Canaccord Genuity Wealth Management

Notes from the Bridge

Benson Private Wealth

Issue 2 **Friday, January 11th, 2019**

The first two weeks of the new year remind me of a Duran Duran song from the mid 1980's, The Reflex. The rally we are experiencing, can best be characterized as a reflex rally, and while nobody enjoys a market decline or can predict their exact end, the data is telling me we saw it Christmas eve.

Now this is not to say that it is straight up from here, but the recovery from the previous three non-recessionary corrections (1987, 1998, 2011) had very consistent behavior to what we are experiencing today. A process that typically takes about a month, thus we have a window of time to evaluate a variety of equity, fixed income or real estate opportunities to take advantage of.

In a note to clients this week, Manulife's Chief Investment Strategist Philip Petursson, noted that anytime we consider an outlook, we must also consider the fundamentals that have historically been the driver of returns: recession risk, earnings risk, and valuation risk. And in that regard, they continue to characterize the correction we saw as being amplified by headlines and noise. When you add to that algorithms that frequently drive trading that is not determined by price discovery and you get what we saw in December.

With current global economic indicators still showing expansion and the latest quarter of company earnings set to begin next week, I expect to be able to take advantage of the favourable valuations we now see. However, we do need to recognize that China and the United States, the two most meaningful economies in the world, have still not concluded their trade policy negotiations. Thus, we do have time to evaluate the opportunities best suited within a portfolio. Absent recessionary indicators it is my belief that a resolution to these negotiations could very well lead to not only a stabilization, but a modest reacceleration of global economic activity, making oversold / undervalued sectors such as Financials and Energy very attractive.

This week we also saw much clearer communication from the U.S. Federal Reserve, suggesting that the negativity surrounding the December interest rate increase was more of a communication error rather than one of incorrect monetary policy. This clarification was not only welcomed by the equity markets, but also the fixed income markets, where we saw the yield curve ever so slightly begin to steepen.

Fixed income is that stabilizing ballast within one's portfolio that typically does not experience much in the way of volatility, except for when we experience crisis or panic in the credit markets. The last time we saw this type of short-term period volatility in the credit markets was the end of 2015 through February of 2016.

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Subsequently, we saw outsized returns from senior secured loans and other high quality fixed income such as preferred shares as calm returned. I believe we are seeing that same opportunity here today and would look to increase allocations towards both within the fixed income portion of portfolios during this RSP season.

Speaking of that, the contribution deadline for the 2018 taxation year is Friday March 1st.

Additionally, the Tax-Free Savings Account, or TFSA, contribution limit has been increased in 2019 to $6000. This contribution amount is also cumulative, meaning you can either catch up contributions from previous years or roll it forward into the future if you need to.

Thank you for reading.

Have a wonderful weekend with friends and family.

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Erik Benson, CFA, CIM
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This Week's Market Numbers

S&P/ TSX Composite	14,939
Dow Jones Indus. Avg.	23,995
S&P 500	2595
Canadian/US Dollar	$0.7536
US/Canadian Dollar	$1.3268
Euro / Canadian	$1.5213
Gold	$1288.00
Silver	$15.63
Copper	$2.65
Brent Crude Oil	$60.54
WTI Crude Oil	$51.99
Natural Gas	$2.97