ENR Market Outlook

February 2018

Executive Summary:

- Volatility finally emerged in early February as investors scrambled to sell stocks amid a ratcheting of interest rates worldwide and rising inflationary pressures. In this latest bout of selling, everything declined, including bonds, gold, foreign currencies and commodities. The global stock plunge on February 5th was the worst single day for the markets since 9/11 in 2001, probably triggered by a Flash Crash and computer-trading models after the S&P 500 Index broke important short-term support levels;
- Provided corporate earnings remain strong and the Fed doesn't aggressively tighten, financial markets should recover in a bullish global macroeconomic backdrop in 2018. Rising inflation, however, remains a threat. We would refrain from panic-selling at these bombed-out levels and await a market recovery;
- Global major and emerging market equities recorded their best January in thirty years. Most benchmarks have already exceeded Wall Street calendar year forecasts in just five weeks of trading. However, the markets face growing headwinds from rising wages, higher interest rates and rich valuations already priced into stocks. On a relative basis, emerging market stocks continue to offer far greater values compared to major markets but are vulnerable to a spike in U.S. rates and a recovering American dollar;
- In January, the MSCI World Index gained 5.2% and the S&P 500 Index rallied another 5.7%. The MSCI Emerging Markets Index surged 8.3%;
- Bonds continue to struggle since last fall with the benchmark Barclays Aggregate Bond Index falling 1.2% in January and now at its lowest level since last May. Investment-grade debt has struggled since last April. High-yield bonds and emerging market fixed-income securities have fared much better but now trade at the lowest spreads compared to Treasury securities since 2007;
- Investors dumping dollars at these levels are warned that global asset managers are the most net bearish on the currency on record when measured against the EUR, yen and other majors. In January, money-managers grew the most negative on the USD since 2014. The U.S. Dollar Index declined another 3% last month;
- The U.S. ten-year Treasury bond now trades at its highest relative to the S&P 500 dividend yield in more than three years, driving dividend stocks down. Also know as 'bond proxies' amid super low rates over the past decade, utilities, telecom, consumer staples and REITs have all declined sharply over the past six months and into January. The S&P 500 Index dividend yield is just 1.79% compared to 2.73% for a ten-year T-bond;
- For the first time since early 2011, the world's largest economies – the United States, China, Japan, Germany, France, the UK and India – grew more than 1.5%, according to the International Monetary Fund (IMF). Every region of the world recorded GDP growth last year. The IMF estimates that among the 176 countries it tracks, 150 managed to increase their exports in 2017. More than 85% of the world's nations increased their exports – the highest share of nations on record;
- The Trump administration slapped import tariffs on washing machines and solar equipment in January, triggering the first trade action against cheap imports. Solar modules and cells will be hit with a 30% tariff while washing machines will be slapped with a 20% tariff on the first 1.2 million imported. After that level, tariffs rise to 50%. According to Goldman Sachs, American consumers can expect price increases for new machines (mostly South Korean) of 8% to 20%, depending on how much of the tariff the manufacturers decide to absorb;

- China might be next on the hit list. China reported its largest-ever trade surplus with the United States in 2017, expanding 10% to $275.8 billion dollars and by far America's largest single-country deficit trading partner. China also has big trade surpluses with the European Union;
- If inflation trends continue to accelerate, the European Central Bank (ECB) and the Bank of Japan will trim asset purchases in 2018 with the former likely to end quantitative easing in 2019. Despite claiming it has stopped QE since 2014, the Federal Reserve's balance-sheet remains loaded with government securities. From December 2014 to January 2016, the Fed reduced its balance-sheet by just $20 billion dollars or 0.4%. In January 2018, the Fed's balance-sheet still sits at $4.5 trillion dollars. One wonders what happens if the Fed really gets serious about selling these securities;
- U.S. loan growth remains weak. Business loan growth declined to its lowest levels since the financial crisis (2007), possibly hurting bank earnings. According to the Federal Reserve and The Wall Street Journal, U.S. bank loans to corporations grew just 1.1% compared to 12 months earlier, ending December 20. The odds are high that 2017 will go down as the worst year for bank lending in recent times;
- The big four U.S. retail banks sustained almost a 20% jump in losses tied to credit cards in 2017. In the final three months of the year, the four largest money-center banks wrote-off $3.2 billion dollars in credit card debts, up 16% from a year earlier;
- The U.S. personal savings rate tumbled to a post-financial crisis low of just 2.4%, suggesting consumers are spending discretionary income and increasingly turning to revolving credit;
- Global debt rose to a record of $244 trillion dollars in the third quarter of 2017 – more than $16 trillion dollars higher than December 2016, according to the Institute of International Finance. Private non-financial sector debt hit all-time highs in Canada, France, Hong Kong, South Korea, Switzerland and Turkey. The ratio of debt-to-gross domestic product fell for the fourth straight quarter as global economic growth accelerated. The ratio is now around 318%, 3 percentage points below a high set in the third quarter of 2016. The United Nations calculates the global population is 7.6 billion, suggesting the world's per capita debt is more than $30,000;
- Unlike the last several years, stocks and bonds will both face hurdles this year accompanied by rising market volatility. Rising wages, higher inflation, a tightening Fed and less liquidity support from major central banks all portend to a rougher environment, unlike 2017. Stocks should outpace bonds in 2018. However, indexing is likely to trail active management for the first time since the financial crisis as the world's largest stocks are mostly expensive and already largely owned. Stock-picking should benefit from greater volatility;
- Troublingly, the pace of growth in net operating cash flow among S&P 500 Index companies, excluding energy and finance firms, has already been declining over the past year, according to data compiled by Bloomberg and SocGen strategists including Andrew Lapthorne;
- We continue to recommend avoiding most bonds, especially high-yield debt, emerging market bonds and leveraged loans. Credit spreads for these and other high risk fixed-income securities have compressed markedly and offer poor risk-adjusted values. Spreads for most credit products now trade at their narrowest gap since late 2007. We prefer floating rate investment-grade bonds, Treasury-Inflation-Protected Securities (TIPS) and short-term Treasury bonds. Treasury bills are also increasingly attractive compared to bonds because short-term money-market rates keep rising. On February 1st, ninety-day T-bills yielded 1.49%. This compares to yields of just 0.01% three years ago and 0.07% in January 2013;

- Stocks should continue to outpace bonds again this year but accompanied by far greater volatility. Bonds are vulnerable to an inflation jolt and rising economic growth later in 2018 following the passage of corporate tax cuts and rising wages. U.S. tax cuts are potentially bearish for bonds. Fixed-income securities also offer poor inflation-adjusted returns and in some cases, negative real returns, mainly in Europe and Japan. Also, the European Central Bank is likely to begin trimming its bloated balance-sheet later this year, possibly triggering a 2013-type ‘taper tantrum’ in the global bond market;
- We recommend avoid dumping U.S. dollars at these oversold levels. The Fed will continue to tighten and may have to boost its forecast of rate hikes this year, if wages continue to surprise to the upside. Other central banks will lag in the rate hike cycle this year because core inflation rates remain mostly soft. Nevertheless, the risk of contagion is growing as interest rates head higher, putting pressure on stock prices;
- For clients seeking a portfolio strategy with a negative correlation to stocks and bonds, we’re pleased to offer the recently launched **ENR Crisis Investing Portfolio**. The portfolio includes a mixture of surplus currencies with strong balance sheets, gold, gold stocks, diversified managed futures and a professional short-selling stock fund. Please call our office for more information.

Utilities Index Sends a Warning

Rising Interest Rates Spook Investors

For the first time since early 2016, global equities and other risk assets suffered steep declines starting in late January and into February. Triggered by the fast uptick in global bond yields (falling prices), investors have started taking profits after an incredible market advance since mid-February 2016. Earnings, however, remain largely buoyant and a declining American dollar is bullish for risk assets worldwide. A correction has been long overdue. Investors at this point should be holding a combination of portfolio hedges to help mitigate market risk and cash. A market correction can range anywhere between 10% to 15% and is considered normal in a bull market cycle.

Meanwhile, some excellent research courtesy of Gluskin Shef’s David Rosenberg and his daily market review (*Breakfast with Dave*) accurately forecast the current market sell-off. David penned a January 5 letter charting the XLU or the **SPDR Utilities Sector Index Fund** (NYSE-XLU) relative to the S&P 500 Index and saw there have been important market divergences between the two benchmarks that presaged prior stock-market declines. Some of the more notable declines included the 1999-2000 period with the XLU down close to 24% while the S&P 500 Index gained 6%. The XLU later rallied as the broader market plunged, eventually confirming a recession. On another occasion, back in 2015 with the XLU dropping about 20%, the S&P 500 Index rallied 10% before enduring a mid-year correction. It looks like this barometer has once again proved to be accurate after an almost unprecedented period of low volatility.

Looks like the fun in the market is over for now. Rising U.S. interest rates, growing wage inflation and mid-term Congressional elections later this year all portend to a heavy dose of realty for sanguine investors. The sell-off this week is just an appetizer. It’s worth remembering that this is the third-longest American economic expansion in history and household, corporate and especially, government debt levels are approaching record levels or already at all-time highs.

Make no mistake, the global economy is a leveraged machine, laced with trillions of dollars in debt and central bank monetary policy is gradually shifting to drain market liquidity. That shift is very slow, but it is shifting from extreme accommodation to neutral, and that transition alone spells a challenge for risk assets.

Some clients might think we're too gloomy on the economic outlook or perhaps always too cautious. I'm not a doom and gloom person. I think successful investors must have a long-term outlook that's positive; having said that, I am compensated to focus on risk. I learned during the financial crisis in 2008 that while rising markets are a great thing, only the shrewdest investors manage the downside risk well. It's not about beating the market. It's about making a respectable return without losing your shirt. That's especially true if you're older and don't have the time to recover from another 2008-type of financial panic or even a regular bear market.

In hindsight, who knew the Federal Reserve and other central banks would print trillions of dollars, EUR, yen etc. to bail-out the financial system? What if it failed? According to *Bank of America*, by March 2018, the collective bond buying from the Federal Reserve, the ECB, the Bank of Japan and the Bank of England will peak at about $15.3 trillion dollars. That's an enormous amount of money.

In 2008, we managed to lose very little client capital for our managed accounts in Europe because we were prepared for the worst, sold a bunch of stocks and got serious about hedging. Also, we weren't obsessed with index-beating results like the investment industry is today. Hey, guess what? Markets do go down sometimes!

As part of our regular warning on the markets over the last several months, growth portfolios should hold some hedges at this stage of the economic cycle. We realize it's been unnecessary over the past 24 months. But markets don't rise forever. We finished 2017 with an economic expansion that's 102 months old (103 months as of Jan. 31), now the third longest in U.S. history. This is a late-cycle rally for stocks. Equities haven't endured a 20% decline since August 2011; the deepest sell-off following that bear market plunge was a 13% correction starting in late 2015 that bottomed in mid-February 2016. That marked the take-off point for the ultra long period of low volatility we've all enjoyed.

Our asset allocation in January 2018 continues to favor stocks. It's been this way for the last four years because interest rates and inflation have remained historically low, and overseas valuations were largely cheap. But we think interest rates and an inflation hiccup will surprise investors this year, similarly to last year but in reverse. We are very bearish on most bonds.

In 2017, investors expected a jump in rates and instead, interest rates at the intermediate and long-end of the curve declined, and the dollar weakened. Consensus was wrong. Interest rates and inflation, including wages, are rising and likely to jolt this stock-market party at some point this year.

Thanks to a massive corporate tax cut and the high probability of spillover into the real economy (higher wages, more hiring), rates will continue to rise for most of this year. For the first time since the financial crisis in 2007-2008, economic growth is synchronized with virtually all countries growing robustly; and, it's also true that when economic growth is largely synchronized, wage pressures almost always rise and lead to an increase in inflation.

As bargains begin to reappear over the next few days or weeks, it'll be time to go stock-shopping. We don't see the beginning of a secular bear market just yet and would continue to purchase high quality companies at lower prices. Buying should be done gradually amid heightened volatility.

Global Equities

Newell Brands a Classic Value Stock After Plunge

In an environment of expensive assets just about everywhere, value investing has grown challenging for those investors seeking classic Ben Graham securities. The valuations matrix for such contrarian value stocks include low price-to-book value ratio, low P/E ratio, attractive price to cash-flow ratios and other strong fundamentals. With U.S. stocks now trading at their second-highest valuation multiple on record and foreign stocks only offering 'fair value' at best, security selection has become a vital exercise to increasing an investor's margin of safety.

Following a decade-long acquisition spree, the maker of Rawlings baseball products, Sharpie pens, Rubbermaid, First Alert, and Mr. Coffee – among many others, is looking to significantly shed its numerous brands.

Following the announcement to sell non-core brands on January 25, **Newell Brands Inc**. (NYSE-NWL) saw its stock price crash 21%, driving it to a 4.5-year low. Over the past 12 months, the stock has tanked 50%. Is this a value stock or a value trap? We think it's the former. In fact, we like the value story so much that ENR purchased Newell Brand shares for its **Global Contrarian** and **Medium Risk** investors last week. I thereafter also made a personal investment in the company.

Newell Brands engaged in what legendary Fidelity Magellan stock-picker, Peter Lynch, called 'di-worsification' of its business. That's when a company diversifies into bad businesses or too many enterprises, usually making a costly mistake for shareholders and piling on debt in the process. It usually ends badly for investors.

The conglomerate more than doubled in size two years ago after it acquired **Jarden Corporation**, adding Yankee Candle, Mr. Coffee machines, Coleman camping gear to its portfolio. Jarden came along with about 100 brands. But Jarden also proved to be too costly for NWL and eventually, added way too many brands and divisions to its portfolio. In late January, the company announced it would focus on nine core consumer divisions and look to shed nearly everything else. On the auction block: Waddington, Process Solutions, Rubbermaid Commercial Products, Rawlings, Goody, Rubbermaid Outdoor and U.S. Playing Cards. We think this is bullish news.

Newell Brands employs 53,400 employees worldwide and seeks to reduce its workforce by at least 50%. The company plans to refocus on its consumer businesses, which generate $11 billion dollars in total net sales, roughly 82% of Newell's fiscal 2016 sales. In 2016, Newell earned $14 billion dollars in revenue; after the planned restructuring and asset sales, the company will generate about $11 billion dollars in sales.

The CEO, Michael Polk, recently stated in an interview that a 'variety of factors hurt the company's sales last year, including decreased consumer demand for its brands, supply issues tied to Hurricane Harvey and the bankruptcy of Toys 'R' Us.'

Newell is selling its Jarden businesses at multiples lower than what it paid to acquire the company. But we think this is a positive move, considering falling sales and the numerous divisions challenging the company, including a $10 billion-dollar long-term debt load. It's time to reset the deck chairs. We also like the fact that NWL is shuffling its board of directors at a time when significant change and cost-cutting is required.

For the nine months ended September 30th, Newell Brands reported a profit of $1.1 billion dollars on roughly $11 billion dollars in revenue. Its largest unit, which includes household products and baby gear, accounted for $3.9 billion dollars of the total revenue.

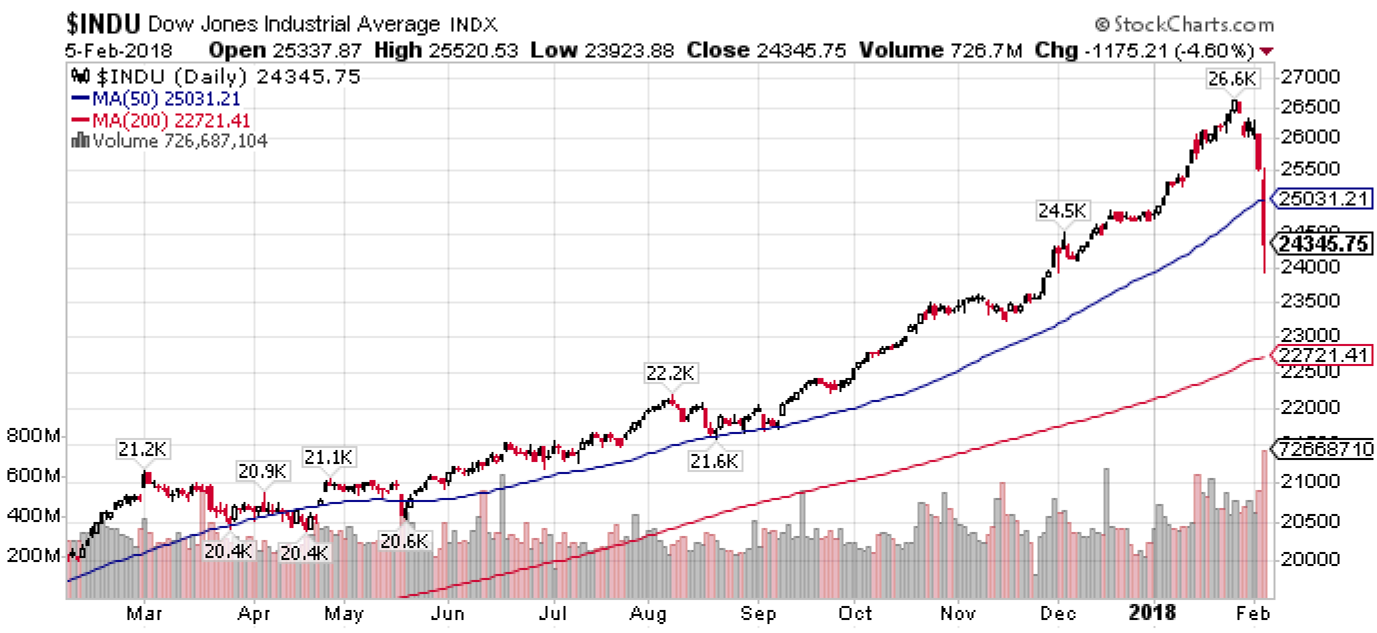
On the plus side, Newell Brands sports strong value characteristics, especially following the big stock drop. Assuming this company can turn around and reduce bloated costs, it's a big bargain at this price. NWL now trades at 10.9 times trailing earnings and 0.95 times price-to-book or a 5% discount to its net asset value. Its price-to-sales ratio is just 0.80. The stock now yields an annualized 3.3% in dividends with a dividend payout ratio of 60%, meaning it can boost the dividend by a wider margin, if necessary. A dividend hike might be in the offing as disgruntled shareholders call for a rising payout after a dismal stock price performance. They might also demand a stock buyback to lift the share price. Either way, management is under severe pressure to turn this company around and boost its faltering return on assets.

BUY **Newell Brands** (NYSE-NWL) at market up to $29.50. Apply a 20% stop-loss on your entry price.

Banner Year for Stocks Lifts World Markets

ENR Market Outlook Portfolio

The **ENR Market Outlook Portfolio** saw mostly gains in January as world markets rallied yet again. However, the majority of the securities in our global portfolio have indeed corrected over the past week amid a mini-crash in financial markets. None of this price action is a surprise to us as we've warned about complacency in the market over the last several months. Wage growth accelerated in January, rising 2.9% over the past 12 months and the strongest year-over-year gain since June 2009, according to the Labor Department. Rising wages have spooked investors as they recalibrate interest rate expectations in the United States this year.



The real risk for the markets probably isn't a 3% yield on the ten-year Treasury bond, as some pundits surmise. Though rising rates aren't good for most stocks, it's the manner in which the new Fed chairman continues raising interest rates this year that might spook investors. Recession risk is the big risk. Provided corporate earnings remain strong and the U.S.

dollar doesn't appreciate too much from these low levels, the markets should recover. Also, provided the Fed doesn't go on a tightening tantrum, investors should eventually return to the buy-side.

Over the past week, the Dow Jones Industrials Average has dropped nearly 2,500 points – the most since the throes of the 9/11 terrorist attacks. The MSCI World Index has declined more than 8% over the past two days; global equities are now flat in 2018 after losing their entire gains in three days.

Time to turn to our **Market Outlook Portfolio**.

In addition to **Newell Brands Inc**. this month, we've upgraded Canada's **BCE Inc**. (Toronto-BCE) and **Procter & Gamble Corp**. (NYSE-PG) to BUY following price declines taking both stocks to 52-week lows. Both BCE and P&G are mega large-cap dividend stocks and dividend aristocrats. And both have been victimized by rising interest rates – similarly to other income stocks recently. We also continue to plug **Europcar Groupe** (Paris-EUCAR) as it continues to absorb its competition and boost corporate earnings.

Investors have dumped almost everything with a dividend since the ratcheting in interest rates over the past month. BCE Inc. now trades at a 52-week low and yields a 4.94% dividend. P&G, the world's largest consumer products company, has been under pressure for the last two years, including from Nelson Peltz, a major activist and shareholder. The stock fell to a low last week and yields 3.27%. Both stocks are very high-quality investments.

Following sizable rallies in January, we're placing a HOLD on the **iShares Russell Top Value ETF** (NYSE-IWX), **BAE Systems** (OTC-BAESY) and the **PowerShares KBW Regional Banking ETF** (NASDAQ-KBWR).

Market Outlook Stock Portfolio:

Security	Listed	Symbol	Entry Price	Date	Current Yield	Current Price	Gain/ Loss	Advice
Newell Brands Inc.[9]	NYSE	NWL	$27.60	Feb 5/16	3.29%	$27.60	NEW	BUY
Europcar Groupe	Paris	EUCAR	€ 10.25	Jan 2/17	3.67%	€ 11.17	12.85%	BUY
iShares Russell Top 200 Value Index	NYSE	IWX	$52.46	Jan 2/18	2.03%	$55.67	6.12%	BUY
The Kraft Heinz Company[8]	NYSE	KHC	$77.17	Oct 3/17	3.13%	$78.63	2.70%	BUY
BCE, Inc.[6]	TSE	BCE	CAD 57.97	Mar 8/17	4.99%	CAD 57.60	14.18%	BUY
Procter & Gamble[3]	NYSE	PG	$77.38	Jul 6/15	3.19%	$86.40	21.26%	BUY
BAE Systems plc	OTC	BAESY	$30.25	Dec 4/17	3.10%	$34.31	13.42%	HOLD
Global X MSCI Greece ETF	NYSE	GREK	$9.41	Nov 2/17	1.93%	$11.47	21.89%	HOLD
Daimler AG	Frankfurt	DAI	€ 64.94	Sep 11/17	5.07%	€ 72.24	15.77%	HOLD
PowerShares KBW Regional Banking ETF	NASDAQ	KBWR	$53.35	Jun 28/17	1.54%	$58.02	9.15%	HOLD
Huntington Ingalls Industries[7]	NYSE	HII	$193.55	May 30/17	1.06%	$243.33	26.03%	HOLD
SPDR EURO Stoxx 50	NYSE	FEZ	$39.07	May 8/17	2.27%	$43.56	13.53%	HOLD
PayPal Holdings	NASDAQ	PYPL	$40.10	Jan 3/17	0.00%	$79.76	98.90%	HOLD
Pfizer Inc.[5]	NYSE	PFE	$32.92	Jan 3/17	3.46%	$37.25	17.04%	HOLD
Nestlé SA[4]	VTX	NESN	CHF 65.15	Dec 7/16	2.84%	CHF 80.42	19.00%	HOLD
iShares Global Infrastructure Index ETF	NYSE	IGF	$39.57	Nov 7/16	2.92%	$45.76	18.85%	HOLD
Diageo ADR	NYSE	DEO	$113.71	Jul 4/16	2.24%	$143.66	30.87%	HOLD
Apple Inc[1]	NASDAQ	AAPL	$92.79	May 9/16	1.47%	$168.00	84.93%	HOLD
General Dynamics	NYSE	GD	$131.37	Mar 31/16	1.51%	$226.84	77.54%	HOLD
Dollarama Inc[2]	TSE	DOL	CAD 71.60	Feb 12/16	0.26%	CAD 167.20	164.03%	HOLD

Disclaimer: The **ENR Global Contrarian Portfolio** owns Europcar Groupe, Newell Brands, Inc., BAE Systems PLC, Power Shares KBW Regional Banking ETF, Huntington Ingalls Industries, Nestlé, Apple Inc., General Dynamics, Dollarama and Procter & Gamble Corp. **ENR Low Risk Portfolio** owns Pfizer, Nestlé and Procter & Gamble Corp. **ENR Medium Risk Portfolio** owns Newell Brands Inc., Huntington Ingalls Industries, BAE Systems PLC, Apple Inc., General Dynamics, Procter & Gamble Corp and Pfizer. **ENR Aggressive Growth Portfolio** owns Europcar Groupe, BAE Systems PLC, Power Shares KBW Regional Banking ETF, Huntington Ingalls Industries, Apple Inc., General Dynamics, Nestlé, PayPal Holdings and Dollarama.

Fixed-Income

Bond Legend Loathes Fixed-Income in 2018

Despite attracting safe-haven buying on February 5th, bonds remain among the most expensive assets. In mid-January, Dan Fuss, veteran bond fund manager and legend at **Loomis Sayles Bond Fund** (LSBRX), stated he was bearish on most fixed-income securities. Mr. Fuss has a strong long-term track record and is worth heeding. The Fund has been trading for 27 years and is globally diversified across currencies. Fuss is a value-based investor and doesn't like the bond market; he currently holds more than a third of his Fund in cash – double the level compared to 12 months ago and his most defensive posturing since the late 1970s.

In an interview with *The Financial Times*, Fuss claimed that "everything in bond markets looks egregiously expensive at a time when many factors – ranging from valuations to politics and technical elements – are moving in the wrong direction." Fuss believes the benchmark 10-year T-bond yield will climb over 3% this year and fears a deeper rout is possible.

It's also true that ageing demographics are pushing a global savings glut into safer fixed income and helping keep inflationary pressures at bay, boosted by technology that's proving to be deflationary across global industries. We all know about the 'secular stagnation' story concerning high global debt levels and slow economic growth. But the prospect of central bank tapering in 2018 and into 2019, especially the Fed, the ECB and quite possibly, the Bank of Japan, suggests liquidity will be gradually drained from the financial system for the first time since 2009. And if we suffer an inflation jolt, it's enough to smash the bond market. Bond investors remains incredibly complacent, even after the recent spike in yields and the recent January payroll data in the United States that showed wages rising to 2.9%.

Our view is unchanged: Most bonds are very expensive on every matrix. Signs that a broad-based global economic recovery is gathering pace combined with rising commodities prices, a weak dollar and big U.S. tax cuts are raising a red flag for the bond market. The bearish story against bonds is just not appreciated.

We continue to recommend Treasury-Inflation-Protected Securities (TIPS) and floating rate investment-grade corporate debt with very short duration. Increasingly, a two-year U.S. Treasury bond looks attractive, yielding 2.03%. U.S. ninety-day T-bills also look appealing for cash reserves, now yielding 1.49% compared to almost zero yield over the past eight years.

Market Outlook Bond Portfolio:

Security	Listed	Symbol	Entry Price	Date	Current Yield	Current Price	Gain/ Loss	Advice
iShares TIPS	NYSE	TIP	$113.53	Dec 7/16	2.09%	$112.89	1.38%	BUY
iShares Floating Rate	NYSE	FLOT	$50.69	Oct 5/16	1.45%	$50.95	2.31%	BUY
Vanguard Intermediate-Term Corporate Bond ETF	NYSE	VCIT	$85.66	Jan 3/17	3.26%	$86.06	3.17%	HOLD

Disclaimer: The **ENR Low Risk Portfolio** holds the iShares TIPS Bond Fund, the iShares Floating Rate Bond ETF and the Vanguard Intermediate-Term Corporate Bond ETF. The **ENR Medium Risk Portfolio** holds the iShares TIPS Bond Fund, the iShares Floating Rate Bond Fund and the Vanguard Intermediate-Term Corporate Bond ETF.

Foreign Exchange

USD Index Bottoming, Boosted by Stock Swoon

The American dollar is showing signs of stabilizing in early 2018 following a ten-month drubbing. After falling more than 10% last year against a basket of major currencies, the U.S. Dollar Index appears to be finding support around the 90 level. The big global sell-off in stocks and other risk assets since late January has directed traders into the USD. The USD Index fell another 3% in January and is heavily oversold. We would avoid dumping dollars at these low levels, especially if global market volatility persists.

The one exception, however, is the Japanese yen. We think the yen is the best safe-haven currency amid rising volatility. The yen is probably the most ‘under-owned’ currency in the market as carry-trade investors remain exposed. In mid-January, the Bank of Japan announced a surprise cutback in its purchase of Japanese government bonds, effectively sending the currency higher versus all majors.

Investors selling dollars at these levels are warned that global asset managers are the most net bearish on the currency on record when measured against the EUR, yen and other majors. In January, money-managers grew the most negative on the USD since 2014.

[Sandwich Rises 2.9% in 2018]

Swiss Franc and Zloty Lead the Charge vs. U.S. Dollar

The **ENR Global Currency Sandwich**, including gold, has rallied another 2.93% this year as of February 6th. All six components of the index have posted gains with the Swiss franc leading the way higher, up 4% followed by a 3.7% gain for the Polish zloty, 3.3% for the EUR and 3.2% for the Japanese yen. Gold has gained 2.8%.

If you have no foreign exchange exposure, then consider placing half of your trade now and the remaining half following a U.S. dollar rally. The dollar has been oversold for months and is poised for a rebound. But if it doesn't occur, at least investors have some foreign exchange exposure. Use any intermittent dollar strength as an opportunity to build your portfolio of foreign currencies.

2018 ENR Global Currency Sandwich (Equally-Weighted):

- **Gold Bullion**
- **EUR**
- **Canadian dollar**
- **Polish zloty**
- **Swiss franc**
- **Japanese yen**

Commodities

Exxon-Mobil Disappoints on Production

The ongoing bout of fresh volatility in stocks has escaped most commodities. We view the rise of the benchmark S&P Goldman Sachs Commodity Index on February 5th as a bullish occurrence that possibly confirms the global economic expansion. If growth fears were truly legitimate, commodities should have plunged in recent trading; instead, many raw materials, except crude oil, posted gains as stocks tanked. We continue to recommend the **iShares S&P GSCI Commodity-Indexed Trust** (NYSE-GSG). Despite holding 63% in energy futures, GSG gained 1% on February 5th.

This month, we're selling **Exxon-Mobil Corp**. (NYSE-XOM). The stock has been a major disappointment after reporting a poor fourth quarter that sent its stock price down more than 5% last Friday and another 6% yesterday. XOM continues to struggle with replacing its annual production. Sell XOM.

We continue to like the cheap gold mining stocks. With gold now trading at a six-month high, both **Randgold Resources** (NASDAQ-GOLD) and **Newmont Mining** (NYSE-NEM) offer excellent long-term capital gains potential amid rising inflation and the next global economic recession, probably later in 2019 or 2020. Gold stocks have declined recently but should be accumulated by aggressive-risk investors. The majors have dramatically reduced costs, reduced exploration budgets and have now under-invested in new mines after a brutal seven-year bear market.

Market Outlook Commodity Portfolio:

Security	Listed	Symbol	Entry Price	Date	Current Yield	Current Price	Gain/ Loss	Advice
iShares S&P GSCI Commodity Trust	NYSE	GSG	$16.34	Jan 2/18	0.00%	$17.00	4.04%	BUY
Newmont Mining	NYSE	NEM	$17.99	Dec 31/15	0.62%	$40.75	128.60%	BUY
Randgold Resources	NASDAQ	GOLD	$61.93	Dec 31/15	0.99%	$100.73	65.33%	BUY
Exxon-Mobil	NYSE	XOM	$77.95	Dec 31/15	3.51%	$88.40	21.15%	SELL
ETFS Physical Platinum	NYSE	PPLT	$88.54	Nov 2/17	0.00%	$95.57	7.94%	HOLD
Inter Pipeline Ltd	TSE	IPL	CAD 25.67	Jun 28/17	6.93%	CAD 23.56	0.71%	HOLD
Gran Tierra Energy	TSE	GTE	CAD 3.18	May 30/17	0.00%	CAD 3.50	21.01%	HOLD
Schlumberger	NYSE	SLB	$69.75	Dec 31/15	2.72%	$75.09	13.39%	HOLD

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1. ENR or its employees or its access persons own shares of Apple Inc.
2. ENR or its employees or its access persons own shares of Dollarama Inc.
3. ENR or its employees or its access persons own shares of Procter & Gamble.
4. ENR or its employees or its access persons own shares of Nestlé
5. ENR or its employees or its access persons own shares of Pfizer Inc.
6. ENR or its employees or its access persons own shares of BCE Inc.
7. ENR or its employees or its access persons own shares of Huntington Ingalls Industries.
8. ENR or its employees or its access persons own shares of Kraft-Heinz Corp.
9. ENR or its employees or its access persons own shares of Newell Brands Inc.

Eric N Roseman
February 6, 2018
London, UK