

Notes from the Bridge

CANACCORD Genuity
Wealth Management

Benson
Private Wealth

Issue 1

Friday, January 12th, 2018

Happy New Year!!

As we embark on the new year, investors have reason for both optimism and caution. With the anticipation that 2018 could be a pivotal year for global equity markets, how we navigate both will be critical.

2017 was a remarkably benign environment for global capital markets, interest rates remained anchored, and political concerns that existed gradually faded. However, both of those risks are starting to swing the other way now. Central bank tightening is beginning to matter, North Korea and Iran have perked up geopolitical risks, and US trade relations have deteriorated lately.

As for the outlook for 2018, I do expect the global economic expansion to continue to take markets higher, however the rate of which should be expected to moderate. I characterize this year as pivotal, and that there is reason for both optimism and caution as I expect to see quite a delicate balancing of the following three key macro factors:

- Low inflation, yet full employment
- Low growth, yet high valuations
- Low volatility, yet high uncertainty

Against this backdrop we are also seeing risk free rates globally that are coming off zero, with the US Federal Reserve expected to raise rates 3 to 4 times this year. Our own Bank of Canada is fully expected to increase its key overnight interest rate next week, and the European Central Bank has indicated that they are reviewing their own monetary stimulus program.

This is where I feel the macro risks lie, suggesting that higher volatility should be expected. While my central view is that equity markets can move higher, uncertainty surrounding relatively higher valuations versus historical averages amid rising real interest rates, makes it only prudent to look at various scenarios for the coming year.

- **Base case:** North American equity markets face increasing headwinds as short-term treasury yields begin to exceed the S&P 500 dividend yield, and earnings growth becomes greater in Europe and Emerging Markets.
- **Blue Sky case:** US Federal Reserve turns dovish not raising rates four times, economic growth remains above expectation and inflation does not rise. Sparking market euphoria.
- **Grey Sky case:** US Federal Reserve over tightens on interest rates, economic growth slows markedly. Sparking an early entry into a recession.

Erik Benson, CFA, CIM
Investment Advisor &
Portfolio Manager

Alix Rogers
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

It is my belief that the base case scenario will unfold throughout 2018, and that equity markets can move higher. However, the critical question becomes where are the opportunities to make the most of late-cycle markets while also being fully prepared for any pause or correction.

There is an old saying that bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria. I believe that we are firmly within the optimism stage and that investors should begin to diversify the source of their returns. By this I mean to further diversify asset risk to increasingly hold greater real assets, European equities, and very short-term duration fixed income.

I am very excited about the upcoming year and look forward to working with you in 2018.

Thank you for taking the time to read my commentary this week. Please feel free to share with those you care about.

This weekend also marks the start to the tennis season with the first major tournament, The Australian Open, getting underway. I wish all our Canadian players the best of luck and to all tennis fans, enjoy the games.

Sincerely,

Erik Benson, CFA, CIM
Benson Private Wealth

TODAY'S STOCK WATCH

S&P/ TSX Composite	16,308
Dow Jones Indus. Avg.	25,803
S&P 500	2,786

Canadian/US Dollar	\$0.8019
US/Canadian Dollar	\$1.2467
Euro / Canadian	\$1.5211

Gold	\$1339.10
Silver	\$17.25
Copper	\$3.22

Brent Crude Oil	\$69.82
WTI Crude Oil	\$64.31
Natural Gas	\$2.98