

Portfolio Management Monthly update

September 2018

Canadian Economic Growth Holding at 2% Annualized Despite Trade Worries

The Canadian economy is quietly soldiering on amid the lingering and trade uncertainties. GDP was surprisingly healthy at +0.2% in July, with strength in manufacturing and a lighter hit from oil sands outages. This, along with firm trade data and details on how StatsCan will handle next month's cannabis legalization, prompted us to nudge up our call on GDP growth for both this year & next to 2.1% & 2.0%, respectively. While still a far cry from the robust U.S. estimates of 2.8% and 2.5%, Canadian growth keeps the Bank of Canada on track for further rate hikes—NAFTA willing, of course. In contrast to the U.S. upgrade though, this one has nothing to do with the consumer. In studied contrast, Canadian consumer confidence took another heavy step back in September, and remains well below the prior cycle. In fact, relative to strong U.S. levels, Canadian consumer confidence is at its lowest in at least 15 years. *(Doug Porter, BMO Economics, Sept 27 2018)*

Tentative NAFTA Deal rallying Canadian Stocks and Dollar

The Quebec election on Monday likely removed a barrier for negotiators. The deal must be approved but the Canadian Dollar is over \$.78 US up almost \$.01. The TSX was up .7% Monday October 1. If the Canadian dollar rallies above \$.80, we would be inclined to buy some US\$ for those who want to own US stocks or travel there regularly.

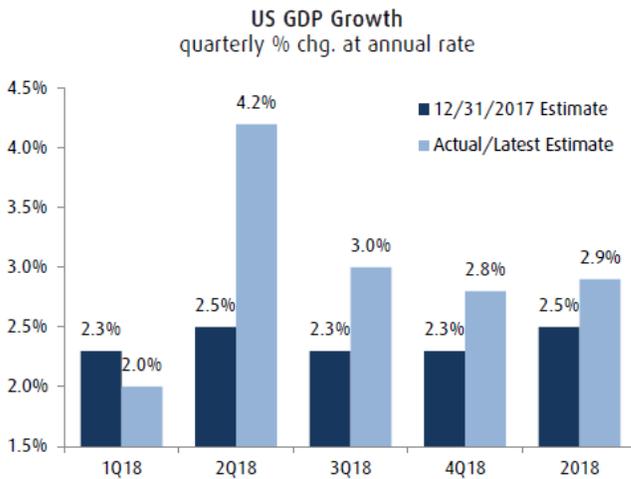
Brian Belski, Chief Equity Strategist, Not Raising Year End S&P 500 Target

Although our base case 2018 S&P 500 year end price target of 2,950 is only marginally above current levels, we are not inclined to make a revision now. There is a good chance the S&P 500 could finish the year at a level above our current target, we do not believe it would be enough to warrant an official target revision. Earnings & economic growth has been much better than expected and stock price multiples have not contracted as much as anticipated but upward estimate revisions have set a high bar. Midterm Election Performance May Have Been Pulled Forward. *(Brian Belski, US Strategy Comment, BMO Capital Markets, Sept 27, 2018)*

Highlights

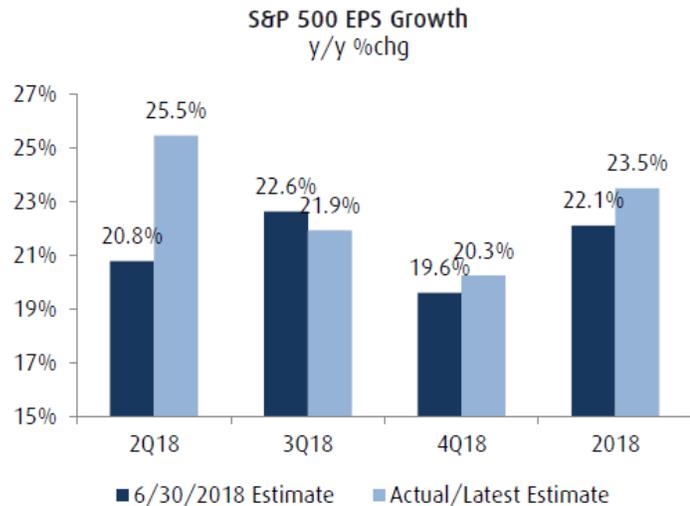
- Canadian economic growth okay despite trade worry.
- Trade deal should help the TSX.
- US earnings estimates getting optimistic.

GDP Growth Highest in 4 years



BMO Capital Markets, Investment Strategy Group, Bloomberg

Earnings Expected to Keep Rising at 20% rate

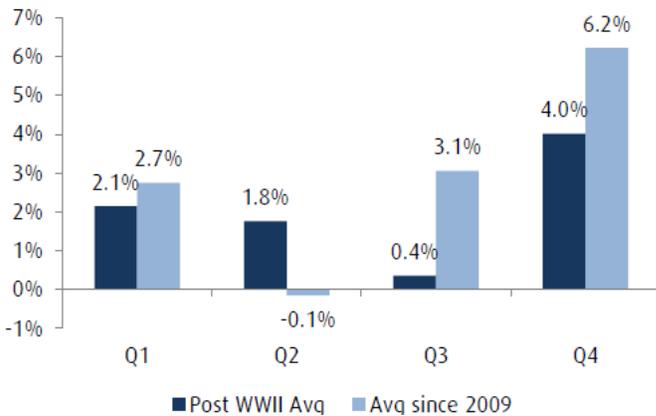


BMO Capital Markets, Investment Strategy Group, FactSet, IBES

Eurozone Growth Continues to Lag

The Eurozone continues to rely on Monetary Policy only and is getting very mediocre results from their efforts. The Eurozone grew at a paltry 0.4% in Q2. (Bill Gunderson Newsletter, Sept 15, 2018)

Typical Q4 Rise is 4-6%



Stock Sector Comments

Technology continues to lead, with health care a close second. Consumer discretionary stocks have been rising with some exceptions, especially those with interest rate sensitivity. Rising rates have also hurt utilities and home builders. Industrial stocks have been poor, but seem to be basing as US growth is still strong. Energy has been fairly good in the US, but doing nothing in Canada. They have based however, and look like a buy currently. Strong oil prices should continue with global growth still reasonable and supply issues in Venezuela, Brazil, Mexico and of course Iran sanctions.

If you have any questions about the above information, please feel free to contact our office. We hope everyone has a wonderful upcoming long weekend.

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.