Notes from the Bridge

CANACCORD Genuity Wealth Management

Benson Private Wealth

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The U.S. Federal Reserve, and to a lesser extent the Bank of Canada, look to continue their rate hiking cycle, but the search for the so-called neutral rate may increasingly raise uncertainty as well. Not only will the debate over a potentially inverted yield curve rise, but so too will the "where are the opportunities should it not" conversation. So, this week we will start to discuss both.

It is my belief that the U.S. Federal Reserve will raise rates in September is a certainty. However, the quandary surrounding seemingly irrational trade tariff policies is leading to a heightened risk of potentially raising too quickly and needlessly shortening the current economic expansion. Complicating that further is that should calmer heads prevail with respect to global trade, resulting in them moving too slowly, they risk fueling an inflationary spike which is also destabilizing. The Bloomberg chart below seems to indicate that the uncertainty surrounding the current rate rising cycle is growing, and as we all know, the markets do not like uncertainty.

Rather than overreacting to the implications of what may or may not occur with the yield curve, setting aside that short-term noise for the moment, allows us to discern some of the signal more clearly and uncover of some very attractive opportunities for both income and appreciation. The signal that I am paying very close attention to is the defensive rotation from growth to value that is taking place. As, Geoff Spidle, of Roundtree Capital partners put it, "what's noticeable is the investor reaction to these sectors is more negative than in the first quarter earning season, reflecting skepticism brewing in the market about what 2019 is going to look like."

So how do we take advantage of this building rotation amid growing monetary policy uncertainty and investor nervousness? Last week I discussed the inclusion of real assets to any portfolio to provide stability of return as well as decent income. But when it comes to purely capturing long-

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term capital appreciation, we need to gaze into the future and try to determine where is the world going. This does not mean gambling on what will be the next hot stock, but rather seeing that industrial manufacturing is becoming increasingly automated, or that cloud computing, artificial intelligence, blockchain and the "Internet of Things", are simply becoming the norm, just as the light bulb, telephone and radio did a century ago.

Whether it is appropriate to capture these longer-term themes via individual equities or an actively managed and diversified ETF or Mutual Fund will depend on the specific circumstances of your household goals and needs. But one thing is for certain, I look forward to taking advantage of the uncertainty and noise within the markets that will be surrounding the next Federal Reserve interest rate announcement in September to add the likes of ABB Ltd, Microsoft, IBM, Qualcomm to growth oriented portfolios at value prices.

Have a wonderful weekend with friends and family.

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This Week's Market Numbers

S&P/ TSX Composite	16,349
Dow Jones Indus. Avg.	25,791
S&P 500	2,874
Canadian/US Dollar	$0.7674
US/Canadian Dollar	$1.3027
Euro / Canadian	$1.5147
Gold	$1212.00
Silver	$14.90
Copper	$2.71
Brent Crude Oil	$75.62
WTI Crude Oil	$68.59
Natural Gas	$2.91

*as of noon Friday August 24th 2018