



The Bigger Picture

A weekly snapshot of the markets

Issue No. 254

June 2, 2014

Summary

Economy Watch: Bank of Canada's interest rate decision on Wednesday; ECB rate decision on Thursday; US and Canadian payroll data on Friday.

Stocks to watch: Biotechs with cancer treatments in the spotlight at ASCO conference in Chicago May 31 – June 3. Stocks to watch – AMGN, CLVS, PCYC, IMUC.

Chart of the Day: MSCI World Index is near all-time high, but Eurozone and China lag far behind. If the current bull run continues, best value may be found in these regions.

Short Takes: Danske Bank predicts Brazil will win World Cup; train-platform mismatch in France; space rats.

Commentary – S&P/TSX Dividend Aristocrats index has plenty of smaller companies with solid dividend growth

Index has significantly outperformed TSX since March 2009

Elvis Picardo, CFA

In an environment of record low interest rates brought on by unprecedented monetary stimulus, investors' hunt for yield is assuming manic proportions. One such indication of the level to which dividend-paying stocks have been bid can be seen in the outperformance of the S&P/TSX Dividend Aristocrats index, which measures the performance of companies included in the S&P Canada Broad Market Index that have consistently increased dividends for at least five years (it is permissible to have maintained the same dividend for a maximum of two years in that 5-year period). The Dividend Aristocrats Total Return index has generated total returns of 215% since March 9, 2009, compared with total returns for the TSX of 125% (Fig.1). On an annual basis, the DA Total Returns index has outperformed the TSX by almost 8 percentage points (24.5% vs. 16.7%). The Aristocrats index has a market cap threshold of \$300 million, and therefore includes many smaller stocks that may not appear regularly on investors' screens. While many members of the Aristocrats index are trading at or near record highs, the following stocks are some distance away from their highs and may offer an interesting combination of dividend income and some capital appreciation – **AGF Management** (AGF/B, \$12.86, dividend yield 8.4%), **Northern Property REIT** (NPR.UN, \$27.33, div. yield 5.8%), **Bird Construction** (BDT, \$13.98, div. yield 5.4%), and **Evertz Technologies** (ET, \$16.16, div. yield 4.0%).

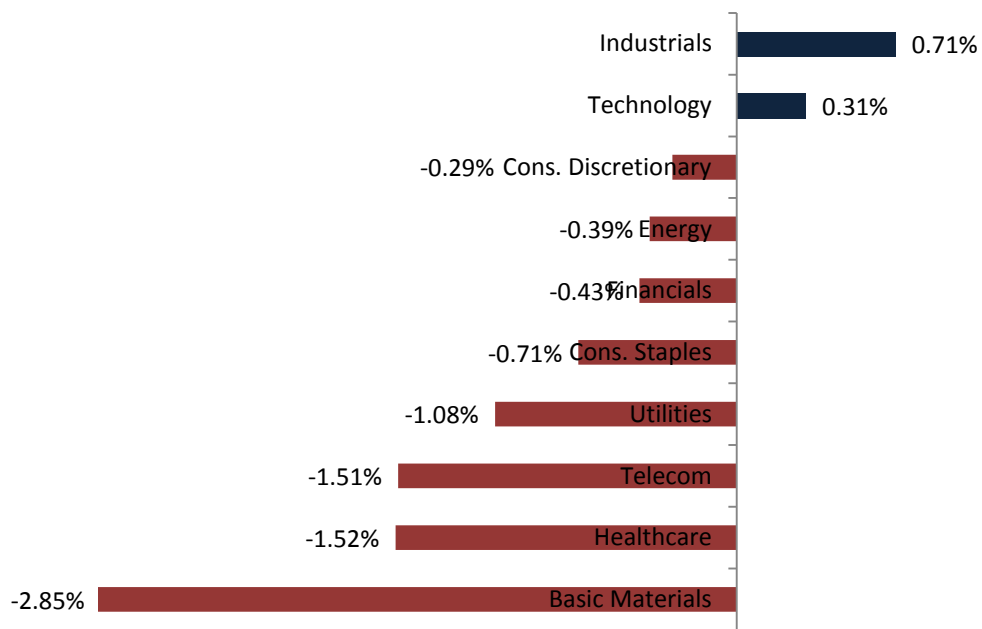
Figure 1: TSX Dividend Aristocrats & DA Total Return vs. TSX Comp. – March '09 to May '14



Source: Bloomberg

TSX Sector Watch

Weekly change for TSX sectors (week ended May 30, 2014)



Source: Bloomberg

The Week Ahead

Economy Watch

Plenty of news on the economic front this week, as summarized below –

- **Bank of Canada's rate decision (Wednesday, June 4)** – The BoC is expected to stay the course by maintaining its benchmark rate at 1%, according to a Bloomberg survey. BoC governor Poloz said on April 30 that he is neutral on the next move in interest rates. If the Bank strikes a dovish note on Wednesday, expect the Canadian dollar to give back some of the gains it has made recently against the greenback.
- **European Central Bank rate decision (Thursday, June 5)** – This ECB decision will be closely watched to see if ECD president Draghi will follow up the prospect of more monetary stimulus that he hinted last month.
- **US and Canadian jobs numbers (Friday, June 6)** – The US employment numbers generally have an impact on financial markets, and it should be no different this time. Forecasts show the US economy added 215,000 jobs in May, while the unemployment rate is expected to tick up to 6.4% (from 6.3% in April). In Canada, the economy is forecast to have generated 25,000 jobs, with the jobless rate expected to stay at 6.9%. Note that Q1 GDP growth came in well below estimates for both the US and Canada last week; US GDP fell at an annualized 1% rate, and Canada grew at a 1.2% annualized rate. Investors have looked past the soft GDP data, which was adversely affected by an unusually harsh winter. In the US, a slowdown in inventory building affected Q1 GDP by 1.6 percentage points, and a rebuild in inventories is expected to boost Q2 GDP. The US added 288,000 jobs in April, and unexpectedly soft jobs numbers in May could trigger concern that the economy is on a trajectory that is not as strong as investors currently expect. Canada's always volatile jobs numbers may have limited impact.

Stocks to watch

- **EnCana (TSX: ECA, \$25.25)** spin-off **PrairieSky Royalty (TSX: PSK, \$36.25)** was given a rousing reception by investors on its first day of trading on May 29. The stock opened at \$34.99, up 25% from its IPO price of \$28, and closed at \$37 on Thursday, up 32%. PSK closed 2% lower at \$36.25 on Friday, and may encounter choppy trading this week.
- Biotechs will be in the spotlight this week, with the American Society of Clinical Oncology (ASCO) conference held in Chicago from May 31 to June 3. The biotechnology sector has been on red-hot over the past five years, with the NYSA Arca Biotech index (BTK) up 299%, and the Nasdaq Biotech Index (NBI) up 258%. Companies presenting key data at the conference include **Amgen (AMGN, \$115.80)**, **Clovis Oncology (CLVS, \$51.31)**, **Pharmacylics (PCYC, \$89.23)** and **Immunocellular (IMUC, \$1.35)**.

Chart of the Day

With MSCI World Index almost at new highs, which indices are lagging?

U.S., U.K., Germany, India reached new highs this month, but Eurozone and China far behind

While global market capitalization reached a new record of \$64 trillion on May 29, the MSCI All-Country World Index (MXWD, 421.59) is a tad away from its all-time high of 428.63 reached on November 1, 2007. As noted last week, a number of major markets – including the U.S., U.K., Germany and India, which combined make up 47.6% of global market value – set new records this month. The S&P 500 in fact closed at a new high of 1,923.57 on Friday, May 30.

But some markets and indices are lagging these record-breaking runs by a considerable margin. The TSX Composite was in the laggard camp until recently, but has made up for part of its under-performance with a string of 10 successive monthly gains until last month, when it retreated 0.33%. While the Canadian benchmark is less than 4% away from its all-time high, equity indices for the Eurozone and China are much further away, as the chart below displays.

The Euro Stoxx 50 index (SX5E, shown in blue) – which comprises 50 stocks from 12 Eurozone nations – is currently 41% below its record level of 5,522 reached in March 2000. The Shanghai Composite (SHCOMP, in pink) is 67% below its peak level of 6,124 reached in October 2007. Interestingly, the peaks in those two indices coincided with the last two peaks in global bull markets. If the current bull run continues, the best value may perhaps be found in Europe and China, as they try to catch up with the rally leaders, much as the TSX has done.

Figure 2: MXWD vs. Euro Stoxx 50 and Shanghai Composite – 2000 to Present



Source: Bloomberg

Short Takes

- Danske Bank predicts Brazil will win World Cup:** Using an econometric model based on economic variables and soccer history, Denmark’s largest bank said Brazil will beat Argentina in the World Cup final, with Germany forecast to beat Italy for third place. Danske pegs defending champion Spain’s chances of winning the Cup at only 4%. Danske Bank analysts said that although not readily apparent when watching a soccer game, economic fundamentals play a vital role in determining the winner, with USD 20,000 in extra GDP per capita giving a team a 0.1 goal advantage at the World Cup. A similar 0.1 goal advantage is also obtained with a 75-million larger population.
- French railway budgets 50 million euros to shrink platforms:** Rail-track company RFF said last month that it would spend 50 million euros to create narrower platforms after state train operator SNCF ordered new models from Alstom and Bombardier that are too wide for some stations. In response to criticism from the government and opposition about the waste of money, SNCF said that the expense is equal to “only 1.5%” of the EUR 3 billion cost of the regional expresses, and similar work had to be done in 2003 and 2005 when new models were introduced to the network.
- NASA develops high-tech cages to transport rats to ISS:** NASA has developed high-tech cages to carry rodents from Earth to the International Space Station (ISS). The project will allow researchers to study the long-term effects of microgravity on mammalian physiology. The Rodent Habitat modules, which will be on board an unmanned SpaceX Dragon cargo ship that will fly in August, will provide up to 10 rodents with all of the basic comforts of home including water, food, lighting and fresh air, although cable is not included. While the modules also include data downlink capability, NASA did not confirm if the rodents would be trained for this function.

Market Snapshot

At close on Friday, May 30, 2014

S&P TSX	14604.16	+15.21	Commodities			Yields (%)	Can.	US
TSX Venture	983.99	+2.47	Canadian \$ (US cents)	92.20	-0.08	90 Day T-Bill	0.92	0.04
DJIA	16717.17	+18.43	Gold (Spot)-US\$	1249.73	-5.85	2-Year Bond	1.05	0.37
S&P 500	1923.57	+3.54	Oil (WTI-July)	102.71	-0.87	10-Yr. Bond	2.24	2.48
NASDAQ	4242.62	-5.33	CRB Index	305.48	-1.86	30-Yr. Bond	2.78	3.33

Thought for the Day

“Success is liking yourself, liking what you do, and liking how you do it.” – Maya Angelou

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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.

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

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