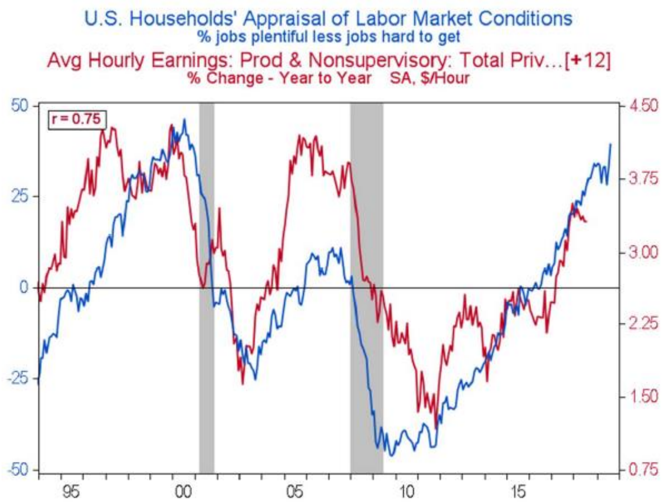
Portfolio Management

# Monthly update

August 2019

## It is up to the Consumer




*Source: AM Charts for August 28, 2019-BMO Capital Markets*

### Highlights

- Consumers more confident than businesses
- Q2 US Earnings slow but better than expected
- Economies slow but no signs of recession for 2020
- Trump volatility continues, but may slow in election year
- Lots of liquidity-Interest rates falling and money supply high

Global consumer confidence registered a strong 4.8% annualized gain last quarter. Despite some slippage in confidence, levels are still consistent with positive household spending. (*Source: JPM Daily Economic Briefing Aug 28).*

The key factor to watch will be labour market weakness or tightening credit.

The US labour market is particularly strong with unemployment at a 40 year low and the jobs plentiful index at a 16 year high. (JPM Daily Econ Briefing Aug 28). This is why BMO Capital Markets is forecasting a .25% Fed rate cut and not .5%. Falling rates are helping US home sales. Sales are very volatile month to month but are up 4.3% over the last 12 months. *(Source: BMO Capital Markets Econofacts Aug 23)*

**As the trade war escalates, business confidence and spending are falling.**
Trump has increased tariffs on China 7 times since mid-2018. (*Source:Corner Stone Macro Aug 27 report).*
Non defense capital goods sales dropped 3% in July. (Source: *Econofact Aug 26)*

As business confidence fades US GDP is falling: BMO Capital Markets forecasts growth of 2.3% in 2019 dropping to 1.8% in 2020. (*Source: Econofacts Aug 26*). Canada tends to follow our biggest trading partner. BMO Capital Markets predicts GDP growth of 1.4% for 2019 and 1.7% for 2020.
***This is a long way from a recession, BMO Capital Markets is not forecasting one in the next year.***

**The backdrop for the Stock Market is reasonable with Sentiment low while Earnings still rising.** Investor sentiment is fairly low at 43% positive vs 58% at the peak in mid-2018 vs 35% at the low of December 2018. *(Source: Russ Visch Technical Aug 28)*

Q2 earnings were about 3% higher than last year despite the fear of an outright contraction. Expectations for the second half of the year are only for a 1.6% increase. With low sentiment and expectations, stabilization in global growth could enable a good move up in the market. *(Source: JPM Global Equity Strategy Aug 27)*

**Trump's aggressive anti-China comments continue to cause market volatility.** His most recent tirade on Friday, August 23 about US companies completely pulling out of China caused a drop in the Dow Jones of over 600 points. Following his pattern, he then walked back the comments and the market is recovering. Trump said "Sorry, it's the way I negotiate" (*Quote Source: CNN Newswire Aug 26)*

The volatility creates buying opportunities for investors with a higher risk tolerance. We recommend conservative investors keep a relatively high percentage of their portfolio in bonds and low volatility stocks and funds.

**Interest Rates, Bonds and Income Investments**
Interest rate spreads between low and higher quality bonds have widened, but not dramatically and global money supply is high. There is no liquidity squeeze. Given that interest rates certainly aren't going up and to reduce risk, we have sold out of higher risk bonds and bond funds to focus on high quality somewhat longer duration bonds and funds.

As interest rates continue to fall, the appeal of dividend stocks rises especially those with less economic sensitivity. We purchased BCE for this reason and recently bought Gibson Energy a midstream energy-pipeline company with little exposure to oil prices and a 5.8% yield.

Regards,

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