Portfolio Management
Monthly update

Apr 2019

Goldilocks is Back

Weekly VWO-US Vanguard FTSE Emerging Markets ETF
Source: Thomson Reuters as of Apr 29, 2019

Highlights

- **Economy not too hot or cold- no rate increases**
- **No recession in the near term**
- **Earnings growth still ok**
- **US Equity Valuations getting high- sell in May**
- **TSX Energy very inexpensive**

With the Global economy neither too hot nor cold, interest rates are likely to stay put allowing stocks to do well.

We are currently in Q1 earnings season. With the S&P 500 climbing to new highs, many investors & pundits are concerned about a drop in the market due to an earnings recession and a collapse in margins. Our Chief Strategist Brian Belski sees earnings coming in better than feared with the potential for a notable upside surprise in the back half of the year.

He expects somewhat lower margins this quarter, but an improvement later this year. Even with higher wages the longer term trends of increased productivity due to technology, less regulation and lower taxes will win out. There have been fairly dramatic downward revisions to earnings & the market typically rewards positive earnings surprises in this scenario. Longer term earnings trends still look decent as bottom up forecasts have started to stabilize.

The US is still leading the way in Global GDP growth, registering 3.2% for Q1 which is much higher than the 2.5% that most analysts had been expecting. This high rate will likely come back down somewhat and importantly inflation has been modest. BMO Nesbitt Burns is looking for GDP to rise by 2% this year. (Source: BMONB Apr 26th Focus).

China has also been showing improvement on most measures. This is very important for Canada since China is the price setter for most commodities. We will be very tuned to Chinese growth as a leading indicator for Canadian resource stocks & global growth in general. Cornerstone Macro's April 15th comments note that the new stimulus from China was much greater than their actions in 2015/16 and is working.

Given that China & the emerging markets have lagged, we have investing in Vanguard's emerging market fund & kept our holdings in the Chinese internet ETF. TD Science & Tech fund also has Chinese internet stocks. We have been happy with the performance of Fidelity Special Situations & Mackenzie US mid cap funds on the growth side as well.

Europe has been slow, Italy being the worst slipping into recession recently. Conversely the big slowdown in German auto exports looks to be over.

2019 Canadian GDP growth is forecast to be 1.5%, by of our chief economist Doug Porter in his April 26th Focus comments. The Canadian dollar has risen from $.73 US to $.74.3 lately, less than you would expect given the 40% rise in oil prices.

The rise in oil is providing some optimism, even though many of the small & mid cap energy stocks have lagged. We think this is an interesting area to invest especially with some long overdue positive news likely on the Trans Mountain pipeline. With the Trudeau government's economic policies under fire & the perception that Canada is a difficult place to invest, a win is badly needed.

The defensive funds Dynamic Premium Yield, Manulife Dividend & Mackenzie Monthly income gave about ½ the downside of the market in Q4 and are rebounding very well. We have not been happy with the Vertex Fund, which has a lot of Canadian commodity stocks. It should rebound, given the improvement in the global economy- we are watching it closely.

Recent purchases of Disney & Vermillion have worked out well. High yield stocks have done very well, although the recent spurt in economic growth could stoke inflation worries & slow these down. Health care stocks have been particularly poor and will continue to be a political football going into the 2020 US Federal elections. We do see some good values however and will be considering some great long term winners such as United Health care &, Eli Lily. It is unlikely that major reforms will really hurt these companies since this will be the third time in recent history that reform has been attempted.

Bond yields continue to be very low & are a drag on growth in more conservative accounts. With Canadian short term T-bill rates at 1.65% & 10 year Federal bonds yielding 1.8%, there isn't much incentive to buy longer bonds. We continue to evaluate alternatives in that area. Higher yielding stocks and defensive income equity strategies continue to look like the best choice. We are also looking at non-bank lending funds where yield is 7.8%

Given the strong rebound in the S&P and the TSX, we going to implement a version of the "Sell in May & Go Away" strategy. This idea is based on the long term historic tendency for stocks to do better from October to May than from May to October each year. From 1950 to 2017, according to the Stock Trader's Almanac, **the Dow Jones Industrials rose 0.6% from May 1 to Oct 31 each year vs 7.5% if only invested from Oct 31 To May 1**.

We also note the rise in momentum following tendencies with liquidity much higher when the market is acting well than the reverse. This could be the rise of hedge funds & ETFs and the fact that the leaders have been growth stocks trading at high multiples, which tend to be more volatile. Therefore we are going to be more zealous with stop losses in the riskier part to of the year.

Regards,

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