

Notes from the Bridge

Issue 13

Friday, March 29th, 2019

A lot of attention is being paid to very short-term treasury yields and their inversion to 10-year bond yields, and rightfully so. But is the very front of the yield curve impersonating “Chicken Little”? With the longer end of the yield curve steepening, I say the sky is not falling, but there are storm clouds worth paying attention to.

There are plenty of reasons to exercise caution, and global economic growth is indeed slowing. Though headlines often focus on the downside when the statistics look scary, investors shouldn’t lose sight of fundamentals. Curve inversions are certainly worth noting but should not alarm investors who have a plan.

Good opportunities sometimes present themselves when real and perceived challenges abound. I believe we are in such an environment today, with companies like **Boeing** presenting very attractive long-term return potential in relation to the actual risks being taken.

Stock Returns Have Stayed Healthy After Mild Curve Inversions

Yield-Curve Slope and Subsequent Equity Market Returns



As of June 30, 2018

*Annualized S&P 500 Total Return in the 36 months after an inversion, starting the month the inversion occurred

Yield-curve slope is defined as the difference between the US 10-year Treasury yield and the fed funds rate

Source: Bloomberg, Morningstar and AllianceBernstein (AB)

I mention Boeing for a couple of reasons. First, the company is the largest constituent of the Dow Jones Industrial Average with nearly a 10% weighting in that index. Meaning that as the markets move beyond the inverted yield curve, Boeing will be a key driver in leading markets higher. Second, the company is currently trading at a discounted valuation, given the tragedy of the Lion Air and Ethiopian Air crashes.

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The cause of those heart-breaking events increasingly appears to be a combination of a software error and pilot inexperience, and I certainly do not want to make light of this. But rather suggest they have placed (and rightfully so) a brief and sizable discount on the company's market value. Especially when you considering their order backlog is at historically high levels, which is set to deliver substantial cash-flow, earnings and dividend growth for years to come.

Circling back to the point made earlier about real and perceived challenges. I am utilizing the near-term negative headlines to build a stake in a defensive, global leader with growing dividends at a what I see as a tremendously undervalued level.

This week we welcome back the boys of summer with Major League Baseball returning to the field. I love opening day, and everyone is in first place. Which I think will be the only day our Blue Jays will be there, but Go Jays Go!

One final note, I will be out of the office Monday, Tuesday, and Wednesday next week. Spending a long weekend with the family at Lac le Jeune and then participating in a two-day course. I will be available via email and Lori will be in the office.

Have a wonderful weekend with friends and family.



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This Week's Market Numbers

S&P/ TSX Composite	16,102
Dow Jones Indus. Avg.	25,928
S&P 500	2,834

Canadian/US Dollar	\$0.7483
US/Canadian Dollar	\$1.3361
Euro / Canadian	\$1.4988

Gold	\$1297.00
Silver	\$15.10
Copper	\$2.93

Brent Crude Oil	\$68.39
WTI Crude Oil	\$60.19
Natural Gas	\$2.67