

# Pathfinder Investment Outlook

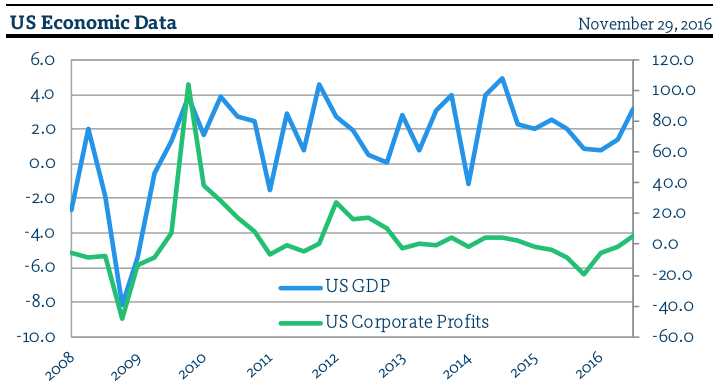
For the week ending November 25<sup>th</sup>, 2016

## Recap & Outlook: Good US Data

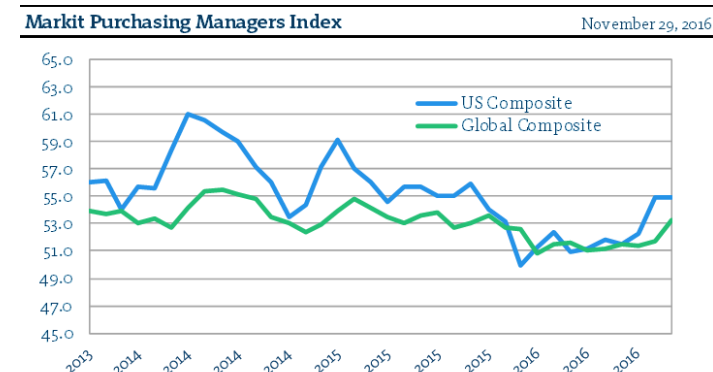
There is data out recently that has been more supportive of a constructive view on the US economy. This is very topical right now given the coming change in the administration. However, if we take a detailed look at the numbers, we can clearly see that the improvement had started before the election cycle. Today, for example, newly released Q3 US GDP came in at 3.2% on an annualized basis, which was ahead of expectations, and more importantly from our perspective, a continuation of the positive trend from the bottom that occurred at 0.9% in the spring of this year. A deeper look also shows that corporate profits have increased from the end of 2015 when concerns of a global slowdown were most acute. Corporate profits had fallen almost 20% from the start of 2014 to the end of 2015 and they have since rebounded to gain 5.2% for the end of September. The chart above shows both of these data points.

The chart to the right presents higher frequency data (Markit PMIs) to the end of October. The US is also strong here both in terms of manufacturing and of services beating the Global Composite PMI recently. Chicago and Asia data for November will be released tomorrow and the rest of the world will be available in preliminary form at the end of this week. Investor consensus and US FOMC interest rate views are becoming more aligned. We expect that if the data trend continues, administered interest rates should move higher. If Canada continues to stagnate, then we should expect further Canadian dollar weakness.

Michael Rudd, CFA | Portfolio Manager



Source: Bloomberg Markets LP, Pathfinder Asset Management



Source: Bloomberg Markets LP, Pathfinder Asset Management

# Pathfinder Core Equity

Spotlight: Wells Fargo (NYSE:WFC) and Manulife Financial (TSX:MFC)

## Wells Fargo and Manulife: Management meetings

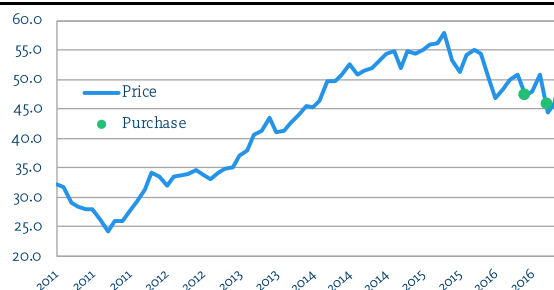
In the “Recap and Outlook” section on the previous page, we tend to write about broad economic events (typically called “macro”) that can influence major drivers in economies like interest rates, debt levels and growth rates, which in turn drive valuation of financial assets. This page is dedicated to the real operating businesses that we buy for our portfolios. Today, we will talk about two of those companies – Wells Fargo (NYSE:WFC) and Manulife Financial (TSX:MFC).

WFC is one of the largest banks in the world and recently made headlines because of an account-opening scandal. WFC was in our Core 100 universe and we had been following the company for a number of years. Christian and I were fortunate enough to have interviewed Tim Sloan earlier in the year, who at that time was the Chief Operating Officer of the company. WFC had been very solid operator and we viewed the business as the most similar US bank to the Canadian operating model, which we believe is among the most stable in the world (current housing market issues notwithstanding). So when the scandal hit the news headlines, we were very comfortable taking an equal weight position in the portfolios. We became even more comfortable when Mr Sloan was subsequently promoted to CEO and the negative headlines subsided. We will hold the position and look for our investment thesis (rising US rates and US\$) to unfold.

We also recently had the opportunity to meet with Steven Finch, Chief Actuary of MFC. We had previously met other senior management at Manulife (CFO and Chief of Asia) but found our meeting with Mr Finch particularly interesting as we could push into the details of their US and Asia operations. Having access to someone so hands on allowed us to increase our understating of the business and become more comfortable with our investment thesis (rising rates and growing Asia).

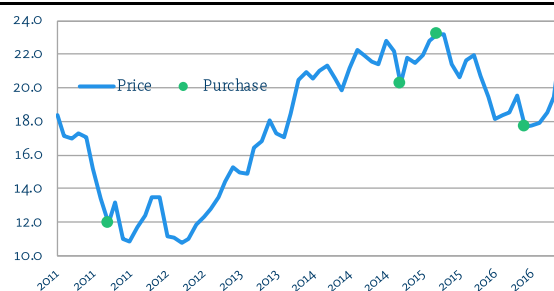
Michael Rudd, CFA | Portfolio Manager

**Core Position: NYSE:WFC** November 29, 2016



Source: Bloomberg Markets L.P., Pathfinder Asset Management

**Core Position: TSX:MFC** November 29, 2016



Source: Bloomberg Markets L.P., Pathfinder Asset Management



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1320-885 W. Georgia Street, Vancouver, BC V6C 3E8

E [info@paml.ca](mailto:info@paml.ca) | T 604 682 7312 | [www.paml.ca](http://www.paml.ca)

Sources: Bloomberg, Pathfinder Asset Management Limited

## Disclosure

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\*All returns are time weighted and net of investment management fees. Returns from the Pathfinder Partners' Fund and Partners' Real Return Plus Fund are presented based on the masters series of each fund. The Pathfinder Core: Equity Portfolio and The Pathfinder Core: High Income Portfolio are live accounts. These are actual accounts owned by the Pathfinder CEO (Equity) and client (High Income) which contain no legacy positions, cash flows or other Pathfinder investment mandates or products. Monthly inception dates for each fund and portfolio are as follows: Pathfinder Core: Equity Portfolio (January 2011), Pathfinder Core: High Income Portfolio (October 2012) Partners' Fund (April 2011), Partners' Real Return Plus Fund (April, 2013), and Partners' Core Plus Fund (November 2014).

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