



Market Bulletin

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Summary

Economic Analysis

- Canadian dollar rebounds as Canada's job growth in March exceeds forecasts. Loonie's near-term direction will be influenced by outcome of Quebec elections on April 7.
- US economy added 172,000 jobs last month, in line with monthly average of 2012-13, but "Goldilocks" jobs numbers unlikely to have positive impact going forward.

Chart of the Day

- TSX Composite traded today at highest levels since June 2008, having broken through the double-top around 13,300 formed in the first half of 2011.

Commentary – Momentum stocks losing ground

Booming biotech sector in midst of sell-off

Elvis Picardo, CFA

We had refrained from adding healthcare stocks to our Model Portfolio – which was unveiled a month ago – because of the high valuations at which most health care / pharmaceutical were trading. But pharma stock valuations pale in comparison to biotech valuations, which have been approaching nosebleed territory in recent months (Table 1) as the sector has soared (Figure 1). In November 2013, we had screened the Russell 3000 index for equities that had doubled YTD and were trading at a Price/Sales multiple of at least 10. Of the 42 stocks that satisfied these basic "overvalued" criteria, biotechs and health care stocks accounted for 26 stocks or 62% of the total, with technology stocks accounting for 9 stocks. While those 42 stocks were down by an average of 4.1% since November 25 (as of 10 am PST today), some biotechs such as Geron, Galena, Celldex, and Halozyme are down more than 40% over this period. Screening the Russell 3000 and TSX Composite today for overvalued stocks (P/S >10, YTD change > 25%) yielded 28 names (Table 2), with biotechs and other healthcare-related names comprising 22 stocks or almost 80% of the total. Our advice from November 25 is unchanged – avoid these high-fliers now that they are losing momentum.

Table 1: S&P 500 Pharma Index vs. Nasdaq Biotech and NYSE Biotech

Index	Level	One-year change	Mar.'09 change	Dividend Yield	P/E	P/S	P/B
S&P 500 Pharma	524.04	20.6%	142.1%	2.52%	18.2	3.9	3.8
Nasdaq Biotech (NBI)	2358.43	41.1%	289.1%	0.22%	N/M	7.7	7.7
NYSE Biotech (BTK)	2500.14	37.5%	361.4%	0.15%	1203.4	9.2	7.4

Source: Bloomberg

Table 2: Russell-3000 and TSX Composite companies with P/S>10, YTD gains >25%

Ticker	Short Name	GICS Sector	GICS Sub-Index	Market Cap(\$mm)	Last Px	Price/Sales	YTD chg (%)
ICPT	INTERCEPT PHARMA	Health Care	Biotechnology	\$5,932.6		3273.7	371.3
UPIP	UNWIRED PLANET I	Information Technology	Internet Software & Services	\$229.4		1660.3	55.8
TGTX	TG THERAPEUTICS	Health Care	Biotechnology	\$234.7		1031.3	70.8
PRTA	PROTHENA CORP PL	Health Care	Biotechnology	\$700.9		840.8	29.8
NBIX	NEUROCRINE BIOSC	Health Care	Biotechnology	\$1,099.1		330.0	58.2
KERX	KERYX BIOPHARM	Health Care	Biotechnology	\$1,464.7		175.4	28.2
ALIM	ALIMERA SCIENCES	Health Care	Pharmaceuticals	\$273.0		114.6	57.9
ENTA	ENANTA PHARMACEU	Health Care	Biotechnology	\$688.3		47.0	41.1
LNG	CHENIERE ENERGY	Energy	Oil & Gas Storage & Transportation	\$13,324.4		45.1	29.6
RIGL	RIGEL PHARMACEUT	Health Care	Biotechnology	\$310.7		42.2	29.8
SNSS	SUNESIS PHARMAC	Health Care	Biotechnology	\$392.4		42.0	44.7
CORT	CORCEPT THERA	Health Care	Pharmaceuticals	\$427.5		39.4	32.4
ITMN	INTERMUNE INC	Health Care	Biotechnology	\$3,044.3		35.3	119.8
BDSI	BIODELIVERY SCIE	Health Care	Pharmaceuticals	\$384.9		26.6	38.2
SUPN	SUPERNUS PHARMAC	Health Care	Pharmaceuticals	\$396.9		26.3	26.8
KEL	KELT EXPLORATION	Energy	Oil & Gas Exploration & Production	\$1,440.5		24.2	32.9
CMRX	CHIMERIX INC	Health Care	Biotechnology	\$603.5		17.5	50.4
RGLD	ROYAL GOLD INC	Materials	Gold	\$4,193.1		17.4	36.7
FANG	DIAMONDBACK ENER	Energy	Oil & Gas Exploration & Production	\$3,448.2		13.8	28.4
PPHM	PEREGRINE PHARMA	Health Care	Biotechnology	\$331.6		13.8	36.7
VNDA	VANDA PHARMACEUT	Health Care	Biotechnology	\$545.4		13.7	35.0
FURX	FURIEX PHARMACEU	Health Care	Life Sciences Tools & Services	\$970.9		12.8	117.0
TSLA	TESLA MOTORS	Consumer Discretionary	Automobile Manufacturers	\$27,656.6		12.7	49.8
CTIC	CELL THERAPEUTIC	Health Care	Biotechnology	\$504.2		12.3	75.9
ILMN	ILLUMINA INC	Health Care	Life Sciences Tools & Services	\$18,287.7		12.2	34.2
ECYT	ENDOCYTE INC	Health Care	Pharmaceuticals	\$906.6		12.1	119.5
HZNP	HORIZON PHARMA I	Health Care	Pharmaceuticals	\$1,009.6		11.7	94.9
PODD	INSULET CORP	Health Care	Health Care Equipment	\$2,697.3		10.2	32.3

Source: Global Securities Research, Bloomberg

Figure 1: S&P 500 Pharma Index vs. Nasdaq Biotech and NYSE Biotech: 1993 to Present



Source: Bloomberg

Economic Analysis

Canada's job growth in March exceeds forecasts, led by public sector employment

Loonie rebounds to trade above 91 U.S. cents

Canada's jobs report for March came in well above expectations, rebounding from February's weak numbers, when the economy shed jobs for the second time in three months. The economy added 42,900 jobs in March (Table 3), well above expectations for a gain of 25,000, and following a decline of 7,000 in February. Job gains were largely driven by the public sector, which added 39,300 positions as it recovered from a loss of more than 50,000 jobs in February, while the private sector added only 3,900 positions, about one-tenth of the jobs created in February. Most of the jobs added were in the part-time category (+30,100), with full-time positions accounting for 12,800 or 30% of the total.

Job gains were led by the services sector in areas such as health care & social assistance, and business & support services, while good producers shed jobs due to declines in agriculture and manufacturing. Provincially, employment rose in Quebec and Ontario, led by full-time and part-time jobs respectively, and was little changed in Alberta. British Columbia posted the best jobs performance in March of the four most populous provinces, adding 18,300 positions (10,300 full-time, 8,000 part-time), while the unemployment rate plunged to 5.8% (from 6.4%).

Bottom-Line: The loonie has advanced today to trade above 91 U.S. cents, as pessimism about the state of the Canadian economy abates after the jobs report and the GDP number released earlier this week. Support for the Parti Quebecois is also reportedly on the wane ahead of the April 7 elections. Expect the loonie to be unusually volatile next week, with its near-term direction significantly influenced by the results of the Quebec elections.

Table 3: Canadian employment metrics (Source: Statistics Canada)

	Dec. '13	Jan. '14	Feb. '14	Mar. '14
Unemployment Rate	7.2%	7.0%	7.0%	6.9%
Employment (net change)*	-45,900	29,400	-7,000	42,900
Full-time	-60,000	50,500	18,900	12,800
Part-time	14,200	-21,100	-25,900	30,100
Worker classificn. (net change)	-45,900	29,400	-7,000	42,900
Employees	-8,000	1,100	-15,500	43,200
Self-employed	-37,900	28,300	8,600	-500
Public/private sector (net chg.)	-8,000	1,100	-15,500	43,200
Public sector	18,200	14,700	-50,700	39,300
Private sector	-26,300	-13,600	35,200	3,900
*totals may not add up due to rounding				

U.S. economy added 172,000 jobs in March, in line with average of 2012-13

But has Goldilocks left the building?

The US economy added 172,000 jobs in March, slightly below economists' median forecast of 200,000, and following a revised jobs number of 197,000 in February. Jobs numbers for the first two months of the year were revised higher by a total of 37,000. The March numbers missed estimates for the third time in four months – having exceeded them only in February – although investors were hitherto comfortable with attributing the weakness to inclement weather. Jobs gains in February and March average 184,500, in line with the monthly average of the past two years (194,000 in 2013, 186,000 in 2012).

The unemployment rate was unchanged at 6.7%, while the U-6 measure of underemployment rose marginally to 12.7% (from 12.6%). Last month's job gains were wholly on account of the U.S. private sector, led by the service sector (+167,000), which had solid job growth in areas like professional & business services, education & health services, and trade. Goods producers added 25,000 jobs, led by the construction industry, while the manufacturing sector shed 1,000 jobs after adding 19,000 positions in February.

Market Reaction: While last month's jobs numbers are in the "Goldilocks" zone – not high enough to force the Fed's hand in terms of tightening monetary policy, and not weak enough to renew concerns about an economic slowdown – these "just right" numbers are unlikely to have a positive impact on equities for a couple of reasons. Firstly, the Federal Reserve looks set on completing its QE program by year-end and commencing its rate-tightening cycle in 2015. Secondly, with this bull market passing the five-year mark last month, investors now seem focused on valuations, as evidenced by the sell-off in momentum stocks over the past month. Our conclusion is that Goldilocks has left the building, but that's not necessarily a bad thing for a U.S. equity market that has grown uncomfortably accustomed to repeated doses of stimulus to move relentlessly higher.

Chart of the Day

TSX traded today at highest levels since June 2008

Will support at the previous double-top of ~14,300 hold?

The TSX Composite today traded at an intra-day high of 14,474.65, its best levels since June 2008. The index has managed to break through the double-top formed just above the 14,300 level in the first half of 2011 (Figure 2), but given today's weakness south of the border, the question is whether this former resistance level will now turn into a solid support zone. The TSX has advanced 5.6% YTD – beating the S&P 500 by 4.5 percentage points – led by the Energy and Materials groups. It has also outperformed the S&P 500 over the past six months (12.7% vs. 10.5%).

Figure 2: TSX Composite – 2008 to Present



Source: Bloomberg

Discontinuing Coverage

With immediate effect, we are discontinuing coverage on the following stocks that have previously been the subject of recommendations in the Market Bulletin – **Nvidia (NASDAQ: NVDA)**, **Precision Drilling (TSX: PD)**, **Stryker (NYSE: SYK)**, and **SunEdison (NASDAQ: SUNE** – formerly MEMC Electronic Materials).

Market Snapshot

At close on Friday, April 4, 2014

S&P	TSX		Commodities			Yields (%)		Can.	US
TSX Venture	1007.16	+5.20	Canadian \$ (US cents)	91.09	+0.47	90 Day T-Bill	0.91	0.02	
DJIA	16412.71	-159.84	Gold (Spot)-US\$	1303.64	+16.87	2-Year Bond	1.08	0.41	
S&P 500	1865.09	-23.68	Oil (WTI-May)	101.13	+0.84	10-Yr. Bond	2.49	2.72	
NASDAQ	4127.73	-110.01	CRB Index	304.84	+1.74	30-Yr. Bond	2.99	3.58	

Thought for the Day

“The future is here. It’s just not widely distributed yet.” – William Gibson

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Buy: Expected total returns of 10% to 20% over the next 6 – 12 months.

Speculative Buy: Significant gains expected over the next 6 – 12 months, but entire investment may be at risk.

Hold: Expected total returns of 0% to 10% over the next 6 – 12 months.

Reduce: Expected total returns of up to -10% over the next 6 – 12 months.

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