

Notes from the Bridge

CANACCORD Genuity
Wealth Management

Benson
Private Wealth

Issue 21

Friday, June 8th, 2018

Markets have displayed greater stability this week as political tensions eased in both Italy and Spain, along with positive economic data here in North America. However, the upcoming G7 Summit and U.S. Federal Reserve announcement on interest rates are certain to provide plenty of potential market moving headlines next week.

In general, the capital markets take their queue from the business cycle. A business cycle that is based upon personal consumption and business owner investments. Both of which are greatly influenced by uncertainty.

Thus far in 2018, central banks have been consistent in their message of moving rates back towards normal. While there is some debate as to number of rate hikes here in Canada, there is not much uncertainty that the U.S. Federal Reserve will increase rates again next week, with two more to follow later this year. The resultant 'visibility' so to speak, as to where interest rates are going allows us to plan how we both spend and invest with greater confidence.

The upcoming G7 summit however, is a whole different kettle of fish. With what seems to be inconsistent messaging from the United States, this weekend's G7 summit has the potential to become a G6+1, and there lies the uncertainty. With other world leaders certain to express their frustrations regarding imposed trade tariffs, the fear I have is that the President's "America First" policy on trade becomes an "America Alone" trade policy.

While I do feel that a full-blown trade war is unlikely, the more bombastic negotiating style from the White House does make it more difficult for business owners to plan and invest towards future growth. The current economic environment remains constructive, with continued high employment levels and growing wages; however, the growing uncertainty surrounding trade tariffs could lead to higher volatility over the coming months.

I fully expect that future trade agreements will be negotiated without escalation into a trade war, and that the risk of a recession is currently low. What I take away from this, is that the risk of negative trade policies, while growing, do not yet outweigh the positive corporate earnings growth we are seeing. As an investor I am mindful of those risks, adjusting as needed to remain focused on the strong macro-economic backdrop.

Even though political tensions with our main trading partner have risen, neither of our economies are at risk of derailment. I see rising industrial capacity utilization here in Canada and strong tailwinds from the recent fiscal stimulus in the United States continuing to drive decent corporate earnings growth on both sides of the border for the next several quarters. All of which should be very positive for our Chartered Banks.

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We have all heard the sayings “get paid to wait”, and “don’t put your money in the bank, own the bank”. Sometimes the best time to put a saying into practice, is when the markets seem to be stuck in neutral, just as they are right now. If you like collecting dividends like I do, the Canadian Banks continue to provide above average yields that tend to get increased each year and are trading at valuations that are now below their historical averages.

While other news grabs the headlines, our banks have quietly continued to expand their operations internationally. From Bank of Nova Scotia expanding in South America, to TD having more retail branches in the US than Canada, to both CIBC and Royal Bank purchasing U.S. based asset managers. Each of which, resulting in growing earnings which drives potential capital appreciation and dividends for income.

As an investor I like both, and right now I am grabbing some banks.

Have a wonderful weekend.

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

Erik Benson, CFA, CIM
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TODAY'S STOCK WATCH

S&P/ TSX Composite	16,202
Dow Jones Indus. Avg.	25,317
S&P 500	2,777

Canadian/US Dollar	\$0.7732
US/Canadian Dollar	\$1.2934
Euro / Canadian	\$1.5217

Gold	\$1302.90
Silver	\$16.80
Copper	\$3.29

Brent Crude Oil	\$76.43
WTI Crude Oil	\$65.62
Natural Gas	\$2.90

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