

Portfolio Management Monthly update

May 2019

US China Trade War reducing global growth expectations

TSX 5 year chart

Source: Thomson Reuters as of May 27, 2019



Highlights

- US China Trade War catalyst for May pullback
- Recession very unlikely in the next year
- Headline risk should give some buying opportunities
- We increased cash levels after the big run up in stocks

According to Nancy Lazar from Cornerstone Macro's May 27th, this is the 4th slowdown in the current expansion cycle since 2009.

- 2011 was hit with the US government debt downgrade.
- 2013 experienced the US government sequester.
- 2015 saw the China slowdown & US industrial woes.

Cornerstone is expecting a slower Q2 as business confidence is eroded from the trade war; bad weather and flooding are also taking a toll. They do however look for a reacceleration later this year for 4 reasons:

- Low inflation enabled by improving productivity
- Low interest rates & an accommodative US Federal reserve
- Pent up Capital spending demand & a US manufacturing renaissance
- Pent up US housing demand (one of few sectors with positive momentum now)

They also mention that China did 3 more small credit easing moves last week. Australia is also easing & India's reelection of Modi improves their growth outlook. The European prognosis is still poor since they have not done any of the structural reforms required to encourage business investment.

Canadian economic growth is improving after the poor .5% annualized rate in Q1. As weather & US trade issues improve April is already showing improvement. (BMO economic research comments May 27) The bond market is still pessimistic as Canadian 10 year bond yields have fallen to 1.62% from a high of 2.62% in 2018. No short term interest rate hikes are expected from the Bank of Canada.

Our chief strategist Brian Belski in his May 24 comments does not expect much damage to earnings and views any further pullback as a buying opportunity, especially for solid dividend growth companies.

Companies such as Visa, Disney, Microsoft, Costco in the US; Brookfield, Enbridge, TD Bank, Loblaw's in Canada are holding up well. We have a list of favorites to buy at the right price. Since we expect interest rates to remain low, high dividend stocks also look good. We have added a REIT ETF and increased Bell Canada and Enbridge lately.

We have raised some cash to take advantage of these opportunities, both for individual equities & growth mutual funds.

Regards,

Scott Barnum, CFA
V.P. and Portfolio Manager

Don Behan, CFA
V.P. and Portfolio Manager



BMO Wealth Management is the brand name for a business group consisting of Bank of Montreal and certain of its affiliates, including BMO Nesbitt Burns Inc., in providing wealth management products and services. © "BMO (M-bar Roundel symbol)" is a registered trade-mark of Bank of Montreal, used under licence. © "Nesbitt Burns" is a registered trade-mark of BMO Nesbitt Burns Inc. BMO Nesbitt Burns Inc. is a wholly-owned subsidiary of Bank of Montreal. If you are already a client of BMO Nesbitt Burns, please contact your Investment Advisor for more information. The opinions, estimates and projections contained herein are those of the author as of the date hereof and are subject to change without notice and may not reflect those of BMO Nesbitt Burns Inc. ("BMO NBI"). Every effort has been made to ensure that the contents have been compiled or derived from sources believed to be reliable and contain information and opinions that are accurate and complete. Information may be available to BMO Nesbitt Burns or its affiliates that is not reflected herein. However, neither the author nor BMO NBI makes any representation or warranty, express or implied, in respect thereof, takes any responsibility for any errors or omissions which may be contained herein or accepts any liability whatsoever for any loss arising from any use of or reliance on this report or its contents. This report is not to be construed as an offer to sell or a solicitation for or an offer to buy any securities. BMO NBI, its affiliates and/or their respective officers, directors or employees may from time to time acquire, hold or sell securities mentioned herein as principal or agent. BMO NBI will buy from or sell to customers securities of issuers mentioned herein on a principal basis. BMO NBI, its affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO NBI or its affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. A significant lending relationship may exist between Bank of Montreal, or its affiliates, and certain of the issuers mentioned herein. BMO NBI is a wholly owned subsidiary of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Nesbitt Burns Corp.

BMO Nesbitt Burns Inc. is a Member - Canadian Investor Protection Fund. Member of the Investment Industry Regulatory Organization of Canada.