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Different data can tell different stories

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Following a powerful 11% rally from November 1, 2016 through February 28, 2017, the S&P 500 Total Return Index turned in a humble 0.1% in U.S. dollar terms in March. The excitement fuelled by U.S. President Donald Trump may have eased somewhat, but a host of financial market indicators imply that investor optimism persists in a meaningful way. Forward price-to-earnings multiples at 18 times for the S&P 500 Total Return Index are near post-financial crisis highs; credit spreads on high-yield, investment-grade and emerging market debt have tightened to levels last seen when crude oil traded near US$100; and the VIX ratio, commonly referred to as the fear gauge, recently dipped below 10 for the first time since February 2007. By many measures, investors are as fearless as they have been in about a decade.

Based on official economic reports that can be categorized as "soft data," the outlook for the U.S economy appears to be very promising. Soft data includes subjective information that is gleaned from survey-based measures like the Purchasing Managers' Index, produced by the Institute for Supply Management, which gauges business conditions and forecasts provided by business executives. Other popular measures include the Conference Board Consumer Confidence Index, the Philadelphia Fed Business Outlook Index and the University of Michigan Consumer Sentiment Index. These soft measures have shown strong readings and have generally outperformed expectations in recent months, reflecting widespread optimism in the market and adding yet more fuel to risk-on sentiment in a seemingly virtuous circle.

Soft data can provide timely and often valuable insights into the future, so they should not be ignored. However, they are inherently imprecise measurements at best, as they are qualitative in nature. "Hard data," on the other hand, represent factual information and leave little room for subjectivity. In reviewing the recent hard data on aggregate, we observe that the U.S. economy continues to improve at a far less frenetic pace than some of the soft data suggest. For example, annualized GDP growth in the fourth quarter of 2016 was a decent 2.1% but slower consumer spending and business investment recorded in January and February 2017 point to declining momentum and a softer GDP report for the first quarter. The hard data also show that job growth remains robust, with approximately 200,000 jobs added per month on average following the financial crisis. However, real wage growth has been on a downward trend for two years, tempering U.S. consumers' spending habits.

On the political front, the Trump agenda has run into some major roadblocks within the administration's first 100 days, posing risks to the euphoric sentiment. Failure to implement a new health care bill revealed the fractiousness of the Republican Party and the gridlock that still exists despite a GOP-dominated Congress. The fact that this bill was intended to free up government revenue sources to help fund other expensive programs makes it all the more difficult to pass further legislation without accepting potentially debilitating concessions. With Trump's victory, corporate earnings and economic growth projections were revised higher on the hopes of successful implementation of a massive pro-growth agenda. Hope can only take the markets so far. We will continue to structure the portfolios around the facts and fundamentals and will be prepared to take advantage of opportunities if sentiment changes from fearlessness to fearfulness.

Combined top 15 equity holdings as of March 31, 2017 of the Evolution 40i60e Standard portfolio with Alpha-style exposure:

1. Microsoft	6. Alphabet Class C	11. E-L Financial
2. Apple	7. UnitedHealth	12. Alphabet Class A
3. Canadian Natural Resources	8. Chubb	13. Bank of Nova Scotia
4. Atco	9. Roche	14. JPMorgan Chase
5. Altagas	10. Tourmaline Oil	15. Walgreens Boots Alliance