

# Notes from the Bridge

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As we enter the dog days of summer, economic and market optimism remain healthy as companies begin to report continued growth. However, escalating talk of trade tariffs, a declining Chinese currency and a flattening yield curve are signaling that defense is the order of the day.

By way of a hockey analogy, it is time to put Wayne Gretzky and Mario Lemieux on the bench and Bobby Orr and Larry Robinson on the ice. We still want plenty of offensive potential, but as well all know, defense wins championships. Just as I was concerned about the overwhelming positive sentiment last December and January, rising trade tariffs and a declining Chinese Yuan are beginning to concern me today.

In light of this growing concern, both the Canadian and American economies remain in a stable growth pattern, and several companies have already begun to report robust second quarter earnings. While this supports our near-term growth thesis, it is my feeling that we are approaching an inflection point.

By this I mean that higher tariffs (i.e. taxes) and a weaker Yuan, may have a cooling effect on future growth. Add to this mix a yield curve that is approaching inversion, which has historically also signaled future slowdown in growth, and you can see why the market signals are showing a bit more caution for me.

For some context, in August 2015 the Chinese allowed their currency to meaningfully depreciate versus the US Dollar. The S&P 500 declined 12% over the following six-month period. Over the past three to four months, the United States has implemented substantial trade tariffs, with threats of more, to which the Chinese has responded in kind, but have additionally allowed their Yuan to decline by approximately 8%. That's meaningful and concerns me.

Now, this was not the only determining factor for that negative market period, but when more than one market signal begins flashing, it tells me valuations will increasingly begin to matter going forward. Thus, holding better valued, defensive assets are once again top of mind.

Valuations are based upon expected levels of future growth, and market performance ultimately depends on investor expectations as expressed by price multiples. Some are high like Amazon or Netflix at nearly 150x, and some are lower like Johnson and Johnson or Apple at approximately 15x. Yes, each of these companies are growing at different rates so the comparison is not exact, and all are great companies. But the point I am making is that when the inflection point for the market comes, and it always does, the rotation is almost always from what is highly priced to what is more fairly-priced.

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So just as Gretzky and Lemieux were great offensive players, they weren't always the best ones to have on the ice when it became time to play a more defensive game. We still want the offensive potential, but the added defensive benefits of Orr and Robinson is what I want to have on the ice right now.

On a final note, I am pleased to report that I finished the Penticton Veloce Fondo, riding 126km in a time of 5:48. I Achieved most of my riding goals, but do need to work on my hill climbing, that Seacrest Hill out of Oliver is a bit nasty. All in all, it was a great day of riding that I look forward to improving on next year.

Have a wonderful weekend.

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## TODAY'S STOCK WATCH

S&P/ TSX Composite	16,435
Dow Jones Indus. Avg.	25,057
S&P 500	2,802

Canadian/US Dollar	\$0.7619
US/Canadian Dollar	\$1.3121
Euro / Canadian	\$1.5389

Gold	\$1230.30
Silver	\$15.52
Copper	\$2.75

Brent Crude Oil	\$72.96
WTI Crude Oil	\$70.46
Natural Gas	\$2.76