Notes from the Bridge

CANACCORD Genuity Wealth Management

Benson Private Wealth

Issue 15 Friday, April 27th, 2018

In a week that was filled with corporate and economic data, the biggest event must be the historic news this morning that the Korean War is officially over, and the two countries are now pursuing peace. While it is still uncertain what will unfold on the Korean peninsula, peace is always better than tension.

Despite corporate North America continuing to report decent earnings growth, consumer and business sentiment remaining healthy, along with strong employment and wage growth data, the capital markets have remained flat. Nearly 80% of companies have reported earnings that have exceeded expectations, led by Financial Services and Information Technology, coupled with a rebound from the long lagging Energy sector, yet equity markets (the exception being the Nasdaq), are slightly negative for the year. So, is this a time of concern or opportunity?

I say both, and here is why. Equity markets on average are fairly valued given where earnings are, some are inexpensive while some are wildly expensive. However, both equity price volatility and bond yields are returning to more normalized levels, and this has many re-assessing their strategies resulting in uncertainty. Equity markets don't like uncertainty, and with longer term bond yields crawling higher, I expect that uncertainty to remain entrenched for the near term.

For the first time since 2014, the yield on the benchmark 10-year Treasury note in the U.S. breached the 3% level this week. While this level is more psychological than anything else, it is a clear indication that many investors are becoming concerned about inflation. As this continues, there will be much debate with respect to when and where central bankers take rates. This should be expected to keep uncertainty elevated, but the one thing I know, is that interest rates and bond yields are going higher.

The impact of that is sometimes obvious, like today when we saw TD Bank raise its 5-year fixed mortgage rate. Other times it is less so. Bond prices go down when yields go up, and the longer the term of the bond the greater that price decline will be. Thus, I would be very cautious about holding any individual long-term bonds, funds or ETFs for clients, preferring to hold shorter-term fixed income that is able to reset its rate at ever rising levels.

Rising bond yields tend to also be positive for financial institutions, like your local bank, who should very well see their interest rate margins increase. Which reminds me of that saying, "don't put your money in the bank, own the bank". While I will continue to own Canadian Banks, right now I see even greater opportunity in American / Global insurance companies. With rates rising in the US faster than here at home, I would expect to see a stronger acceleration of revenue growth from American Insurers. Faster rate growth in the US versus Canada should also lead to a stronger US Dollar versus our own, therefore I also see greater benefit to holding US Dollars.

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The opportunity that I see for many is the American Insurance company **MetLife.** The company trades below its book value, a substantial pricing multiple discount to its earnings growth, and is paying nearly a 3.5% dividend. All within a rate rising environment that should only lead to an acceleration in their earnings power, and MetLife is becoming just too hard to ignore.

Yes, I have broad concern surrounding the general market index level amid rising bond yields, but there are also tremendous opportunities within those rising bond yields. You just need to know where to look.

Please feel free to share my commentary as I am always looking to work with new people.

Thank you and have a great weekend with friends and family.

Sincerely,

Erik Benson, CFA, CIM
Benson Private Wealth

TODAY'S STOCK WATCH

S&P/ TSX Composite	15,668
Dow Jones Indus. Avg.	24,310
S&P 500	2,669
Canadian/US Dollar	$0.7794
US/Canadian Dollar	$1.2825
Euro / Canadian	$1.5563
Gold	$1324.70
Silver	$16.56
Copper	$3.07
Brent Crude Oil	$74.50
WTI Crude Oil	$68.06
Natural Gas	$2.77