NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

The Market Letter

September 9, 2019

Market Commentary

Back to school, back to volatility! After making steady progress in June and July, markets whipsawed back and forth in August. An intensifying U.S. – China trade war, slowing global economy, and geopolitical upheaval in Hong Kong and elsewhere had investors on edge. Coupled with daily media reports of inverted yield curves and an impeding recession, it's been easy to feel discouraged.

Despite these headwinds and the constant media barrage, economic numbers, particularly in Canada, have remained remarkably resilient. Yes, an inverted yield curve, when long-term debt has a lower yield than short-term debt, is often a good predictor of a recession. However, this is not necessarily cause for panic as the S&P500 rises about 15% on average in the 18 months following a yield curve inversion.

Much of what we are facing is down to political decisions. The trade war with China is having an impact and will not likely be solved quickly. China has built its economy around unfair trade practices – Restricting market access, forced technology transfers, and the outright theft of intellectual property. These are real grievances that must be addressed over time. However, with a U.S. election next year, Trump may be eager to reach some sort of trade détente with China in the near term.

With everything going on, how should one approach their portfolio? A recession is inevitable at some point, but this does not necessarily mean total doom for the markets:

Recession		S&P/TSX Total Return			
Start	**End**	12 months prior	during recession	12 months after	Full Period*
Dec-07	May-09	10%	-22%	17%	1%
Mar-01	Oct-01	-19%	-9%	-8%	-31%
Jul-90	Feb-91	-7%	-1%	7%	-1%
Jul-81	Oct-82	7%	-16%	38%	23%
Jan-80	Jun-80	56%	4%	19%	93%
Nov-73	Feb-75	2%	-10%	12%	3%
Dec-69	Oct-70	-1%	-11%	3%	-9%
Apr-60	Jan-61	-8%	18%	22%	32%
	average -->	**5%**	**-6%**	**14%**	**14%**

CIO Office (Data via Refinitiv). Recession dates are from the NBER.
*Full Period = From 12 months before to 12 months after a recession.

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The TSX has averaged a total return of 14% for the full period of all recessions going back to 1960. History serves as a great guide for putting things into perspective and shows that trying to time the markets is a very poor investment strategy.

Also, ignore the media noise. Media companies are there to sell newspapers and they love to sensationalize downward moves in the stock market. Headlines that say, “Dow plummets on recessions fears” are a lot sexier than “Markets recover – fears are overblown”.

Human psychology is also working against us. We are wired to feel a loss more acutely than a gain of a similar magnitude. Therefore, we allow negative market moves or memories of past corrections to overly influence us. Being aware of these behavioral biases can help keep us from making poor investment decisions.

Panicking when markets are volatile and rushing into cash is a great way to destroy long-term returns. ***Instead, make investment decisions based on fact and stick with an asset allocation strategy that fits your tolerance for risk. Avoid excessive leverage and stick with high quality companies.***

For Canadian equity exposure, I recommend our **Growth & Income Private Portfolio (Basket)**. This is a basket of 15 high-quality Canadian companies with a focus on defensive utility stocks with growing dividends. The acronym TINA (There Is No Alternative) means when interest rates are ultra low, stable companies with juicy dividends become relatively more attractive. For example, ***Brookfield Infrastructure*** is the largest holding in the Basket. They own high quality assets such as electricity transmission, toll highways, railways, and telecommunications infrastructure all over the world. When some 10-year government bonds in Europe have negative yields, an over 4% yield from Brookfield backed by strong assets looks very attractive! ***Since we launched the Basket on January 28th, the total return has been 10% and the current dividend yield on the whole portfolio is just over 4%.***

For exposure outside of Canada, we continue to favour the **Canoe (Fiera) Global Defensive Equity Fund**. Canoe uses an active hedging program that helps dampen price movements when market volatility increases to the downside. This helps preserve capital in periods when markets are challenging and allows for outsized returns over the long term. ***In 2018, Canoe returned +6% to investors while both Canadian and U.S. equity markets were down significantly. So far in 2019, Canoe has returned +14%.***

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 4.35% per year over 7 years and your principle is guaranteed by National Bank at maturity if the TSX60 is not down more than -40% over the 7 years.

This is nearly 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) = 1.65%

GICs
1-year = 2.20%
2-year = 2.25%
3-year = 2.25%
4-year = 2.30%
5-year = 2.35%

Rates are as of September 9, 2019 and are subject to change at any time.

Mortgage Rates

5-year fixed = 2.68%
4-year fixed = 2.72%
3-year fixed = 2.73%

5-year variable rate = Prime (3.95%) – 0.90% = 3.05%

Rates are as of September 9, 2019 and are subject to change at any time.

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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