"Germane Thoughts"

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"The Lord taketh away, and the Lord giveth back" John G 12:14? That's not right. Blasphemy! But that's exactly how the equity markets traded over the past few months, especially south of the border. The lows for global equity markets in October seem a distant memory for now. After declining over 10% from the high in September to the intraday low in October, the S&P 500 rallied back by 14% to end November at a new record high level of 2,067. Potential reasons for the rally are multiple: better than expected third quarter earnings reported, stronger U.S. economic data reported in November, expectations the European Central Bank will embark on their own Quantitative Easing program, the surprise key lending rate cut by China's Central Bank (the People's Bank of China) as well as the savings consumers are receiving from the significant decline in energy prices as gasoline prices declined 12.2% in November and is now down almost 29% in 2014.

Whatever the reason, most markets continued to advance in November. During the month, the S&P 500 Index appreciated 2.5%, and is up 11.9% so far in 2014. After lagging the S&P/TSX for most of 2014, The S&P 500 Index widened its lead vs. the S&P/TSX Composite Index for the second consecutive month as the TSX Composite was up only 0.9% in November and 8.2% for the year. The drag from the energy sector continued in Canada as crude oil prices were very weak with WTI Crude Oil declining to US$65.9 per barrel from US$80.5 per barrel the previous month and US$98.55 per barrel to start the year. In November, the energy sector in the TSX declined 9.2% and is now down 16.5% from the end of September. Meanwhile, the materials sector provided some respite in November as it advanced 3.7% but is still down 5.2% in 2014. The Canadian dollar continued to decline during the period, down 1.3% vs. the U.S. dollar and is now down 6.9% year-to-date.

In the rest of the world, most other global Indexes rallied in November with the FTSE 100 (U.K.) up 2.7%, the CAC 40 (France) up 3.7% and the DAX 30 (Germany) up 1.6%. The Chinese market was the winner for the month as the Shanghai A Share market rose 10.9% while the Nikkei 225 (Japan) was up 6.4%. Small Caps in Canada were stuck behind the proverbial woodshed for the 3rd month in a row with the S&P/TSX Venture Index declining another 3.6%, while in the U.S. small caps were flat with the Russell 2000 generating a return of 0.0%.

Many U.S. economic statistics reported in November continued to improve with the ISM Manufacturing Index coming in better than expected at 59.0 vs. 56.1 expected and the Philly Fed Business Outlook Index for November coming in at 40.8, its highest level since December, 1993.

Long-term interest rates continued their descent in November as concerns around global growth and deflation in Europe remain escalated. 10-year U.S. Treasury yields declined another 14 basis points in November to end the month at a 2.2% yield, still considerably greater than yields in Europe and even Canada.

Health Care was the best performing sector in Canada in November, up 10.1% on the back of strong performance from Valeant Pharmaceuticals. The stock was up 11.1% during the period, with most of the advance coming after it was reported that Valeant and activist fund manager Bill Ackman were giving up on their pursuit of Allergan, the maker of Botox after drug maker Actavis PLC came in with a higher bid. As noted earlier, the Energy sector was the laggard during the month due to weak crude oil and gasoline prices with a lot of the decline coming towards the end of November after OPEC announced they would maintain the current level of production on U.S. Thanksgiving Thursday. Similar to previous months, we remain underweight in both the materials and energy sectors in our Funds with an eye to increase our weight when our model signals us to do so.

In the U.S., the Consumer sectors were the best performing sectors in November, with both the Staples and the Discretionary sectors up 5.3%.

Finally, after spiking in mid-October around 31.1, volatility trended back towards the low end of the range that its traded over the past 2 years as the CBOE Volatility Index ("VIX") ended November at 13.3. Due to the low volatility exhibited by the market, we were fairly inactive in our call writing in November as we didn't feel we were being compensated for selling away upside.

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