Portfolio Management
Monthly update

August 2018

The US Market, the Only Game in Town

August has finished strongly for stock markets, after a weak start. Cyclical stocks have been particularly difficult, with worries about trade hampering Global growth forecasts. The US market continues to lead, whereas Chinese & emerging markets are down dramatically. Emerging markets, especially Argentina, Brazil & Turkey are also being hurt by rising US interest rates & the US dollar which makes US dollar debt harder to pay back & draws money back into the US.

Technology stocks continue to do well except for semi-conductors, which are more susceptible to a global slowdown. US focused consumer discretionary companies are doing well, due to low unemployment & rising wages. From BMO Economics Aug 22: U.S. Consumers are underpinned by the highest confidence in almost 18 years. The Conference Board's measure popped to 133.4 in August, well above expectations and July, driven by steady job growth, best job prospects in nearly 18 years, record stock prices & rising home values. Oh yes, a possible trade war…but that doesn't seem to be registering with the average person. Not with a low 12.7% of respondents saying jobs are hard to get. Of note, spending intentions on major appliances jumped in the month, even for washing machines, despite higher prices related to tariffs. More Americans also plan to take a vacation. The economic strength makes ¼% rate increases likely in September & December.

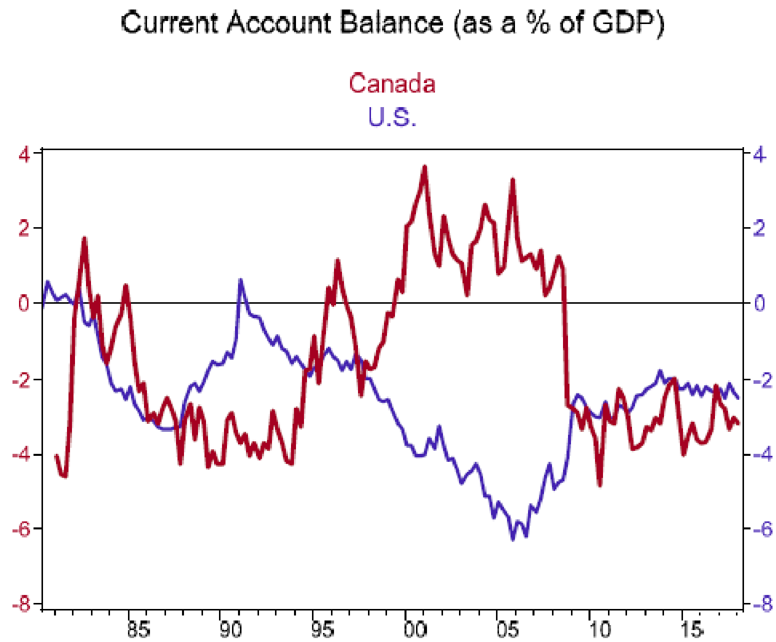
Canadian GDP is also strong, rising at a 2.9% rate in Q2 vs 1.4% in Q1. Core-inflation stands at 2.0%, which is the Bank of Canada's target. The labour market is very tight in Canada, with the unemployment rate at a 40+ year low of 5.8% in July & wage inflation remaining above 3.0%. In our view, the expectations that the Bank of Canada will hike rates again before year end (likely in October) remains very reasonable, as long as we don't encounter any new obstacles as we enter autumn (i.e. auto tariffs, NAFTA negotiations).
(Canoe Investment comments, Aug 22, 2018)

Highlights

- **US market continues to lead on great earnings**
- **Emerging markets crushed on Trade War & rising US rates**
- **NAFTA not Canada's only problem**

Canadian Trade: NAFTA Isn't the only issue

Canada's current account deficit has been helped lately by rising oil prices & the stronger US economy, but the shortfall shows little sign of breaking out of the depressing range of the last 8 years. It took a sharp depreciation of the currency in the 1990s and a big increase in commodity prices in the 2000s (see the chart) to improve trade balances. Recent work by the Bank of Canada finds our woeful trade performance reflective of *"continued & broad based competiveness losses"* (read higher taxes, government deficits & lower productivity than the US). This is why US stocks continue to outperform Canada. *(Chart Source: BMO Financial Group, AM Charts, Canadian Trade: NAFTA Deal Isn't Only Issue, Aug 30, 2018)*



Portfolio Comments

We have continued to be bullish on stock markets despite the longevity of the bull market, mainly because of stellar earnings growth. US after tax profits were up over 16% year over year in Q2. The difficulty is with stocks outside the US. Recent purchases of Open Text, Twitter & Brookfield Properties are acting well, whereas laggards such as Vodafone & Lam Research are being closely watched. We are currently holding somewhat more cash than usual waiting to deploy it into the usual September weakness. *(BMO Economics, Aug 30 2018)*

If you have any questions about the above information, please feel free to call our office. We hope everyone has a great Labour Day Weekend.

Regards,

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