

Notes from the Bridge

CANACCORD Genuity
Wealth Management

Benson
Private Wealth

Issue 18

Friday, May 18th, 2018

Markets continue to slowly work themselves higher as we have essentially recovered from the correction earlier this year. Even though the headlines show that major market indices are only up or down approximately 1% for the year to date, rising bond yields and commodity prices are providing the catalysts to keep preservation and growth strategies on track.

The key to any strong preservation mandate is to avoid pitfalls, which sounds easy enough, but being able to predict when and where they lie is far more difficult. However, there are sign posts. One such sign post is the current trend of economic data; while those indicators remain robust, they look to be flattening out, i.e. no longer growing.

Now, some of you might be thinking to yourself that last week I mentioned there was a lot to be excited about, given the current trend of economic data. There is, but the data is telling me that bond yields are going substantially higher over the next couple of years, and that I can take advantage of that by holding senior secured loans and very short-term rate reset fixed income. The pitfall is, this same data is signaling me to avoid the more over-valued Investment Grade and High Yield corporate bonds.

I am not suggesting that we sell all our fixed income holdings, but rather that the gains those assets have made in a declining interest rate environment be compounded within similar fixed income assets that can better take advantage of rising interest rates. Such as bank loans and other secured lending assets.

Another key economic data point that I am paying attention to is the New York Federal Reserve Bank's underlying inflation gauge. While headline Consumer Price Index (CPI) is suggesting that inflation is only a touch above 2% currently, the underlying data is showing a much higher 3.2% figure. Throughout history the New York Fed's gauge has been an excellent forecasting tool, suggesting to me that while headline CPI might still be relatively low, it is going higher.

The positive headlines of accelerating wage growth along with industrial and manufacturing demand for materials exceeding supply are not only creating talk of a resurgence of inflation, they are also providing legs to the commodity price cycle. By being in front of this persistent theme and not focusing on the short-term distraction such as the 10-year treasury bonds breaking above the 3% yield mark, allows us to take advantage of the volatility that is created.

The underlying data is quite positive, suggesting that any recession is still at least a year away, possibly longer. Therefore, when others are fixated on 3% 10-year bond yields triggering a recession, we will be focused on taking advantage of that noise to benefit from rising commodity prices for the next year or two.

Erik Benson, CFA, CIM

Investment Advisor &
Portfolio Manager

Lori Kennedy

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

Last week a theme that I suggested was starting to take hold, was that of a rotation back towards Canada's more oversold / under-owned energy sector. While I still believe that to be fundamentally true, and would continue to increase specific energy assets, there is more to a commodity cycle than just energy.

With the proliferation of actively managed ETFs, we can now hold gold, copper, agricultural commodities etc.... in either an all-inclusive diverse basket, or a single commodity Exchange Traded Fund. The method in which we take advantage of rising commodity prices will vary for everyone, depending on time frame and risk tolerances. Similar to what I wrote last week, the economic data and resulting market noise are telling me that we could benefit from rising commodity prices in a variety of ways.

Market rotations take time and are a process, so as we head into the slower summer markets, it is my belief that using that time to add the right commodity based holding will be very rewarding.

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

Erik Benson, CFA, CIM
Benson Private Wealth



TODAY'S STOCK WATCH

S&P/ TSX Composite	16,162
Dow Jones Indus. Avg.	24,715
S&P 500	2,714

Canadian/US Dollar	\$0.7763
US/Canadian Dollar	\$1.2878
Euro / Canadian	\$1.5155

Gold	\$1292.20
Silver	\$16.46
Copper	\$3.06

Brent Crude Oil	\$78.6
WTI Crude Oil	\$71.30
Natural Gas	\$2.84

CANACCORD Genuity
Wealth Management

Benson
Private Wealth

CANACCORD GENUITY WEALTH MANAGEMENT IS A DIVISION OF CANACCORD GENUITY CORP., MEMBER-CANADIAN INVESTOR PROTECTION FUND AND THE INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

This newsletter is solely the work of the author for the private information of clients. Although the author is a registered Investment Advisor at Canaccord Genuity Corp., this is not an official publication of Canaccord Genuity Corp. and the author is not a Canaccord Genuity Corp. analyst. The views (including any recommendation) expressed in this newsletter are those of the author alone, and are not necessarily those of Canaccord Genuity Corp. The information contained in this newsletter is drawn from sources believed to be reliable, but the accuracy and completeness of the information is not guaranteed, nor in providing it do the author or Canaccord Genuity Corp. assume any liability. This information is given as of the date appearing on this newsletter, and neither the author nor Canaccord Genuity Corp. assume any obligation to update the information or advise on further developments relating to information provided herein. This newsletter is intended for distribution in those jurisdictions where both the author and Canaccord Genuity Corp. are registered to do business in securities. Any distribution or dissemination of this newsletter in any other jurisdiction is prohibited. The holdings of the author, Canaccord Genuity Corp., its affiliated companies and holdings of their respective directors, officers and employees and companies with which they are associated may, from time to time, include the securities mentioned in this newsletter.

The preceding information is for general information only and does not constitute tax advice. All investors should consult with a qualified tax accountant.

Tax & Estate advice offered through Canaccord Genuity Wealth & Estate Planning Services.

FOR DISTRIBUTION IN CANADA ONLY