THE ABC PERSPECTIVE

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# Back to Business

Since the conclusion and the unexpected result of the U.S. presidential election on November 8th, American common stocks have rallied significantly. At the same time there has been a meaningful decline in U.S. bond prices. These price changes are primarily due to the expectation of a new Republican pro-business government that will focus on fiscal stimulation, reflation, lower taxation and reduced government regulations. Regardless of one's political affiliations, the incoming Trump administration is in power for the next four years and appears to be headed towards a "back to business" agenda.

Admittedly, some of the stock market optimism might already be factored into the elevated share prices since the election. While common stocks could be vulnerable to a healthy market correction we believe that the balance of 2017 should lead to more investment optimism and stock market outperformance. This view is bolstered by the intended pro-growth economic and fiscal policies of the new administration and relatively low, albeit, rising U.S. interest rates. If these policies materialize they should lead to improving American corporate profits and rising share prices.

Although it is too early to evaluate the new administration, we are encouraged by its proposals regarding job creation, repatriating U.S. corporations' overseas cash hoards and simplifying American taxation. Furthermore, we believe a shift from an exhausted monetary policy towards a more expansionary fiscal program should energize and elongate the current U.S. economic cycle.

Over the past 12 months we have repositioned our ABC Funds' portfolios toward medium and large capitalization U.S. securities while fully hedging our US/Canadian currency exposure. We have packed our portfolios with many liquid, dividend-paying, free cash flowing North American securities, which will provide both earnings and dividend growth in a relatively low interest rate environment. We believe that many of our selections are well-positioned for 2017 and a more positive economic and investment forecast. In fact, since the beginning of 2017, a number of our American holdings are starting to reflect this optimism via improved corporate results and, ultimately, higher stock prices since the 2016 year-end. They include: Amazon.com, Apple, Broadcom, Skyworks Solutions, Alphabet, Facebook, Netflix, Salesforce.com, Adobe Systems and Mastercard.

In summation, with the inauguration of the new U.S. presidential team on January 20th, we expect greater financial and investment clarity leading to what we believe will be a continuation of North American economic growth and common stock appreciation.

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Economic Perspectives

## Increasing Economic Optimism

Although the new Trump administration has yet to assume government control we believe that its pre-election intentions including pro-economic, fiscal stimulation, lower taxation and less government regulation give us cause for increasing economic optimism. Granted, many pre-election promises versus actual elected government enacted policies can differ greatly. We sense, however, that many of the pro-business optics and intentions of the new administration are serious.

In the event that many of these changes are carried out, the resulting effects, we believe, should provide enhanced economic, corporate and consumer confidence. Ultimately, this event should lead to a positive 2017 stock market performance.

Investment Perspectives

## The Attraction of Common Stocks

In all candour, U.S. common stocks are not deeply undervalued. However, with many dividend yields running at 2-3%, steady earnings and dividend growth, relatively low interest rates, the prospects for improving economic growth, a new pro-business presidential administration, we believe that American common stocks remain, quite attractive. Furthermore, when compared to low yielding short term paper and government bonds common stocks appear attractive, again, as a hedge versus the anticipated reflation and rising interest rates expected over the next 12 months. Moreover, in the event of lower taxation policies, reduced government corporate regulations and increased fiscal stimulation by the new Trump administration, liquid dividend-paying, free cash flowing American common stocks should be beneficiaries of any positive changes in investor sentiment.

Portfolio Perspectives

## Well-Positioned for 2017

Looking ahead at our five ABC portfolios over the next 12 months we are quite optimistic. We continue to prefer good quality Canadian dividend-paying common stocks such as TransCanada Corp., Algonquin Power and Utilities, Fortis Inc. and Suncor Energy compared to low-yielding, short-term paper and government bonds. More importantly, we believe that our medium to large capitalization U.S. equity holdings including Amazon.com, Apple Inc., Broadcom and MasterCard offer good relative value and earnings growth. It is our opinion that these selections present excellent prospective returns in a potentially volatile yet positive 2017. In addition they should perform comparatively well in a period of steady economic growth, mild interest rate increases and rising corporate earnings. We remain fully hedged on our U.S./Canadian currency exposure and believe that we are well-positioned for 2017.

# Three Favoured ABC Common Stock Holdings

**CCL Industries Inc.,** is a Toronto-based global leader in label and packaging solutions for large corporations and small businesses. The company has a vast distribution network operating 119 facilities in 31 countries. In December 2016, CCL announced the transformational acquisition of the Innovia Group of Companies for $1.13 billion. This acquisition will introduce CCL into the polymer banknote market, a new market for CCL with a strong growth trajectory. Innovia will be accretive to CCL by adding new manufacturing capabilities, unique technologies and will allow for cross-selling opportunities. We see continuing growth for CCL, driven by strong end markets, margin expansion, further acquisitions as well as solid organic growth.

**Electronic Arts Inc.,** develops, markets, publishes, and distributes games, content, and services for a wide variety of platforms. We believe Electronic Arts will continue to be a solid investment for several reasons. Firstly, the global video game industry is a thriving market, with global growth expected to be nearly 5% a year through 2020. Secondly, EA is one of the largest companies in the industry, and publishes popular franchises including Battlefield, Star Wars, FIFA and Madden. Thirdly, the video game industry is currently undergoing a shift from physical media to digital. Digitization produces lower costs, higher margins and enables companies to sell additional services online. Overall, Electronic Arts has many growth opportunities, including the development of new franchises, the integration of updated technology such as virtual reality, and the increasing popularity of e-sports.

**Loblaw Companies Ltd.,** is a leading and well-managed Canadian grocer selling under its Loblaw, PC, Shoppers Drug Mart and Joe Fresh brands. The company, after the purchase of Shoppers Drug Mart, became the foremost pharmacy retailer in Canada. More importantly, with its huge distribution network of over 2400 grocery and pharmacy stores, Loblaw provides a wide selection of consumer staples and should be a major margin beneficiary of corporate cost cutting and increased company synergies. Looking forward, we see Loblaw's continued success due to a large range of retail formats of both food and drugs enabling the company to grow market share. Continued cost-efficiency initiatives should drive double digit EPS growth and rising free cash flows will permit Loblaw to repurchase a significant amount of shares through corporate buybacks.

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