

## AN EXTENDED GOLDILOCKS ECONOMY

The strong 2017 U.S. investment returns have been particularly surprising to the market given the negativity and skepticism which accompanied the unexpected Donald Trump election victory on November 8, 2016. By comparison, the Canadian S&P/TSX total return index's appreciation of approximately 9% lagged the U.S. benchmarks' performance. Clearly, Canadian investment managers who meaningfully overweighted U.S. equities in 2017, relative to Canadian common stocks, added significant incremental returns to their portfolios.

Of particular note is that this elongated American "Goldilocks" economic cycle, now in its ninth year, has been neither too weak nor too strong. Moreover, it has generated very little inflation, particularly labour inflation, despite the lowest unemployment rate in 17 years. In fact, the economy has benefited from the most accommodative global central bank policy in decades. It is our view that these benign conditions have unlocked considerable pent-up business and consumer demand for goods and services which could extend the present economic cycle to the end of the decade.

Our optimistic 2018 investment outlook is a conglomeration of a number of factors, but in particular, our persisting belief in an extended North American "Goldilocks" economic growth cycle. This view is strengthened by a number of positive tailwinds which should assist in prolonging worldwide economic activity:

- U.S. tax reform, corporate deregulations, and a repatriation of offshore capital should boost U.S. company profits and push common stock valuations higher.
- Subdued global inflation combined with relatively low, albeit, gradually rising interest rates, should

encourage business optimism and expansion.

- Reduced American unemployment is enhancing both the consumer and business outlook which should lead to elevated capital investment and consumer spending. Lower unemployment and increased consumer and business spending should theoretically reduce government deficits.
- The confluence of expanding global economic growth should magnify worldwide trade and business activity.

Overall, although we anticipate periodic stock market volatility, which will test one's bullish resolve, we do expect that the numerous positive investment tailwinds will lead common share prices higher.

Following through with our 2018 investment optimism, we have skewed our ABC investment portfolios to a fully invested equity position. Our portfolios are primarily composed of larger capitalization, dividend paying industry leaders, primarily in the United States, Canada and Asia, while fully hedging our non-Canadian currency exposure.

Irwin A. Michael, CFA





**ABC Funds**™

INVEST YOUR MONEY  
WHERE WE INVEST OURS

Economic

Perspectives

## THE GLOBAL ECONOMY: THE GLASS IS HALF FULL

At the beginning of 2017, many market commentators were concerned about the strength of the U.S. and worldwide economies. However, the past 12 months' employment gains as well as consumer and business activity have demonstrated steady and consistent growth. In fact, the global economy has continued to advance with the IMF estimating 2018 world growth of at least 3.7%. This synchronized global economic expansion, which is now being recognized by investors, has transformed the

anxiety of mid-2017 toward a positive, "the glass is half full" 2018 mentality. Overall, it is our expectation that the worldwide realization of an elongated business cycle should positively influence consumer spending and business capital expansion. We believe these factors will positively impact common share prices this year.

Investment

Perspectives

## COMMON STOCKS: POWERFUL TAILWINDS

We believe that there are numerous macro tailwinds which could propel equities to meaningfully higher levels in 2018.

Many of these positive influences have been building over the past 6-12 months. Finally, they are now manifesting in steadily higher American stock prices as investor skepticism has shifted toward a "fear of missing out". The macro tailwinds positively impacting common stocks include: relatively low interest rates; synchronized global

economic expansion; U.S. tax reforms and corporate deregulations; increasing prospects of rising business earnings, dividend increases, and higher common stock valuations; and an all-important asset mix shift from fixed income securities to equities.

Portfolio

Perspectives

## STILL FULLY INVESTED

Our five ABC portfolios were fully invested in equities throughout 2017 and have entered 2018 with continued optimism. We have concentrated our common stock holdings with a diversified mix of larger capitalization dividend paying American, Canadian and International companies. We believe that these securities will outperform bonds over the next 12 months.

Although we favour equities over bonds, not all common stocks will appreciate uniformly, and consequently, stock selection will be paramount to investment success. Of particular interest to us include North American financial services, technology, health care and industrials. Additionally, we have added fundamentally undervalued Asian securities over the past year such as Alibaba Group, Tencent Holdings, and YY Inc.



**ABC Funds**™

INVEST YOUR MONEY  
WHERE WE INVEST OURS

## TWO FAVOURED ABC COMMON STOCK HOLDINGS

**Tencent Holdings Ltd.:** is a Chinese investment conglomerate focused on delivering value added Internet services to consumers. The company offers online and mobile gaming, social media platforms, payment services and online advertising. Gaming is Tencent's main growth driver as revenue from smart phone and PC games gained 84% and 27% growth respectively versus the previous year. The company produces popular titles such as League of Legends and Honour of Kings and operates large mobile e-sports live streaming platforms. Additionally, Tencent is a world leader in social media. WeChat, Tencent's mobile chat service, is an instant messaging and social entertainment app. With over 980 million monthly active users, it is the world's largest social network and continues to add users at an impressive 16% year-over-year rate. Through Tencent's social media platforms, the company offers mobile payment services, such as WeChat Pay and QQ Wallet, which are linked to over 300 million bank accounts. Other important business segments include e-commerce, on-demand video and music, artificial intelligence, robotics, and cloud services. Furthermore, Tencent owns stakes in Didi, the Chinese ride-sharing giant, as well as Tesla, Snapchat, and Supercell.

**Algonquin Power & Utilities Corp.:** is a utility and power generation company. The company operates 33 regulated utilities across 12 U.S. states in electricity, gas, and water distribution, as well as numerous renewable and clean energy facilities. Algonquin is a favoured ABC Funds investment for several reasons. Firstly, the company has a diversified, stable, and predictable business model, with earnings generated by either regulated utilities or long-term power contracts. Secondly, the company has a strong growth outlook, with both organic investment and acquisition opportunities. Furthermore, there is considerable green power growth potential as rapidly falling costs have created conditions for significant buildouts of wind and solar generation. The company pays an attractive dividend of 4.3% with targeted annual increases of 10%. Algonquin is a core holding in all five ABC Funds, providing stability, yield and growth.

### Administrative Information

- All cheques are to be made payable to RBC Investor Services.
- All client requests are to be directed to ABC Funds.
- Only unitholders of the North American & Global Equity Funds within non-registered accounts will receive T3 tax slips by the end of March 2018 as there were distributions in 2017 for those funds. Unitholders of our other funds will not receive T3 tax slips for 2017.
- T4s will be mailed out mid-February 2018.
- The Capital Gains/Losses Report for redemptions made in 2017 is included with your December 31, 2017 statement.
- All directly-held accounts will receive their 2017 Annual Performance Report via mail in January 2018.
- Contribution slips for RRSP contributions made in 2017 will be mailed at the end of January 2018.
- Contribution slips for RRSP contributions made in the first 60 days of 2018 will be mailed by the end of March 2018.
- The RSP contribution deadline for 2017 contributions is February 28, 2018. All contributions must reach our office no later than this date.
- RBCITS is the custodian of the ABC Funds and is responsible for providing account statements to all our clients. We ask that you retain these statements for your records as there may be additional costs for retrieving historical data.

This newsletter is published by I.A. Michael Investment Counsel Ltd. and the ABC Funds

18 King Street East, Suite 1010 Toronto, Ontario M5C 1C4 Telephone: (416)365-9696 Toll Free: 1-888-OPEN ABC Fax: (416)365-9705

Web site: [www.abcfunds.com](http://www.abcfunds.com) Email: [invest@abcfunds.com](mailto:invest@abcfunds.com)

The information contained in this investment letter is not and under no circumstances is to be construed as a solicitation or recommendation to buy or sell securities, including, without limitation, any units of any of the ABC Funds. While the information contained in this newsletter has been drawn from sources believed to be reliable, its accuracy or completeness cannot be guaranteed, nor in providing it does I.A. Michael Investment Counsel Ltd. assume any responsibility or liability. I.A. Michael Investment Counsel Ltd., its directors, officers, and other employees may, from time to time, have positions in securities mentioned in this letter. I.A. Michael Investment Counsel Ltd. is the manager and investment advisor of the ABC Funds, and as such, receives from the Funds certain management and investment advisory fees based on the net asset value of the Funds from time to time. Irwin Michael is the sole shareholder of I.A. Michael Investment Counsel Ltd.