Notes from the Bridge

CANACCORD Genuity
Wealth Management

Benson
Private Wealth

Issue 2 Friday, January 19th, 2018

As expected, the Bank of Canada increased its key overnight interest rate this week. The balancing act Governor Poloz now faces is trying to gradually normalize interest rates amid strong economic growth and growing employment, without triggering a slowdown as household debt remains at record levels.

While the global economy continues to strengthen, I would expect that Canada will lag that growth rate. We have seen strong employment growth drive consumption and residential investment; however, looking forward it should be expected that these will contribute less, given higher interest rates and new, more stringent mortgage guidelines.

Business investment was also a strong contributor last year, and is forecast to continue to do so this year, however, increasing uncertainty surrounding NAFTA is beginning to weigh on that outlook. Nonetheless, recent data continues to show capital investment growth, new business creation, and increased labour force participation.

Within this context of both positive and potentially negative factors, it is my belief that the Canadian economy will continue to grow, albeit in a more volatile fashion, as the dynamics of both play out. As a result, I think the Canadian investor may be looking at a domestic market that climbs the proverbial 'wall of worry', thus continuing to hold Canadian Banks, REITs and certain Energy companies should continue to serve investors well.

Last week I mentioned my base case scenario that North American equity markets would grind higher, however, a key risk was that we could see treasury yields begin to exceed the S&P equity dividend yield. Ironically, we saw this occur this week as the 10 Year US Treasury bond yield crossed the 2.6% mark. Many technicians consider this to be a key signal that the U.S. equity markets have become over-valued, and suggests to me that becoming more defensive is a top priority.

However, robust earnings do support remaining invested towards value and quality within the United States. While I fully expect to see higher volatility within the markets, (especially considering that 2017 had the lowest volatility on record) I also expect to see higher valuations driven by that earnings growth. While an increase in volatility does highlight the need for caution, it also presents opportunity, where high quality dividend paying companies like **IBM**, **Starbucks**, **Walt Disney**, **Johnson & Johnson** become counterbalances within any robust portfolio.

It is my belief that limiting pure domestic exposure, be it US or Canada, and focusing on those companies that have meaningful international generation of revenues and earnings will be those that reward investors. For example, the **Sphere European Sustainable Yield ETF** or the **NBI Global Real Assets Income Fund**, provide substantially diversified international equity ownership

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

along with above average dividend yields.

Increased volatility is not exclusive to equity prices, fixed income can be equally as impacted. Given that the yield curve is currently exceptionally flat, I think fixed income asset prices could very well see greater disruption as volatility picks up due to rising interest rates. Fidelity even commented in a recent outlook note that there is a very real possibility that a negative-return outlook may be emerging, as Central Banks shift towards more normalized interest rate levels.

This will make employing a dynamic approach to how we manage our fixed income of paramount importance. Now this doesn't mean wholesale changes, but rather, just as our equity focus will become more internationally focused, so too will our fixed income.

While I remain optimistic going forward and see plenty of opportunities out there, like those mentioned earlier, I see increasing prudence in taking profits on some high growth names to become more defensive.

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

.

Sincerely,

Erik Benson, CFA, CIM
Benson Private Wealth

TODAY'S STOCK WATCH

S&P/ TSX Composite	16,353
Dow Jones Indus. Avg.	26,071
S&P 500	2,808
Canadian/US Dollar	$0.7994
US/Canadian Dollar	$1.2504
Euro / Canadian	$1.5284
Gold	$1332.90
Silver	$17.05
Copper	$3.19
Brent Crude Oil	$68.78
WTI Crude Oil	$63.48
Natural Gas	$2.95