

Market/Economic Update

The S&P 500® Index started 2016 on a positive footing as the U.S. election rally continued into January and February. In March, the S&P 500® faltered as investors started to question how effective President Trump would be in implementing all of his promises. The sectors of the stock market that benefitted from the “reflation trade” (that were in turn dependent on a growing U.S. economy) generally underperformed. The U.S. Federal Reserve raised its federal funds target rate in March 2017. Despite the increase being largely anticipated, the S&P 500® struggled after the mid-month increase. Although March produced a negative performance, the S&P 500® still ended up in positive territory for the first quarter of 2017.

At the beginning of the first quarter of 2017, the Horizons Seasonal Rotation ETF (“HAC”) was fully invested in the equity markets. Although HAC held some of the seasonally strong sectors that benefitted from the “reflation trade”, the allocations tended to be less than the targeted allocations. After a strong run in the fourth quarter of 2016, the “reflation sectors” were starting to show signs of weakening in the first quarter of 2017 (Q1 – the first three months ending March 31, 2017). As a result, HAC tended to make conservative allocations to these sectors. →HAC initiated a position in the NASDAQ-100 Index in mid-December 2016. Although the sector typically has a strong seasonal period from mid-December to late January (due to the strong positive momentum of the sector) HAC maintained its position until late February 2017.

Outlook

Historically, the stock market performance tends to wane during the second quarter of the year. On average, over the long-term, the stock market has a weaker six-month period from May 6th to October 27th, compared to the other six months of the year. North American stock markets are currently at all-time highs or close to all-time highs. The stock markets are also generally richly valued, with the S&P 500® printing a P/E ratio of 18.2 (Wall Street Journal, April 21st, 2017). Although positive momentum may carry the stock markets higher, the combination of rich valuations and the onset of the unfavourable six-month period for stocks, conservative portfolio positioning is warranted in the second quarter of 2017.

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