Are we in a larger corrective cycle?

In an attempt, to try to answer this question lets set the backdrop of what the world is dealing with right now. In the media, there are a few secrets. Consider the following headline themes that are influencing daily activity right now; Protest in Hong Kong, Trump Theater, Trade Friction, Currency Devaluations, Earnings Misses, DEBT Levels, the band could play on and on regarding global issues. Suffice it to say these are real issues and could further slowdown the economic machine.

More importantly, earnings are being manipulated by the inter web of things and media. Consider that our last seasonal earnings reports were lukewarm. Earnings came in better than expectations. I highlighted expectations because beating on lowered expectations is not necessarily a beat? Consider the chart below that shows the mean and smart estimate of earnings per share for the S&P 500. What is clear is that since December of 2018 earnings expectations have been moving lower. As shown, the market has moved higher and earnings are moving lower? Usually, these disconnects do not last too long; either earnings move up or the market moves down.

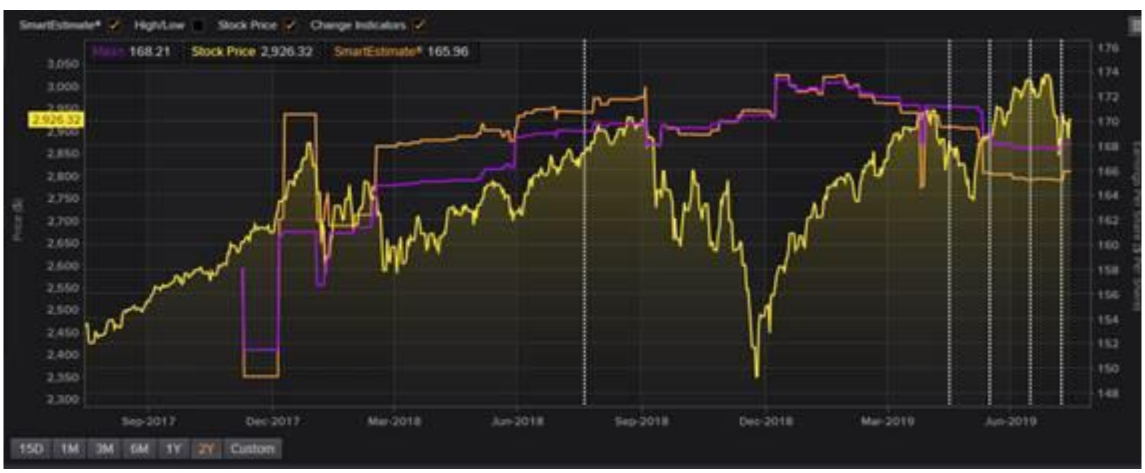

Chart Source: Thompson Eikon

Can Trump tweet his way out of this one?

There has been a lot of pressure from Trump squawking about the FED and suggesting, in the not so nicest way, that they should be lowering interest rates. Historically when rates moved lower, the market applauded this action and moved higher. However, this was in the face of a reasonable growth environment. Today the reality may be a bit different. Are we in a reasonable growth environment? Earnings, as expressed above, suggest we are not. In his recent move from Trump of blinking or backing away from more Chinese tariffs, it appears he is trying to save Christmas as the media and tweets suggest? The reality is that the storm that has now been caused is larger than Trump and I suspect there is little he can do…

It wasn't raining when Noah built the ark….

More recently we have been more conservative with maintaining a generally higher cash position than normal and have upgraded where we can to core longer-term dividend yield positions. One fear gage we look at closely has become escalated, this should be obvious to anyone reading market headlines. One day the DOW is up 400 points the next day it is down 400 points.

YES

It remains our posture that this is currently a corrective cycle. Central banks are lowering rates with a couple of nations now at negative rates again. Other central banks will follow. We are asking ourselves the question, is this another 2008 type of outcome? Currently, we do not think so, but we remain watchful for more cracks or positive outcomes. There are green shoots of optimism where today (August 14th, 2019) Walmart has articulated a more positive outlook. However, perhaps it is just the Macy's shoppers that are now going to Walmart? Macy's is still selling lots of goods $5.5 billion worth, but the earnings are nearly half of what they were. Flashing Blue Light special in aisle 4. Basically, they are discounting more of their products.

This is happening NOW

If you have seen any headlines at all you know that this has been a tough period. This month has been particularly difficult as the S&P 500 is down about 5% so far this month. We cannot read the future, but the noise articulated above continues to be part of the challenge. In this view below we can see that the major index of the S&P 500 has done little in the past 12 months.

Chart Source: Thompson Eikon

We are settling in and will provide more detail as we go forward.

Thank you for reading and enjoy the remainder of the summer.

Market Summary

For a summary of key market performances, currencies and interest rates, we invite you to read our daily commentaries. Clear and concise, they will keep you informed of the latest economic and financial news that can influence the value of your investments, and serve as a guide for your discussions with your advisor.

Click here to consult the Daily Market Review.

WEEKLY ECONOMIC WATCH

The Economic Weekly is an excellent and simple way to stay abreast of a series of important economic and financial indicators affecting the North American, provincial and global backdrops. It offers an analysis on a current economic or financial topic, together with a brief commentary on developments in the economic environment as depicted by economic indicators released during the week.

Click here to consult the Weekly Economic Watch.

Click here to access your online account and tax statements.

Click here to learn more about the team.

Click here to contact us.

John Wiman
Portfolio Manager
Investment Advisor
T: 418-869-7125
John.wiman@nbc.ca

Jason Wong
Portfolio Manager
Investment Advisor
T : 416-869-7142
Jason.wong@nbc.ca

Darlene Lanigan
Investment Associate
T: 416-869-7445
Darlene.lanigan@nbc.ca