

I am happy to report that March was a positive month. This has been the fifth consecutive month of increases. And even though this might make us more cautious about the markets, I have read that strong returns are typically a good sign for the next 12 months. We shall see.

What is currently keeping me up at night these days? Two things:

- (1) Market interest rates (as evidenced by the 10-year US Treasury rate, as opposed to the central bank rate) have been creeping up again, just like they did back late last summer until mid-October. This could lead to a decline in stocks, just as it did last fall.
- (2) The possibility of some major escalation in the geo-political tensions we are seeing across the globe (e.g. Israel/Iran; Russia/Ukraine/NATO; North Korea; China/Taiwan/USA).

On the other hand, some things that might worry others do not particularly worry me (market-wise anyway). For example:

- (1) The timing of the first central bank rate cut, whether in Canada or in the U.S..
- (2) The result of the U.S. elections in November.

The Canadian economy seems weaker than the U.S. economy, as evidenced by our higher unemployment rate. So I would not be surprised to see Canada lower its central bank rate before the U.S.. The low U.S. unemployment rate coupled with the strength of the U.S. consumer and corporate profits will probably keep interest rates higher in the U.S.. Bottom line: rates in the U.S. might stay higher longer, but for the right reason, i.e. the economy is stronger.

In the very short run, I am paying very close attention to the 'agreed-upon asset mix' for my clients. For example, if there was an agreement to target 60% for the equity exposure of a discretionary investment portfolio, I make sure that the portfolio gets re-balanced in the event the strong markets have brought the equity exposure to say 65%. And while I am happy that the performance of the big mega cap U.S. stocks has contributed to the strength in the markets over the past five months, I also make sure that the equity portion of portfolios is sufficiently diversified. For instance, portfolios should also have exposure to 'U.S. value' and/or 'U.S. small & mid cap' stocks, and adequate exposure to Canadian and international stocks. This is all part of the ongoing Risk Management process we seek to implement.

Finally, on the investment management side, we view the recent increase in market interest rates as providing a possible investment opportunity for fixed income. For discretionary clients, this might translate into slightly increasing exposure to fixed income. For non-discretionary clients who do not currently have exposure to fixed income, it might mean suggesting a conversation in which we would discuss whether fixed income should now be part of their portfolios.