JC Clark

INVESTING IN 2017

JC Clark is a boutique Investment Manager to high net worth individuals, institutions and foundations. Building on a long history of investing excellence at Connor, Clark & Company, John Clark and Colin Stewart founded JC Clark in 2001. We apply a value investing approach backed by a rigorous research process. Our strategies have delivered excellent long-term returns and outperformed their benchmarks – most notably during difficult market conditions

OUR VIEW OF THE WORLD

Economy

- Global growth outlook improving
- "Pro-Growth" policies of Trump administration have potential to add materially to US GDP growth
- Reflation a key theme in 2017 – tight labour market and added fiscal stimulus will put upward pressure on inflation
- Interest Rates will continue to move higher
- Protectionism and unpredictability of incoming Trump administration are potential risks to outlook

Financial Markets

- Cautiously optimistic outlook for equity markets in 2017
- Historically high equity valuations and elevated investor sentiment suggest some of good news already built into stock prices
- Expect an increasing level of volatility in equity markets, with potentially large divergence in performance across sectors
- Rising interest rates and a changing inflation outlook will lead to weak performance in bond markets

Key Investment Themes

- US Financials
- Potential opportunities in beaten-up sectors – Oil & Gas, Health Care, Automotive
- Expensive overall equity markets with pockets of highly depressed market segments suggests security selection will be of utmost importance
- Policy implementation risks, rising inflation, and protectionist sentiment all argue for holding some portfolio insurance (cash, hedges)

JC CLARK OUTLOOK 2017

Looking ahead to the New Year we are cautiously optimistic, yet are proceeding with the awareness that we must expect the unexpected. The growth outlook is improving with global manufacturing and service indicators turning upwards, a robust outlook for corporate profit growth in North America, and the potential for fiscal stimulus to spur investment and create new jobs. While we are certain that the Trump administration will bring with it a level of unpredictability, we believe that President-Elect Trump will likely be a pragmatist and moderate many of his protectionist views, while choosing to focus on pro-growth policies such as corporate tax cuts, deregulation, and fiscal spending. After years of sub-par US economic growth and political gridlock, there is at least the potential for these policies to have a material positive impact on the US economy. Risks lie in the implementation of these policies, the potential for a significant increase in US federal debt, and what is certain to be a highly unpredictable foreign policy regime. We believe that reflation will be a key theme for 2017. An increasingly tight US labour market, upward pressure on wages, low interest rates, and government spending programs could all combine to push the rate of inflation upwards. As long as the rise is controlled, and not rapid, moderate increases in inflation would be welcomed by equity markets. More importantly, a reflationary environment will have far- reaching implications for a variety of industries and companies and will lead to rising interest rates and continued underperformance in the bond market. Overall, 2017 should be a better year for growth, but we remain cognizant that we are in the late stages of the economic cycle and face a new period of global unpredictability due to the significant political change we continue to witness in many regions around the world.

A positive economic outlook combined with recovering corporate profitability should generally be supportive of higher equity prices in the year ahead. Nevertheless, there are several factors that prevent us from adopting the unbridled optimism we have seen in recent weeks from other market participants. Equity valuations sit above historic norms, and based on some measures are near the highest levels in 20 years. Investor sentiment has also turned sharply positive following the US election, causing a significant rally late last year, which suggests that at least a portion of the good news has already been built into stock prices. We are taking a positive, but more measured view of the equity market in 2017. While we expect a general upward movement in markets, we believe there will be a notable increase in volatility in the months ahead and a large divergence in performance across different sectors and companies. For example, we expect rising interest rates to be a key theme going forward. On that basis, US banks will be major beneficiaries, while REIT's (Real Estate Investment Trusts), utilities and other interest rate sensitive sectors will underperform after years of above-average rates of return. While the overall market may be expensive, there are pockets of opportunity and cheap stocks to be found. The automotive and pharmaceutical sectors are both highly out of favour and in some cases valuations sit at multi-decade lows.

JC CLARK OUTLOOK 2017 (Continued)

Oil & gas remains an area of focus, and we believe one can not underestimate the significance of the recent OPEC production cut. While oil & gas stocks have rallied from their lows, many remain far below levels from only a few years earlier. In essence, we feel that the confluence of expensive overall equity markets, rapid political and economic change, and pockets of highly depressed market segments, will lead to the resurgence of value investing and favour stock pickers like ourselves. In other words, a wholesale bet on the market through an ETF (Exchange Traded Fund) will not be an adequate investing approach; rather, security selection and thorough due diligence will win the day. As such, we plan to maintain our focus on investing in individual businesses (as we always have), while holding an adequate level of cash and protection to take advantage of what could be a period of heightened volatility.

While the roadmap for the market will surely take many twists and turns in the year ahead, we see a number of investment themes and risks that are worthy of mention. Reflation, rising interest rates, a shift from monetary to fiscal policy, geopolitical uncertainty and the growing risk of anti-globalization and protectionist sentiment are all significant trends to monitor. High debt/GDP ratios globally, and the particularly dramatic credit growth in China in recent years (private debt/GDP now sits above 200%, well in excess of peak levels reached in the US prior to the 2008 crisis) are also risks that should not be ignored. Accelerating technological change will increasingly impact traditional industries and has the potential to create new winners and turn some of yesterday's storied companies into relics of the past. As we enter 2017, we see both great opportunity and risk in the investing landscape. Thorough due diligence, unconventional thinking, and a close eye on the aforementioned trends and risks will be essential for successful investing in the year ahead.

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