Notes from the Bridge

CANACCORD Genuity
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Benson
Private Wealth

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There are plenty of factors stoking what we would call a good old fashioned global growth scare, this week we highlight a few:

- **Peak earnings concerns**: Lackluster reaction to Q3 beats, and significant pullbacks on misses. While these stem from a combination of widely understood macro and tax tailwinds, input pressure from higher labor, raw material and freight costs do present headwinds. However, corporate earnings growth remains at 10% for next year.
- **Peak growth concerns**: Consensus GDP growth for 2019 growth has slipped to 3.6% from 3.8% in recent surveys. However, 142 out of the 146 country GDP growth rates recorded globally are expanding.
- **Tighter financial conditions:** Goldman Sachs recently noted its US Financial Conditions Index has tightened since October 2nd. Yet corporate credit markets remain strong, and bond markets are not signaling concern.
- **Central bank policy mistake fears:** Concerns that the Federal Reserve or Bank of Canada make a policy mistake, which is one of the biggest tail risks for market, have picked up. However, moving rates back to neutral is a long-term positive and the yield curve has not inverted.
- **Trade war to go on for a while:** Trump and Xi meeting next month at G20, though market is skeptical of a breakthrough on trade given US push for and Chinese resistance to deeper structural changes. President Trump's trade negotiating style has created a lot of noise, yet positive conditions for corporate expansion and trade growth have resulted.
- **Exodus from crowded trades:** Growth and momentum plays continue to see outsized selling pressure. Latest Bank of America Merrill Lynch Fund Manager Survey showed FAANG stocks as still the most crowded trade. The unwinding of this trade has pushed all markets lower, in many ways, unjustly so.
- **Geopolitical tensions ratcheting higher:** Saudi Arabia under intense scrutiny for its role in killing of dissident journalist.

Given the non-consensus view right now as to how this will play itself out, we are seeing considerable uncertainty. However, our view is that the domestic and global economy remain fundamentally positive. The reaction to these uncertainties appears to have been too swift, and possibly an over-reaction, considering that these concerns will have a relatively limited impact on global GDP.

With so much of the market driven by quant funds and momentum trading, it is impossible to pinpoint exactly when the market will turn. Any time the market corrects, sentiment deteriorates, and investors justifiably ask whether something has changed that may impact their long-term investment thesis. This is precisely when a consistent investment portfolio framework, is most valuable.

Erik Benson, CFA, CIM
Investment Advisor &
Portfolio Manager

Lori Kennedy
Investment Advisor Assistant

Jena Karmali
Business Development Associate

Strategic Partners

Paul Marion, CLU, CHS
Managing Director, Wealth
Management – Canada
Canaccord Genuity Wealth &
Estate Planning Services Ltd.

Anne Jackson, BBA, CMA
Wealth & Estate Planning
Specialist

Canaccord Genuity
Wealth Management
P.O. Box 10337
2200 - 609 Granville Street
Vancouver, BC V7Y 1H2

T: 604.643.7345
TF: 1.800.663.1899
F: 604.601.5966
E: erik.benson@canaccord.com

With the sharp weakness this week, the broad North American equity markets have traded down 10% since their September highs, and are now negative for the year. While any acute shift over such a very short period, feels awful, it also frequently results in an extreme oversold condition.

Over the past decade, North American equity markets have gone through three corrections, 2009, 2011 and 2015, each concluding in an oversold market condition. Coincidentally, each of these periods were also the most attractive time, albeit nervously, for investors to add to their high quality, blue-chip, dividend paying companies.

Today, the two most oversold sectors are the Financial Services and Energy sectors. The Bank of Nova Scotia, for example, currently trades at nearly 20% below the trading valuation it saw in each of the three previous market corrections. Which to me illustrates just how oversold some companies have become. Given that our fundamentally positive economic thesis remains intact, and no key indicators are signaling otherwise, we believe there are numerous oversold opportunities, that over time, investors will be very happy they took advantage of.

Corrections and their bottoming process feel awful – like they always do, but as Warren Buffet say's "Be greedy when others are fearful". Dollar cost averaging when best in class companies get put on sale, is something that I can get greedy over.

Have a wonderful weekend.

Erik Benson, CFA, CIM
Benson Private Wealth

This Week's Market Numbers

S&P/ TSX Composite	14,888
Dow Jones Indus. Avg.	24,688
S&P 500	2658
Canadian/US Dollar	$0.7642
US/Canadian Dollar	$1.3081
Euro / Canadian	$1.4927
Gold	$1235.70
Silver	$14.71
Copper	$2.75
Brent Crude Oil	$77.71
WTI Crude Oil	$67.68
Natural Gas	$3.20