# Portfolio Management Monthly Update

## Highlights

- **Global Economies mixed: US booming, Asian steady, Europe slower**
- **Oil still looks good- buy into June weakness**
- **Still low investor sentiment bodes well for future stock gains**

# May 2018

### The Global Economy is mixed with Europe faltering, the US booming & Asia steady.

The bad news is mainly in Europe. Italy's bond market, the fourth largest in the world, suffered one of its deepest drop since the darkest days of the European debt crisis, as the prospect of a resounding populist victory in the next election sinks in with investors. With the yields on Italian 2-10 year bonds soaring (yields and prices go in the opposite direction), some economists were saying on Tuesday that Italy now faces serious financial and economic difficulties that could rattle Europe to the core. *(BMO Portfolio Advisory Team, Early Edition: Markets This Morning, May 29, 2018)*

The Euro Area real GDP rose just 0.4% in Q1 (1.6% annualized), vs the average 0.7% rise over the prior 4 quarters. Q2 is looking better with Euro Area industrial production up 0.5% in March, a little below expected, but the first gain in 3 months. We already know that growth eased in France & Italy; now, we can toss Germany, as well as the Netherlands & Portugal, into the mix. German real GDP rose just 0.3% in Q1 (or 1.2% a.r.), the slowest increase in 3 years, or 2.3% above a year ago. Slower trade & government spending weighed on growth, while an increase in business investment in equipment, as well as construction activity, provided an offset. The increase in business investment is encouraging, particularly given worries about a trade war with the U.S. *(BMO Economics, AM notes, May 15, 2018)*

### Better News in the US & Asia

The U.S. economy is rolling along, with growth pushing 2.9% in the 4 quarters through 2018 Q1. Global growth has also synchronized at the best pace since 2011. That said, the market entered the year hopped up on the prospect of fiscal stimulus, which should help maintain near 3% growth through the rest of this year. Of course, the market is always looking 8-12 months down the road, and by Q2 2019, our view is that growth will begin to fade back to around 2%—that would effectively leave peak growth off the market's radar.

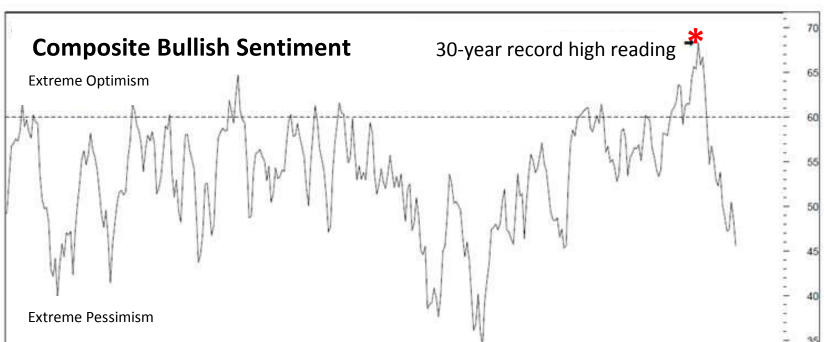
In China, Industrial production rose 7.0% y/y in April, or 6.9% YTD, better than expected. Retail sales, meantime, rose 9.4% y/y in April, or 9.7% YTD, which was a little disappointing. These mixed results point to slowing but still steady'ish growth, and in line with the government's official expectation of "around 6.5%" economic growth in 2018. *(BMO Economics, AM notes, May 15, 2018)*

### Canadian Dollar Falling with Oil

Canadian growth has slowed, but still reasonable. The Canadian dollar dropped under .77 with weaker oil prices. Oil is pulling back from over bought conditions, the trigger being Saudi & Russian comments about increasing production. Our view is that the Saudi's & Russian's don't want oil much beyond $80, which encourages alternatives and hurts consuming economies. Oil at $55-80 should allow strong profits and we will likely be adding to oil stocks into June weakness.

### Stock markets have a better tone, bouncing from over sold conditions in Feb- March

The big drop in bullish sentiment, does set us up for positive returns in the next few months. Economically sensitive industrial, energy, mining, agriculture, transportation, financial & technology stocks still look better than consumer staple & interest sensitives. US regional banks look very good with increasing merger & acquisition activity along with less regulation. We have been utilizing the Hamilton Capital Mid Cap Financials ETF.




Sentiment is now back to where it was prior to the U.S. election in late 2016. The most constructive aspect of the recent corrective action in equity markets is the rampantly bullish sentiment that developed at the beginning of the year has been entirely unwound. (*BMO Portfolio Advisory Team, Daily Action Report, May 9 2018)*