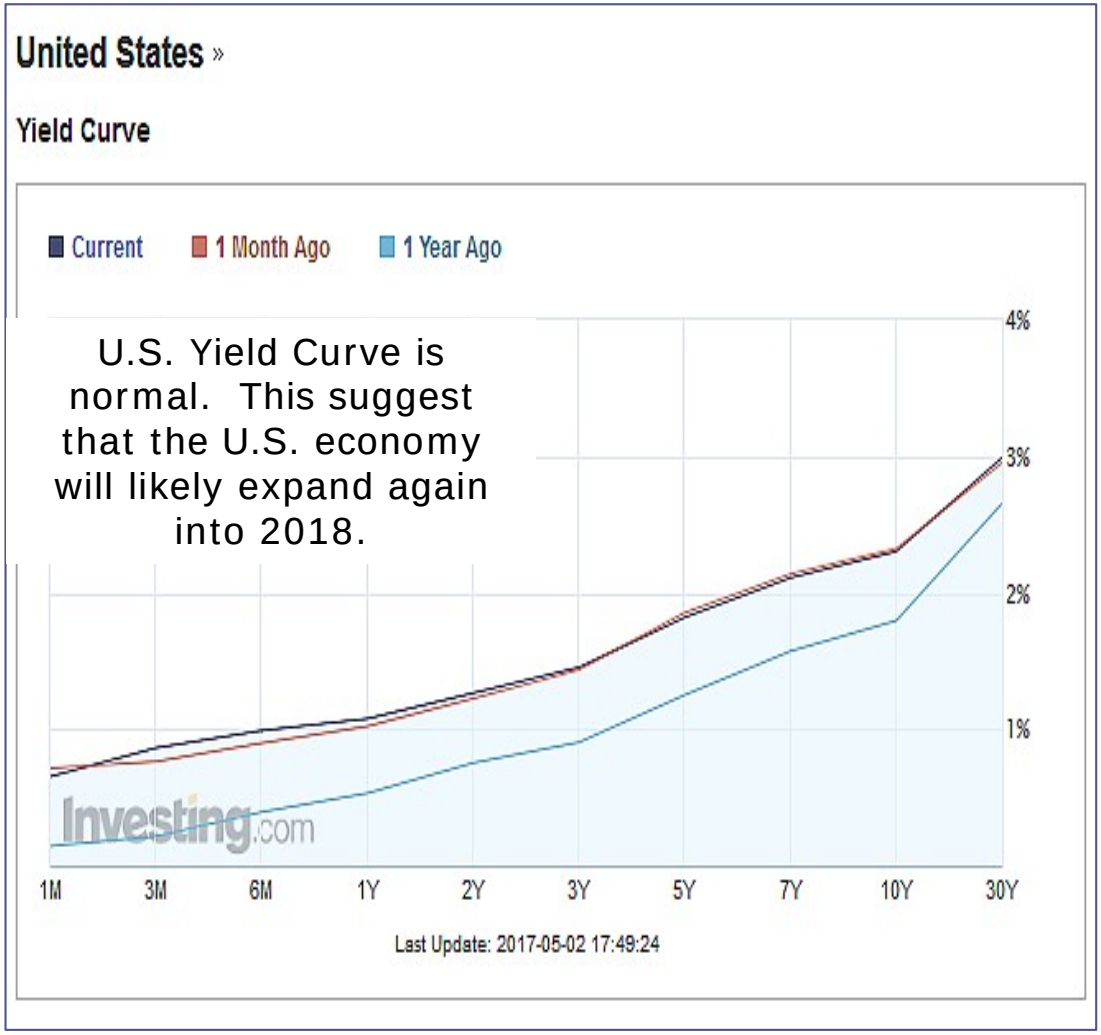


Analyzing the market: Oil prices (WTI)



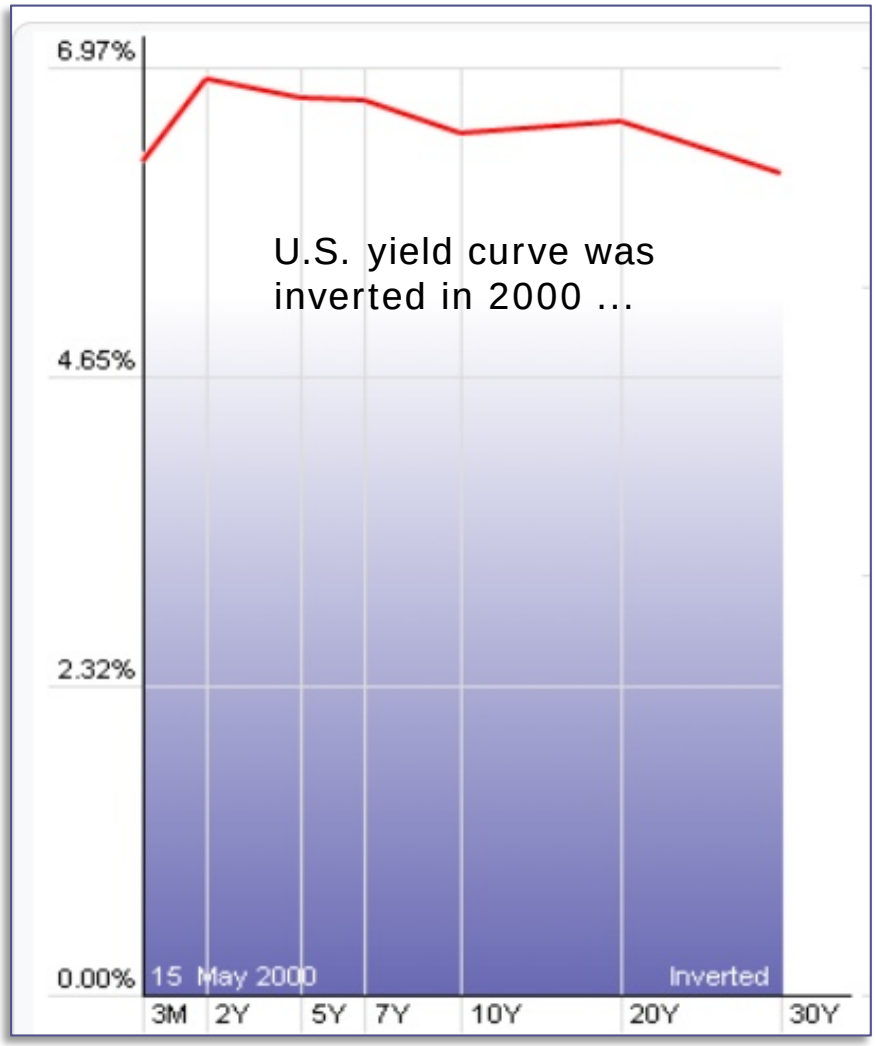
Analyzing the market: Canadian dollar

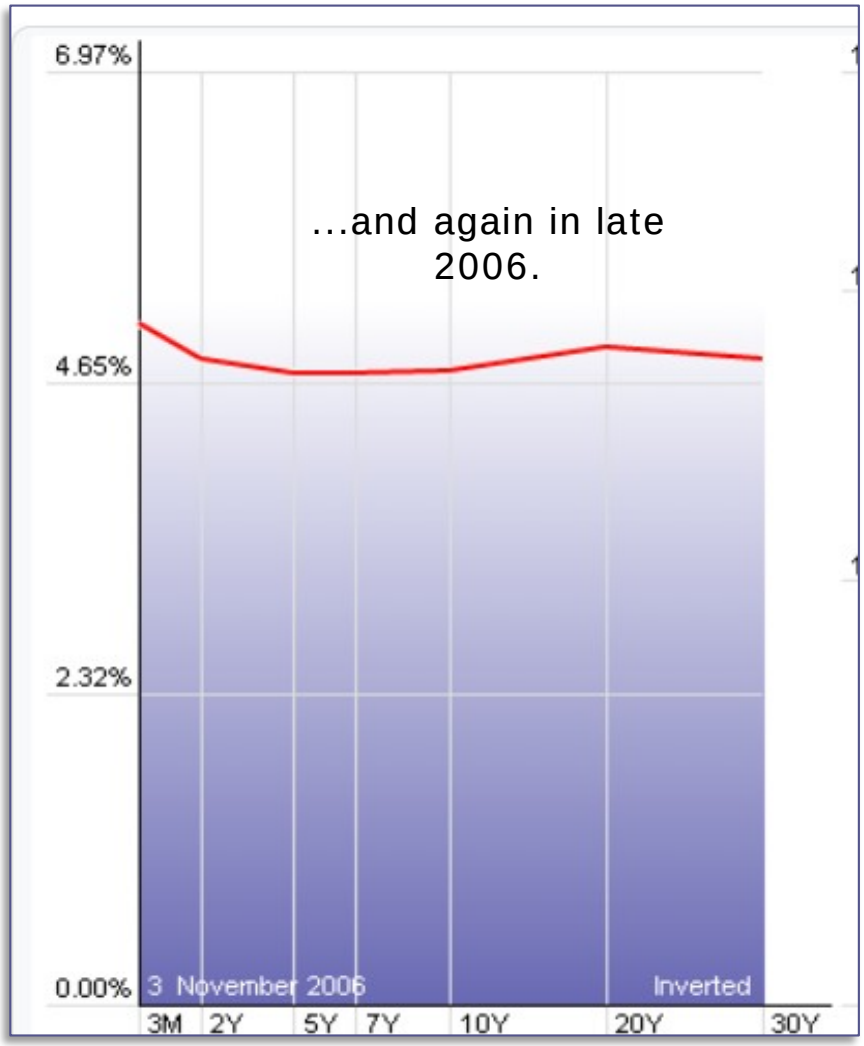
Analyzing the market: US Yield Curve



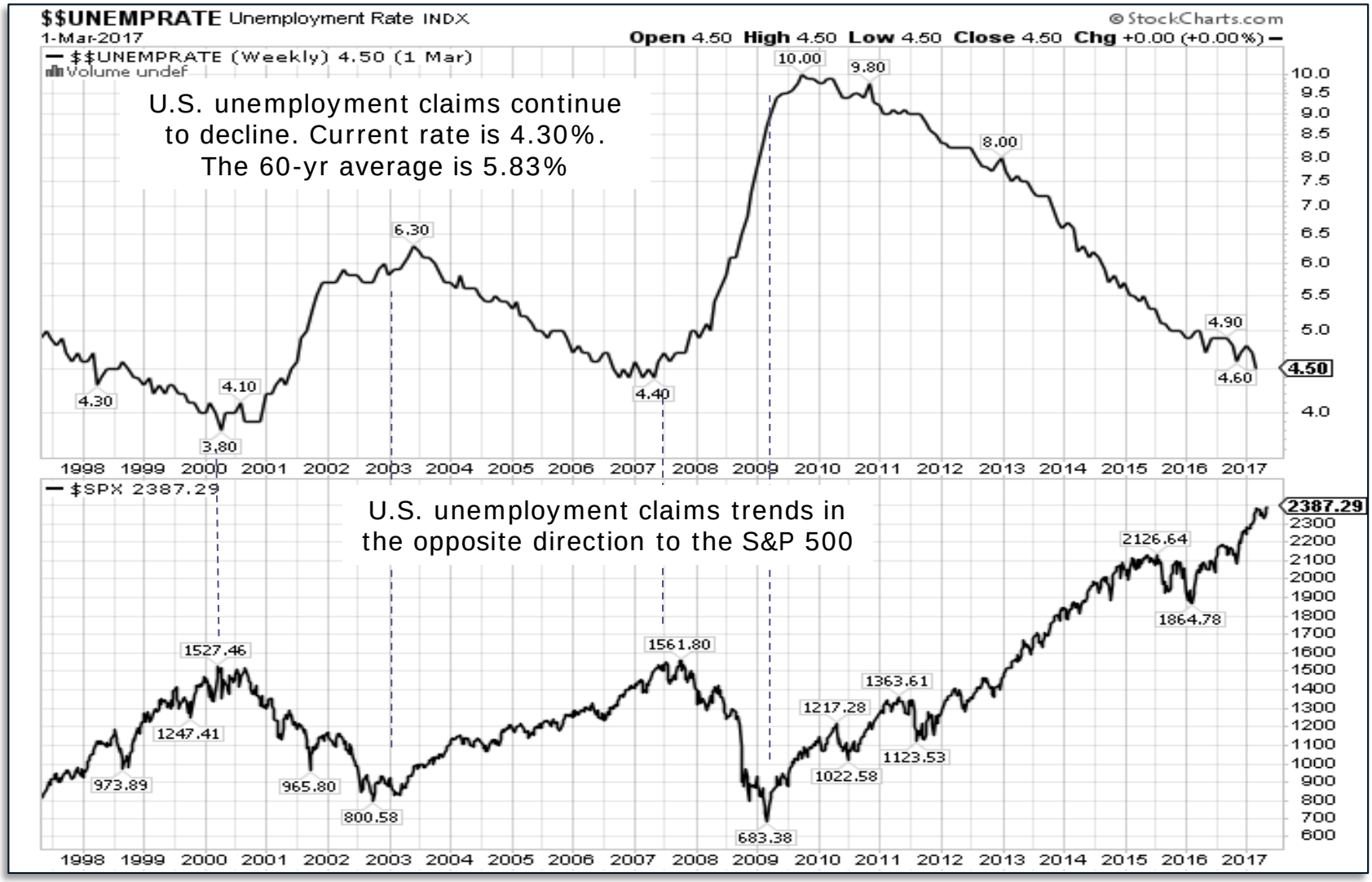
U.S. Yield Curve is normal. This suggest that the U.S. economy will likely expand again into 2018.

Analyzing the market: US Yield Curve



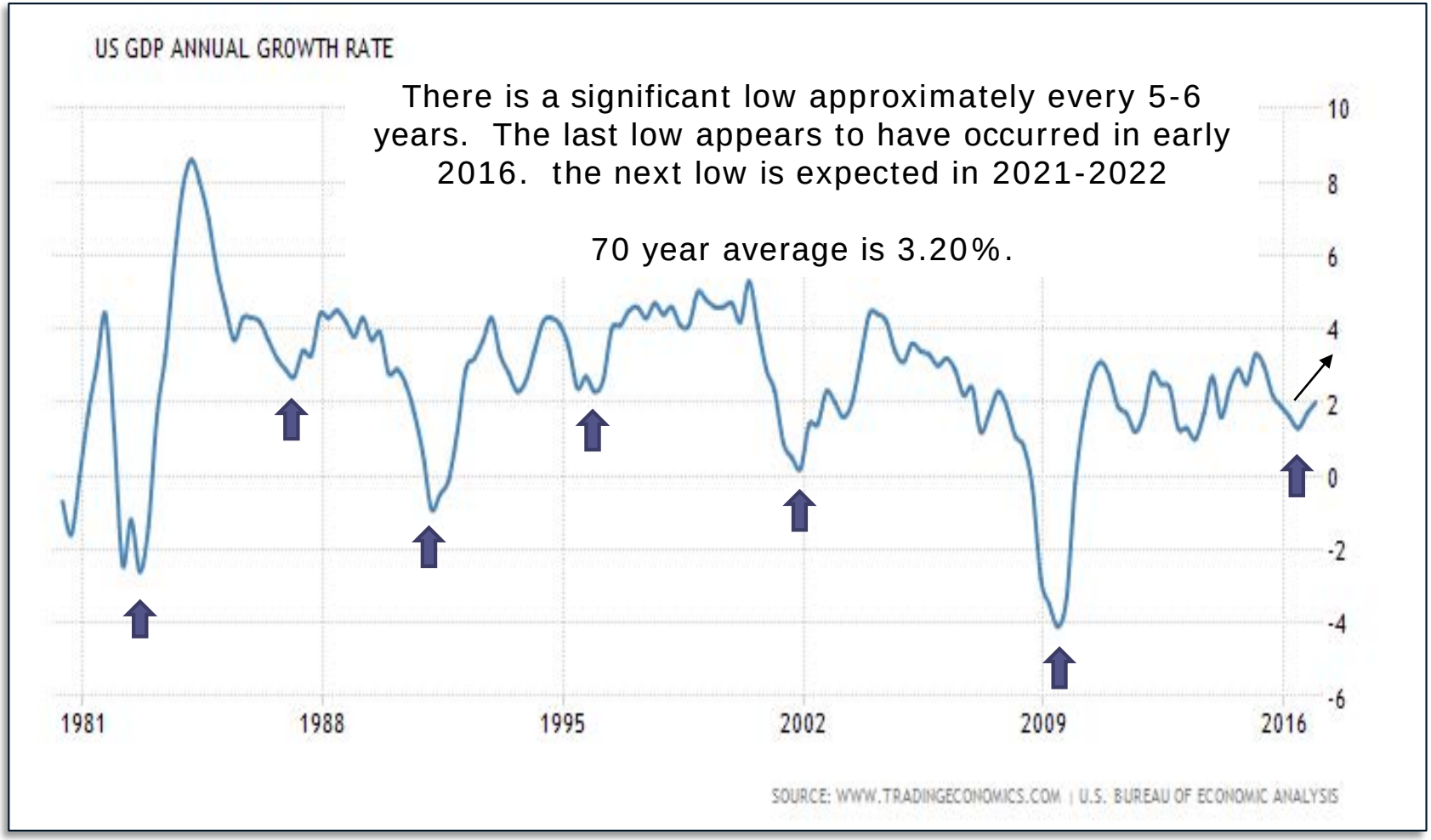


Analyzing the market: US Unemployment



Analyzing the market: US Unemployment

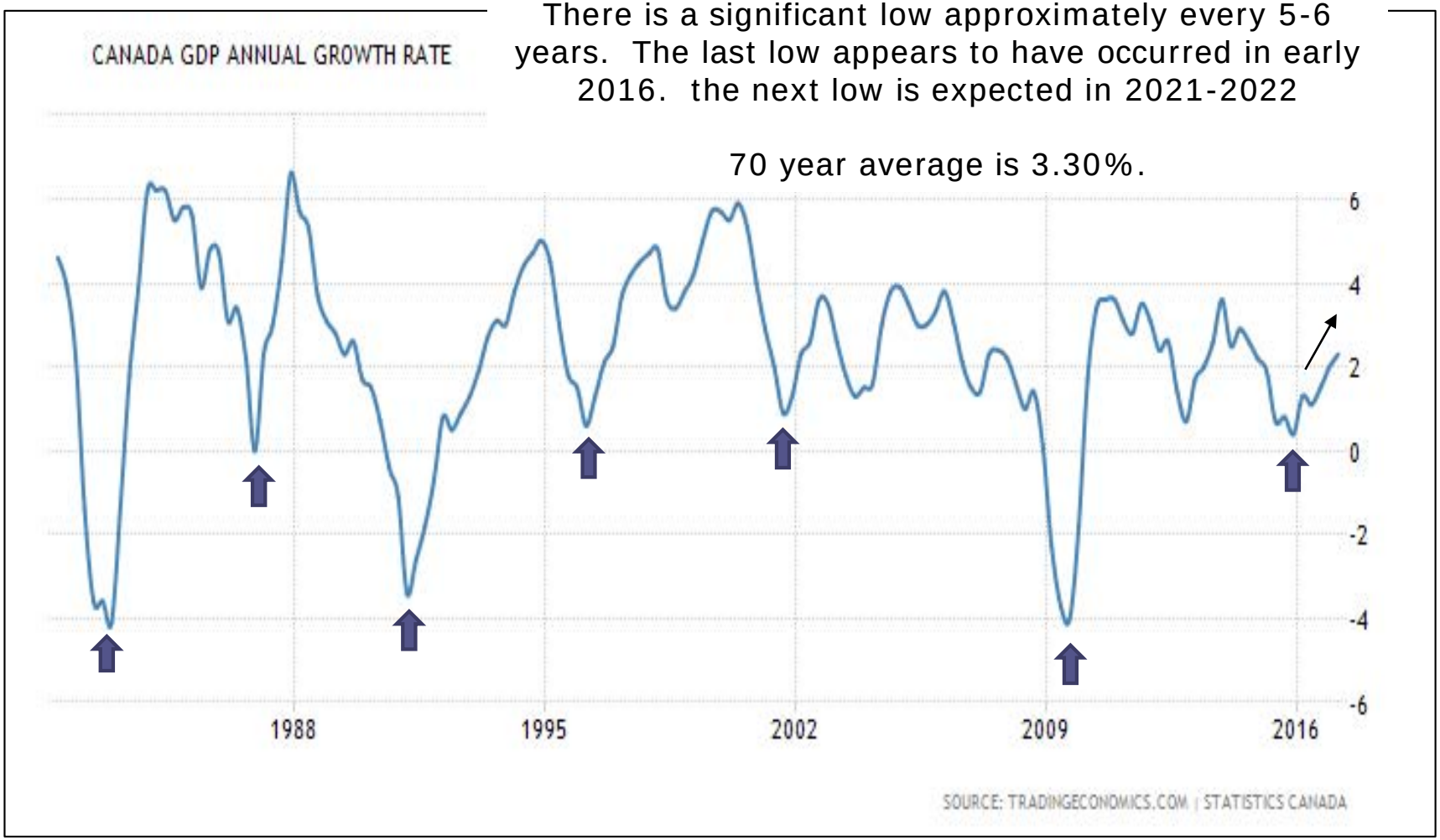
Analyzing the market: Annual U.S. GDP



Analyzing the market: Annual CDN GDP

There is a significant low approximately every 5-6 years. The last low appears to have occurred in early 2016. the next low is expected in 2021-2022

70 year average is 3.30%.



Analyzing the market: Big picture

- **Overview Conclusion: What does all this mean?**
  - **Equities:** US markets have entered another '1980s' style secular rise (lower volatility, extended bull markets and economic cycles, strength in financials, technology, healthcare, consumer cyclicals), general weakness in commodities.
  - TSX has a close correlation to the US markets; new 9-year high for both the S&P & TSX in early 2017 (confirming the expected trend).
  - **Economic indicators:** US GDP is stabilizing, US unemployment is still falling (4.3%). Yield curve (US) is normal. A good sign for near-term growth.
  - **Currencies:** US dollar is expected to continue advancing and the CDN dollar to slowly decline into 2018.
  - **Commodities:** 6-years of falling commodity prices (US$) reinforces the Stock cycle. Contained or lower levels are anticipated.

Analyzing the market: Favorite ratios

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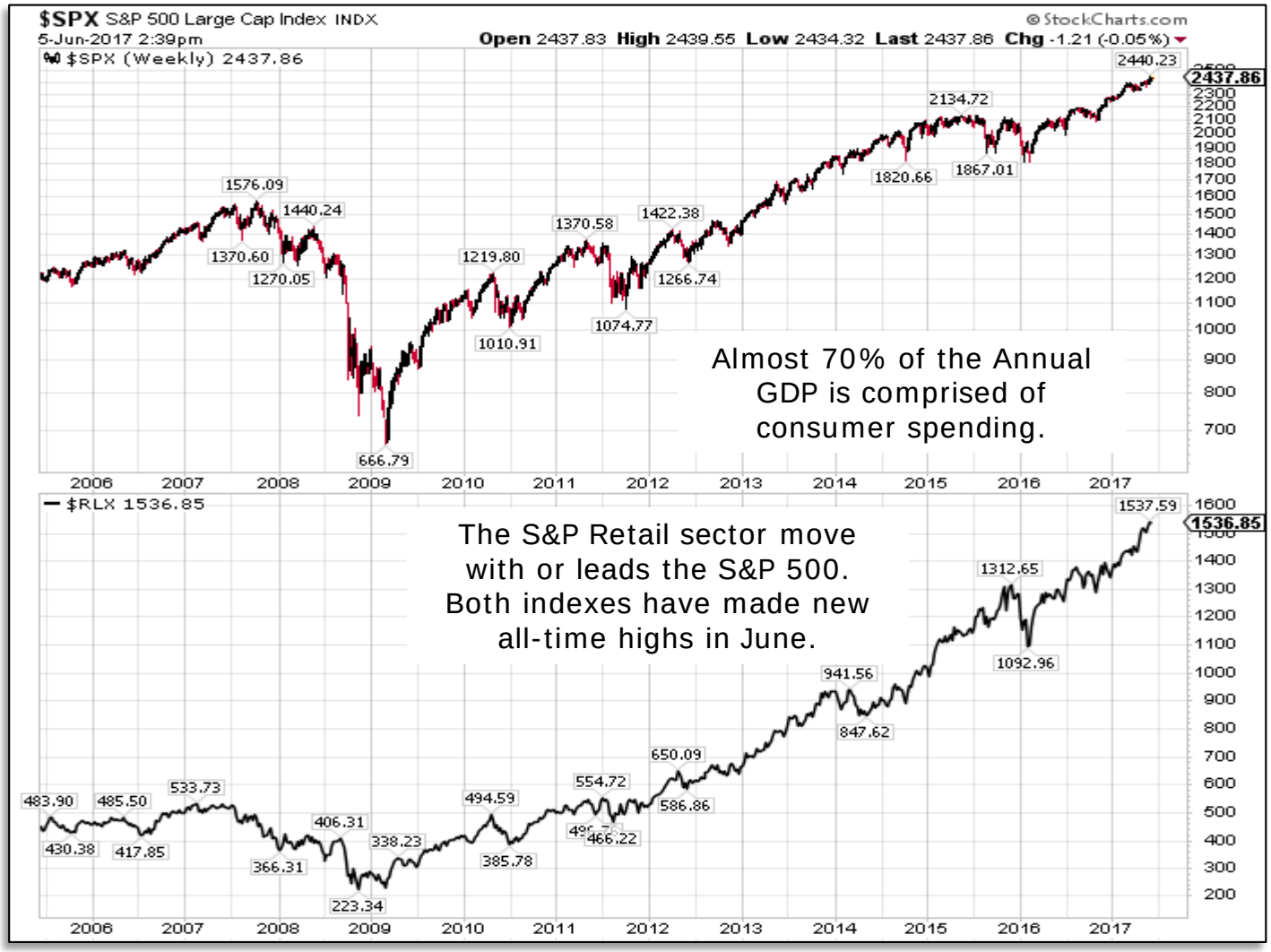

Analyzing the market: Putting it all together

- Stock market is in a secular advance favouring stocks (S&P 500 type) and not commodities. Based on 135 years of data, the average cycle lasts about 18 years. This cycle started in 2011/12. This cycle is expected to end in another 14-15 years. The Commodity cycle has ended.

- The TSX is expected to underperform the S&P 500 because of the commodity component (about 30%) during this cycle.

- The US and Canadian economies are expected to keep rebounding. The US$ is expected to continue advancing with a $103 followed by a $106 target.

- 12 month targets for the S&P 500 is 2,550 and the TSX at 16,600.

Analyzing the market: Websites

http://www.tradingeconomics.com

http://www.stockcharts.com

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