



## 3 Big Economic Trends That Will Affect Your Portfolio in 2016

### Description

In a recent conference call, an executive at **Canadian National Railway** stated that they like to do something they refer to as “surfing the wave.” By this they mean that they keep an eye on major and long-term economic trends and make sure to align their business to exploit these trends.

Investors are wise to do the same with their portfolios, and while it is essential to always look at the business and the particular industry first, it is also wise to keep an eye on the big macroeconomic picture and to make sure these trends are working for your portfolio, not against it.

Here are the major trends you need to be aware of (and profit from) in 2016.

#### 1. Continued weakness from the loonie (and strength from the USD)

Last year brought one of the strongest U.S. dollar rallies in the past 30 years, while the Canadian dollar plunged to 11-year lows (enduring one of the fastest depreciations on record). Unfortunately for Canadian travelers, this weakness in the Canadian dollar is very likely to persist into 2016 with analysts expecting the currency to be US\$0.72 on average compared to US\$0.78 in 2015.

Why? The International Energy Agency expects little price recovery from oil in 2016 as supply from OPEC (and new supply from Iran) keeps the market well supplied. Weakness in oil and other resource prices as well as Canadian economic under-performance should keep the loonie at low levels for the year.

As an investor, you can use this to your advantage by investing in high-quality names that have U.S. operations and earnings, but costs in Canadian dollars. These U.S. dollar earnings are worth more when translated back to Canadian.

**Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) is one example. It has nearly 30% of net income coming from its U.S. retail segment. In 2015 this benefit contributed 3.6% of year-end earnings.

#### 2. U.S. economic outperformance will be a tailwind for many companies

While the Canadian economy is faltering, the U.S. economy is expected to show good GDP growth (2.3-2.6%), well above the average of 1.9% for advanced countries. Most importantly, however, the U.S. consumer is doing better than ever.

The U.S. economy has been adding an average of 230,000 jobs per month since 2014—a rate not seen in over 15 years—and the unemployment rate is at a very low 5%. In addition to this, wages are going up. A PricewaterhouseCoopers survey suggests that wages will grow by over 3% next year for the first time since 2008.

In addition to this, the U.S. consumer is now re-leveraging. After years of paying down debt, U.S. consumer debt levels are at decade lows, which means they are ready to borrow again, and this will provide further stimulus to the economy.

This means that companies should also be ready to invest. Many experts suggest that the U.S. has significantly underinvested throughout this economic expansion (in things that boost productivity like software and technology), and now is the time to do so to remain competitive.

IT services firm **CGI Group Inc.** ([TSX:GIB.A](#))([NYSE:GIB](#)) is one way to gain exposure to this trend. CGI has 29% of revenues that come from the U.S., and it has strong exposure to both U.S. commercial as well as U.S. government spending. U.S. federal and state spending are improving, and U.S. commercial spending is strong as businesses invest in IT modernization, cyber security, and improved productivity through software.

### 3. Further softness from commodities

Commodities have had a terrible year, and according to analysts at Macquarie, 2016 is unlikely to be significantly better as there is weak demand and massive oversupply in most commodities that needs to be worked off.

Despite this, with many high-quality names trading at multi-year lows, it may be time to begin taking small positions. One of these names is **Potash Corporation of Saskatchewan Inc.** ([TSX:POT](#))([NYSE:POT](#)).

Potash Corp. is the world's largest producer by capacity, has some of the lowest operating costs, and currently has a dividend yield of about 8% that the company states is secure as long as potash prices stay above \$200 per tonne (well above current levels of \$250 per tonne).

## CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

## TICKERS GLOBAL

1. NYSE:GIB (CGI Group Inc.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:GIB.A (CGI)

4. TSX:TD (The Toronto-Dominion Bank)

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