The Market Letter

May 24, 2019

Market Commentary

Equity markets have had a tremendous run so far in 2019. As I write this, both the TSX and S&P500 are up 13% since the start of the year. Resilient economic data (particularly in the U.S.), strong corporate earnings, a more dovish Fed, and expectations of a U.S. – China trade deal had propelled equities higher. Within the past couple of weeks however, market volatility has returned, and stocks have pulled back from their recent highs.

So, what happened? Just as a deal seemed imminent, the Chinese backed away and the US responded by raising tariffs from 10% to 25% on $200 billion worth of Chinese goods. Since then, rhetoric on both sides has ratcheted up and the U.S. has placed restrictions on American companies doing business with Chinese tech giant Huawei. Markets are now in risk-off mode as investors adjust to the possibility of a prolonged trade war. This could very well be the case. In the U.S., there is strong bi-partisan support for tougher stance on China. Even die-hard proponents of free-trade believe there are long running systemic issues that need to be resolved. The U.S. does have legitimate grievances. China has by in large built its economy around unfair trade practices: Restricting access to their markets while flooding others with cheap manufactured goods, intellectual property theft, and massive state subsidies for Chinese firms. Although a détente or easing of tensions is a real possibility, a long-term fix to these issues will likely take some time. China has enjoyed an unfair advantage for a long time and is unlikely to change its ways overnight.

Coinciding with these increased tensions is the start of the weaker six-month period of seasonality for stocks. The saying “sell in May and go away” signals the start of this six-month period. This does not however mean markets are going to crash. Economic data remains resilient and prospects of a renewed NAFTA deal have greatly improved with the removal of U.S. steel and aluminum tariffs against Canada. Trump has also delayed new tariffs on European and Japanese autos as he refocuses his efforts against China.

How should you position your portfolio? With so much uncertainty hanging over trade disputes and with market seasonality against us, I believe it prudent to take a more defensive stance. In my **Canadian Growth & Income Private Portfolio**, I recently raised the cash weighting from 10% to 15%. This portfolio remains a great choice for those investors who want a low-cost, actively managed portfolio of Canadian stocks. Since the Portfolio was launched on January 28th, it has returned +8.5% while the TSX has returned just over +5% over that same period.

For U.S. and Global exposure, the **Canoe (Fiera) Defensive Global Equity Fund** remains my top choice. The Fund dropped less than half that of the market during last year’s correction and has so far kept pace with it in 2019. The end-result has been less downside capture while participating on the upside.

For income-oriented investors who have a medium to long term investment horizon, **Contingent Income Notes (CI Notes)** provide a high level of income with a significant degree of protection on their capital:

Our current CI Note linked to the Canadian market pays 5% 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 double the return of a 5-year GIC. Although not government guaranteed, this is still a low risk proposition if held until maturity.

Referrals

My clients often ask me if it's okay to refer family and friends. I want to emphasize that this is highly encouraged! My business is built on word of mouth and I am always happy to sit down with a prospective client to discuss my process. If you feel it is appropriate, please feel free to pass along my contact 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 = 2.70%

Rates are as of May 24, 2019 and are subject to change at any time.

Mortgage Rates

5-year fixed = 3.06%
4-year fixed = 3.01%
3-year fixed = 2.96%

5-year variable rate = Prime (3.95%) – 0.77% = 3.18%

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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.

NATIONAL BANK FINANCIAL WEALTH MANAGEMENT

Stockdill WEALTH MANAGEMENT

Compliments of Stockdill Wealth Management
National Bank Financial
Suite 700, 737 Yates St, Victoria BC, V8W 1L6

Ian Stockdill, Portfolio Manager
250 953-8461
ian.stockdill@nbc.ca

Jamie Reinisch, Associate
250 953-8401
jamie.reinisch@nbc.ca

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CIPF
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MEMBER