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Keeping In Touch

I hope you have been enjoying the summer. Hopefully everyone has been surviving the smoke from the fires. I wanted to update everyone on what is happening in the markets here in Canada, the US and the rest of the world. In general, we have been in a fairly flat market in Canada, the US markets have had decent returns and the European and Asia markets have done well but have begun to back off in the last few weeks.

In Canada, the S&P/TSX Composite Index is -0.9% year to date. Oil and gas and energy sector is down just over 20% year to date with oil trading today around $47.50. The financial sector has been flat year to date and the Health Care sector is down 10.6% for the year. Investors are holding tight awaiting the outcome of Bank of Canada decisions on interest rates, pipeline and capital expenditure decisions in the west and NAFTA free trade negotiations with the US.

The NAFTA renegotiations should not affect our current trading structure dramatically with the USA as we actually import more goods and services from the US than we export . The US is more focussed on Mexico. We also had a surprise interest rate hike in June which caught the equity and bond markets off guard. We may see another hike this fall, but that will mostly depend on the prevailing economic conditions in Canada. In BC, we could see a slowdown of economic activity if the BC Government moves forward with cancelling the Kinder Morgan pipeline and the Site C Dam project. While people will have their own opinion on the environmental impact, it will be a blow from an economic perspective.

US equity markets began the year quite well on the back of expectations that Trump and Republicans would move forward quickly on their campaign promises. The US economy is doing quite well despite the political turmoil in Washington. The Senate and the House need to work together in a bi-partisan manner to draft a bill that is good for all Americans. Trump still has not outlined his tax reforms in any detail. Hopefully that will come soon.

On everyone's mind is the situation with North Korea. I would expect that a diplomatic solution can be achieved. If not, we can expect the markets to experience fairly significant short term volatility. My recommendation, should this occur is to remain calm and appreciate that while there will be some economic impact, most of this will be emotionally driven. I cannot make comment on if it will happen, but I do know that your investment portfolios are invested in solid blue chip stocks and bonds and well diversified. Investment fund managers will take advantage of market downturns to buy more stocks and bonds at lower valuations. Many investment fund managers have become more defensive on both the fixed income and the equity portfolios.

As for interest rates, I do feel that there is a 50/50 chance of another interest rate hike in both the US and Canada in the fall. I don't mean to sound like a weatherman sitting on the fence whether it will rain or not, but recent economic data does not provide a definitive path. The odds of these hikes change each month with new economic data. A small hike would not adversely affect economic growth and would allow policy makers to be in a better position to reduce rates in the future should we begin to see indications of a recession.

In summary, the economic growth in all regions of the globe has been good this year. The stock markets in Asia, Europe and US have done well. Emerging markets have performed well due to a weakening US dollar as they pay for most imports with US dollars. Most balanced portfolios have seen minimal growth this year so far as Canadian stocks are basically flat year to date and US stock returns have been reduced in Canadian dollar terms by the rise in the Canadian dollar. This was similar to last year when the gains mostly came in the last ½ of the year. I feel that we are in a small correction stage in the midst of what I would still consider a bull market. Earning numbers are good, economic growth is positive and interest rates are still accommodative for equity markets. The key to long term investing is to have a good solid long term strategy, make minor adjustments when fundamentals in the markets change and never try to outguess the markets in the short term.

As always, I want to thank you for being our client and for the opportunity to work with you and your family on all of your investment, retirement and estate planning needs. Please give me a call should you have any questions on any of these issues or any questions in general. I hope you and your family enjoy the remainder of the summer.

Take Care,

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