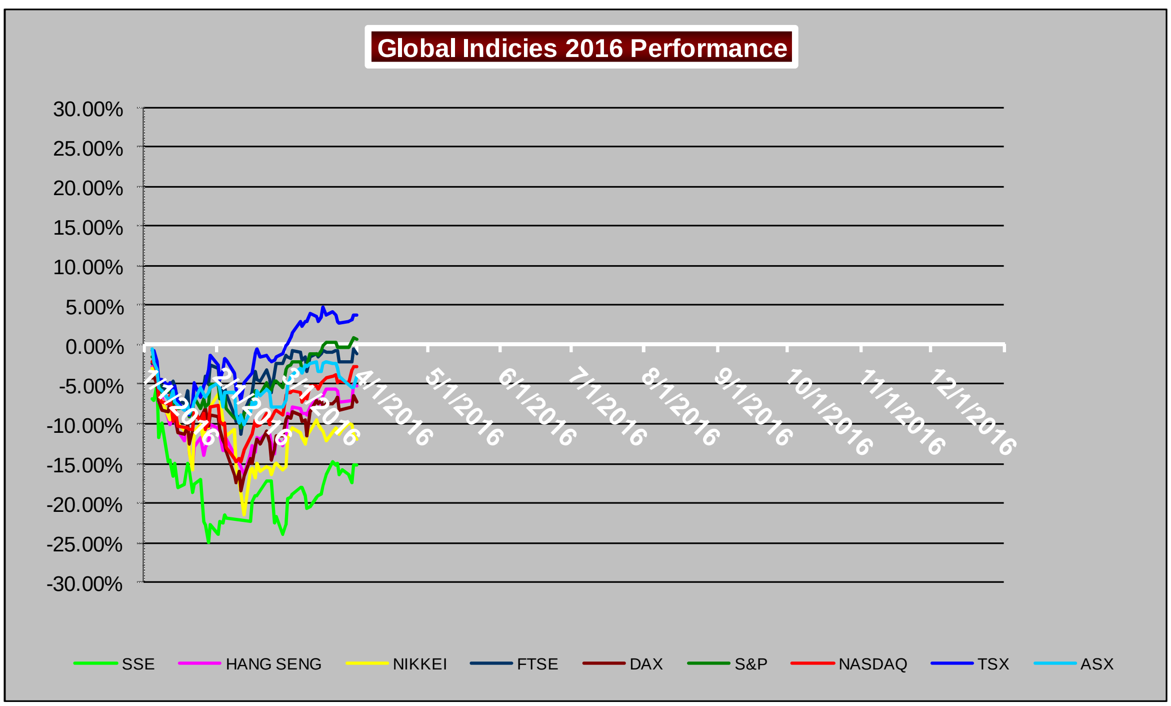
GDB April 2016 Newsletter

Monthly Market Summary:

2016 March Market Activity		
SSE COMPOSITE	***3,003.92***	+315.94 (11.75 %)
HANG SENG	***20,776.70***	+1,664.77 (8.71 %)
NIKKEI 225	***16,758.67***	+731.91 (4.57 %)
FTSE 100	***6,174.90***	+77.80 (1.28 %)
DAX	***9,965.51***	+470.11 (4.95 %)
DOW	***17,685.09***	+1,168.59 (7.08 %)
S&P 500	***2,059.74***	+127.51 (6.60 %)
NASDAQ COMPOSITE	***4,869.85***	+311.90 (6.84 %)
ASX 200	***5,082.80***	+201.90 (4.14 %)
TSX COMPOSITE	***13,494.40***	+634.00 (4.93 %)

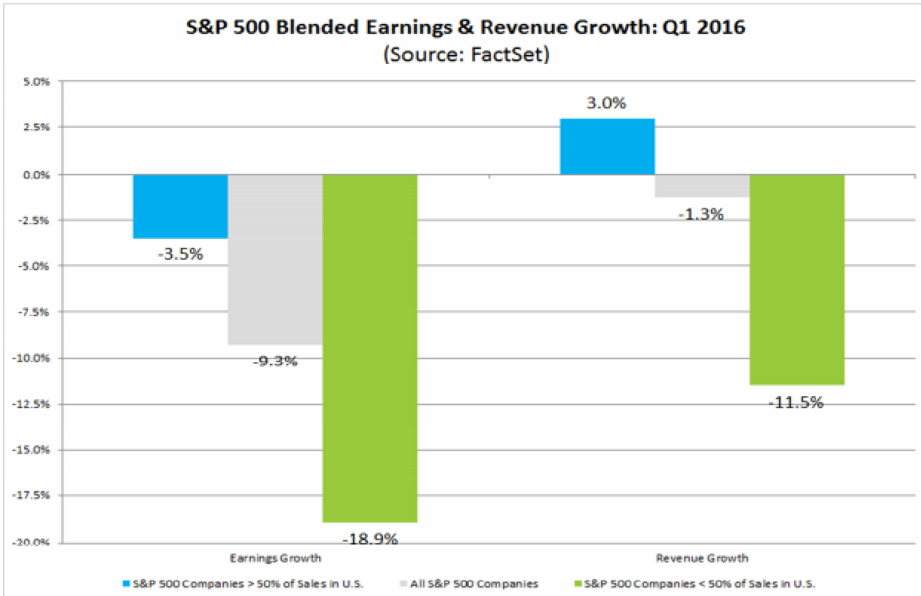


Investment Themes:

With the first quarter of 2016 behind us and earnings season kicking into high gear, we take a closer look at S&P 500 companies' sales and earnings to determine whether the stunning comeback in stocks after the freefall during the beginning of the year is supported by fundamentals. The dark clouds that shrouded investors at the start of 2016 have now dissipated as the US stock markets are back in the green for the year.

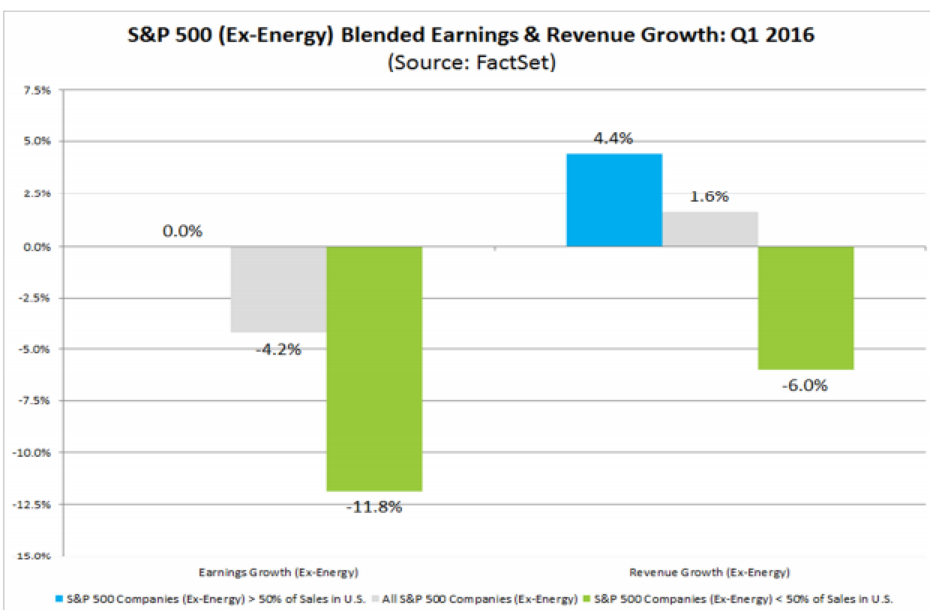
According to Factset, as of April 15, 7% companies in the S&P 500 have reported earnings for Q1/2016. Overall, 71% of them have reported earnings above estimates and 60% have reported sales above consensus. In addition, the percentage of companies beating estimates is above the long term 5-year average. So far so good right?

Not so fast. When we strip out the estimates which the analyst community comes up with to measure the companies' performances and just focus on hard year over year comparisons, we see a completely different picture. Compared to the same quarter last year, the blended earnings reported by Factset (combines actual results for companies that have reported and estimated results for companies yet to report) for the S&P companies for Q1/2016 is down by an alarming -9.3%. The profit decline is even more dramatic for companies that have more global exposures (50% revenue coming outside of US), a remarkable decline of -18.9%. Top line revenue comparisons points to the same trend with average year over year decline of -1.3% and companies with more global exposures seeing sales dropping by -11.5%.



Source: FactSet

Sector wise, the decline of the price of crude, 30% lower than the average price in a year ago quarter, drove down the blended earnings in the Energy sector by over 100%. But even if we strip out the drag from the Energy sector from the overall S&P 500, we still see similar trend of year over year deterioration in earnings and sales.

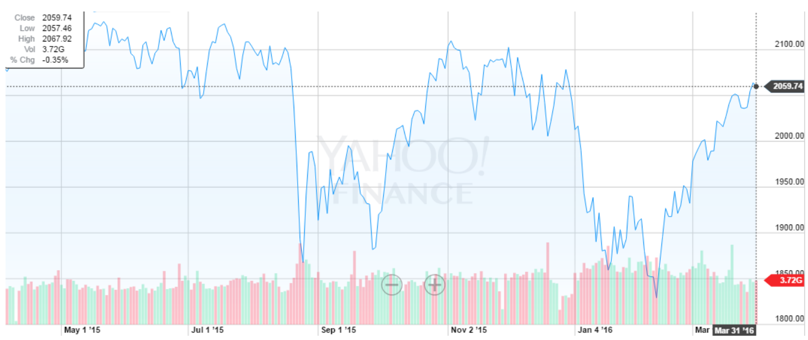


Source: FactSet

With such large year-over-year decline in earnings, we are surprised to see that the reactions from the analyst community are relatively muted. The game continues with the companies driving the guidance lower while Wall Street forecasters respond with lower and lower estimates so that companies can meet the lowered performance thresholds. This paints the illusive picture that although economic fundamentals are challenging, it is not as bad what people initially thought. As a result, the market continues to climb higher, though as we see without any fundamental substances to support the upward trend.

Another piece of data to ponder before the conclusion of this month's Newsletter: if the final aggregate year over year earnings for the quarter is negative, it will mark the first time of four consecutive quarters of year over year earnings decline since the financial crisis during Q4/2008 through Q3/2009. And how was the performance of the S&P 500 index over these time periods?

Q2/2015 to Q1/2016, -0.35%:



Q4/2008 to Q3/2009, -5.13%: