

The Market Letter

March 26, 2019

Market Commentary

Equity markets have had a tremendous start to the year. Since the lows on Christmas Eve, the TSX has increased by nearly 17% and the S&P500 by 19%. Those who remained invested through the market doldrums of late 2018 have more than made up for last year's losses. This goes to show time and time again that investors who own high quality companies (as we recommend) and who do not use excessive levels of leverage should not try to time the market. As we have seen, the market can recover just as quickly as it can head down.

Where do we go from here? Talk of an imminent recession, an inverted yield curve, ongoing trade tensions between the U.S. and China and Canada and China have once again stoked fear levels. Some sort of deal between the U.S. and China is possible as it is a U.S. election year in 2020 and it would be in the best interests of both sides to de-escalate the trade war. Fears over an inverted yield curve, when long-term debt has a lower yield than short-term debt, may also be overblown. History shows that the S&P500 rises about 15% on average in the 18 months following a yield curve inversion.

Some caution is warranted. Most investors should not be fully invested in equities to begin with. For those seeking higher returns than GICs and government bonds, have a long-term time horizon, and can tolerate some risk, **Contingent Income Notes** (CI Notes) provide a good middle of the road approach. For example:

Our current CI Note linked to the Canadian market pays 5.35% per year over 7 years and your principle is guaranteed by National Bank at maturity if the TSX60 is not down more than -35% over the 7 years.

This is more than double the return of a 5 year GIC. Although not government guaranteed, this is still a low risk proposition if held until maturity.

For clients to optimize their equity exposure, we recommend they use our **Canadian Growth & Income Private Portfolio**. This is a basket of our top Canadian core holdings and is actively managed by me. As a discretionary portfolio manager, I manage the portfolio directly and the management fees are significantly lower than the equivalent actively managed mutual fund. Additionally, the management fee is tax deductible if held in a non-registered account. If held within a fee-based account, there is no impact on the management fee you are already paying. Please contact us for more information.

Fixed Income Rates

Daily Money

NBI Cash Performer (CAD) = 1.85%

NBI Cash Performer (USD) = 1.90%

GICs

1-year = 2.30%

2-year = 2.45%

3-year = 2.50%

4-year = 2.55%

5-year = 2.61%

Rates are as of March 26, 2019 and are subject to change at any time.

Mortgage Rates

5-year fixed = 3.29%

4-year fixed = 3.24%

3-year fixed = 3.19%

5-year variable rate = Prime (3.95%) – 0.60% = 3.35%

Rates are as of March 25, 2019 and are subject to change at any time.

Taxes

1. As always, the deadline to file your tax return is April 30th so no need to panic.
2. Please contact us for realized capital gains/losses reports.
3. **IMPORTANT: T3's do not have to be mailed until the last week of March.**

Tax-Free Savings Accounts

If you have not already topped-up your TFSA for 2019, it is important to do so. The annual contribution limit is \$6000. For those that have never started a TFSA, the contribution limit is \$63,500. Please contact us for more information.

I have prepared this commentary to give you my thoughts on various investment alternatives and considerations which may be relevant to your portfolio. **This commentary reflects my opinions alone and may not reflect the views of National Bank Financial Group.** In expressing these opinions, I bring my best judgment and professional experience from the perspective of someone who surveys a broad range of investments. Therefore, this report should be viewed as a reflection of my informed opinions rather than analyses produced by the Research Department of National Bank Financial.

The securities or sectors mentioned in this letter are not suitable for all types of investors and should not be considered as recommendations. Please consult your investment advisor to verify whether this security or sector is suitable for you and to obtain complete information, including the main risk factors.



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