Notes from the Bridge

CANACCORD Genuity
Wealth Management

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Private Wealth

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A few things that caught my eye this week, were the geopolitical flare up in Spain and Italy, U.S. trade tariffs and Mary Meeker's 2018 internet trends report out of Silicon Valley. Though not directly linked to each other, they reminded me, as a portfolio manager, that both risk and opportunity are never static.

Thus far in 2018, geopolitics has reminded us that it is dangerous to become complacent about risks that seem to go dormant for a while, as they seldom disappear completely. This week, both Spain and Italy took steps towards holding new elections. Serving up reminders of a Eurozone breakup as each country is heading for a battle between pro-EU establishment and populist forces. Concerns that the European Union could once again find itself in a yet another crisis, sent investors scurrying to the exits in search of safer havens.

On this side of the pond, the United States announced that they would not be extending certain deadlines within the NAFTA negotiations and implemented tariffs on both Canadian and Mexican produced Steel and Aluminum. This ignited a retaliatory response from our own government on those same products that we import from the U.S.. This heightened uncertainty regarding trade policy with our largest trading partner had a negative effect on our currency, resulting in nearly a cent and a half decline in our "Loonie".

Lastly, a report out of Silicon Valley this week showed that 2017 was the first year in which smartphone unit shipments did not increase. However, the rate of usage increased as our lives become ever increasingly digital. While the number of devices may have plateaued, technology continues to become a greater part of everyday business and personal interaction.

What I take away from these three, is that both investment risk and opportunity are omnipresent that can flare up at a moment's notice. It is in how we react during these moments to either prevent loss or receive reward that truly matters. Right now, my reaction is to adjust fixed income assets where interest rate duration is posing great risk and where volatility is presenting great value for certain equity assets.

As fixed income is often thought of as the stable part of a portfolio, it can be particularly stressful to see values decline as interest rates rise, as that seems counter intuitive to many. The best way to benefit from rising rates is to own fixed income assets that are short term in nature with floating rates, and to avoid longer-term fixed rate, especially high yield fixed rate assets. Thus, I have been suggesting that floating rate and rate reset fixed income such as secured loans be increasingly utilized within a portfolio.

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We all know that equity markets never go in a straight line, and that the news of the day often presents us with opportunities that are usually not seen by everyone at the same time. Take for example the news out of Europe this week regarding Italy and Spain, which caused quite a bit of market turmoil. Within which, several European companies have traded to below their book value, despite being global in their operations with solid fundamental growth and growing dividends.

Just as many North American banks traded to below their book value a decade ago, that discount closed as the financial crisis was worked through. While the perception of a political crisis in Europe is not the same as the financial crisis was ten years ago, it too will pass. And with it, so will that discount, a discount that I will look to be taking advantage of.

Have a wonderful weekend.

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

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TODAY'S STOCK WATCH

S&P/ TSX Composite	16,043
Dow Jones Indus. Avg.	24,635
S&P 500	2,731
Canadian/US Dollar	$0.7717
US/Canadian Dollar	$1.2888
Euro / Canadian	$1.5113
Gold	$1297.80
Silver	$16.41
Copper	$3.09
Brent Crude Oil	$76.59
WTI Crude Oil	$65.97
Natural Gas	$2.97

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