Investment Notes

June 28, 2019

GLOBEINVEST
CAPITAL MANAGEMENT INC.

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Overview

As we enter July, the current U.S. economic expansion is now officially the longest one on record (since 1854) at 121 months. We will review the current cycle and reasons for its longevity.

Trade wars and central bank monetary policy continue to be the dominate factors influencing markets. Most stock markets around the world posted positive returns in the second quarter. The pullback in May amidst escalating trade tensions between the U.S. and China was more than offset by June gains arising from optimism leading into the G20 Summit as well as a decidedly more dovish U.S. Central Bank policy statement. Year-to-date, global equity markets are up double-digit, recovering from the sharp pullback in December.

Much ado has been made about the U.S. market indices making new highs this quarter, surpassing levels set in September 2018. Our perspective is that stock markets have been relatively range bound since last fall, swayed by the two aforementioned factors. What unfolds going forward will continue to dictate market direction.

Commentary

While the current U.S. expansion is 10 years old, its pace of recovery pales compared to prior economic expansions. The previous longest expansion ran from 1991-2001, lasting 120 months – in the first 39 quarters, U.S. GDP increased 43%. By comparison, in the 39 quarters through this March, GDP grew just 25%. At its present pace, the current cycle would have to last six more years to match the cumulative growth of 1991-2001.

Some reasons cited for the lackluster recovery include:

- the severity of the Great Recession on the American psyche which delayed the pace of recovery from the trough

- the numerous “panic attacks” which have held stock markets periodically in check, e.g. Eurozone Debt Crisis in 2012 (PIGS), collapse of crude oil price in late 2015/early 2016, Brexit vote in 2016, start of ongoing U.S./China trade war in 2018

- the lack of price inflation in the U.S. and globally, averting the build-up of speculative excesses

The one achievement of the current expansion is the decline in unemployment, coming in at 3.6% in May 2019 (the lowest in half a century) from a peak of 10% in October 2010. A healthy employment situation is boosting U.S. consumer confidence which remains elevated by historical standards.

Global economic growth has resoundingly slowed over the past year, hampered by ongoing trade tensions, higher tariffs and geopolitical uncertainty. Central banks across the globe are responding with synchronized easing, fueling a rally in both fixed income and equity markets.

In his June 25th speech, U.S. Fed Chair Jerome Powell highlighted greater uncertainty on trade developments resulting in renewed concerns about the strength of the global economy as well as the impact on domestic business sentiment and investment. He suggested “that the case for somewhat more accommodative policy has strengthened.” Following his speech, market consensus is 100% for a rate cut at next July’s meeting.

Markets were buoyed this week by the nomination of International Monetary Fund (IMF) head Christine Lagarde to succeed Mario Draghi as the European Central Bank Chief. She is expected to adopt Draghi's dovish stance having recently described the world economy as hitting a rough patch and advised central banks to continue to adjust their policies in response. Potential contenders to replace Ms Lagarde at the IMF include George Osborne, former U.K. chancellor and current Evening Standard editor and our very own Canadian-born Mark Carney, currently the Bank of England governor as well as former head of the Bank of Canada.

As anticipated, a truce was reached at the G20 summit between President Trump and President Xi to avoid escalating tariffs and an agreement to resume trade talks. While it sounds encouraging on paper, nothing substantive has been resolved.

For Canada, the elimination of U.S. tariffs on steel and aluminum imports was a step towards getting the new NAFTA or USMCA ratified. Geopolitical relations with China remain strained with China now banning all imports of Canadian beef and pork in addition to canola, in retaliation for the house arrest of Huawei executive Meng Wanzhou.

Summary

Accommodative central bank policy is a tailwind for markets so long as economic and corporate profit growth are sustained. So far this year, U.S. economic data while still relatively sound, has been weakening and earnings revisions have been negative. Stock markets, however, are up, suggesting a degree of optimism embedded in future expectations.

Our focus remains on the underlying economic fundamentals and how it impacts our client portfolios.

We will be patient to make investments at attractive prices which will not only provide downside protection but also gratifying returns over the longer term.

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2019 BNN Dates

Christine: Wednesday, July 10 @ 6:00pm
Christopher: Thursday, July 25 @ 6:00 pm
Christine: Wednesday, July 31 @ 7:00am
Christine: Tuesday, August 13 @ 12:00pm
Christopher: Thursday, August 29 @ 7:00am
Christine: Thursday, September 12 @6:00pm
Christine: Wednesday, October 9 @ 6:00pm
Christine: Tuesday, November 12 @ 12:00pm
Christine: Tuesday, December 10 @ 12:00pm

June 28, 2019 Statistical Summary

STOCK MARKETS	QTD	YTD	1 Year
S&P TSX Composite Total Return (CAD)	2.6%	16.2%	3.9%
S&P 500 Total Return (CAD)	2.3%	13.8%	10.1%
S&P 500 Total Return (USD)	4.3%	18.5%	10.4%
DJIA Total Return (USD)	3.2%	15.4%	12.2%
NASDAQ Composite Price Return (USD)	3.6%	20.7%	6.6%
MSCI World Index Price Return (USD)	3.3%	15.6%	4.3%
COMMODITIES			
GOLD	9.5%	10.3%	13.0%
SILVER	1.0%	-1.2%	-4.3%
COPPER	-7.8%	0.6%	-9.8%
NATURAL GAS	-13.3%	-21.5%	-21.5%
WTI	-2.8%	28.8%	-20.4%
BRENT	-3.5%	22.5%	-15.1%
CANADIAN UNIVERSE BOND INDEX	2.5%	6.5%	7.4%

TREASURY BONDS	06/28/19	12/31/18	06/29/18
2 Year (CAD)	1.47%	1.87%	1.91%
(US)	1.75%	2.59%	2.53%
5 Year (CAD)	1.39%	1.89%	2.06%
(US)	1.76%	2.59%	2.74%
10 Year (CAD)	1.46%	1.96%	2.10%
(US)	2.00%	2.73%	2.86%
30 Year CAD)	1.68%	2.16%	2.20%
(US)	2.52%	3.05%	2.99%
Inflation			
CPI (CAD)	2.4%	1.7%	2.2%
(US)	2.0%	2.2%	2.2%

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