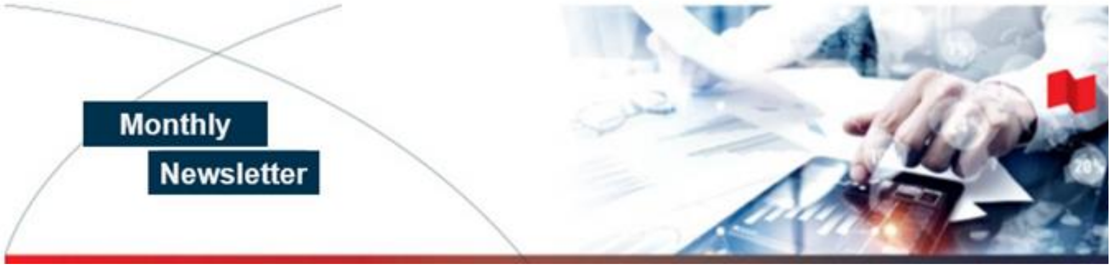


January 2020

The Start of 2020

Happy New Year – or is it? Maybe this should be termed the Great Melt Up!

2020 started with escalations in the Middle East that are going to take some time to resolve. Washington foreign policy advisors are likely working overtime planning for the next moves and potential outcomes. The initial reactions from the markets have been somewhat dismissive but the detail in the data continues to evolve.

Does this have meaning for our markets? Historically, from an economic perspective, conflicts have been good for capital markets. But in what way? War of any kind is costly and therefore, spending and productivity must increase even for a country that may already be running at or near full capacity.

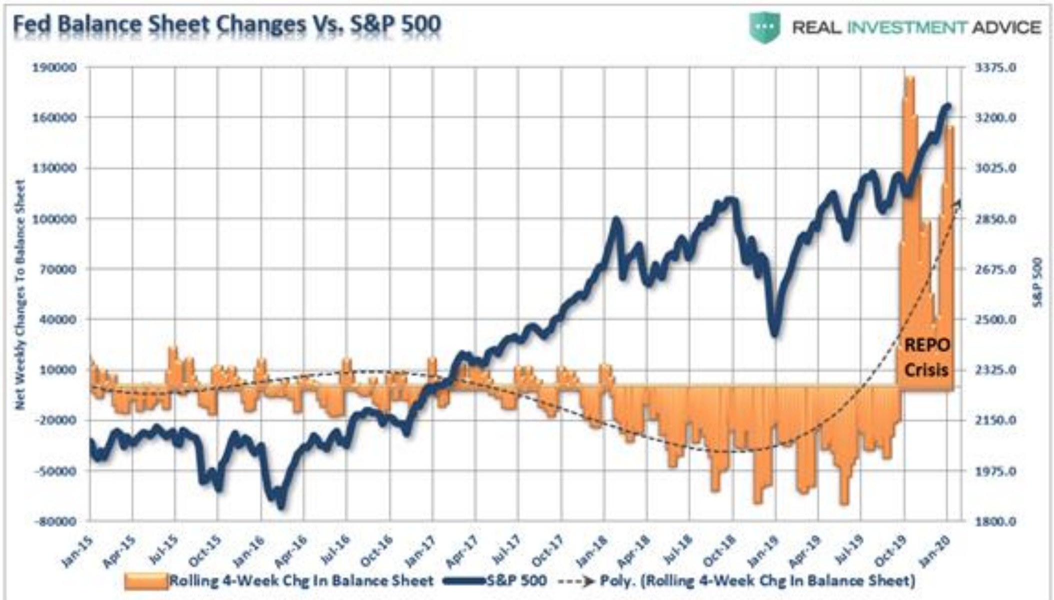
From a forecast perspective, Bloomberg put together a list of everyone on everything forecast. It is a long read and touches every base. The link is [here]() if you're interested in reading the article.

The simplest and most difficult place to start is with the FED. There is no arguing that we are in another period of quantitative easing. Well, some could argue, I guess. The bottom line is that the last 12 months in the markets can be attributed to the FED actions. The long-term saying "Don't fight the FED" showed up in full-colour last year. This had specifically US markets and Technology assets posting outsized returns. Will this continue?

Last year there was some chatter about the REPO market and overnight funding. It appears that funding has continued throughout 2019 and is still in place today. The chart below outlines the funding:

Source: Real Investment Advice

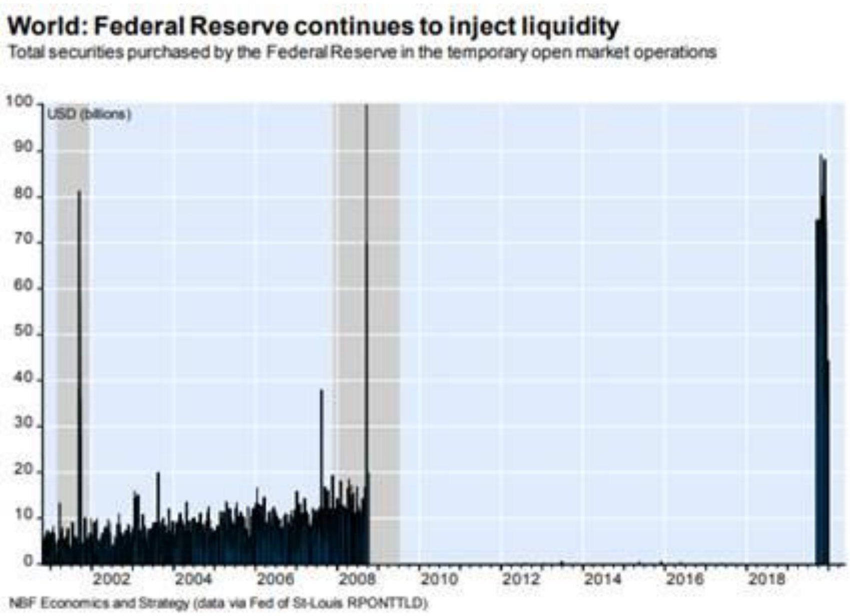
To look at it another way the FED was deleveraging the balance sheet and then suddenly something happened:



Source: Real Investment Advice

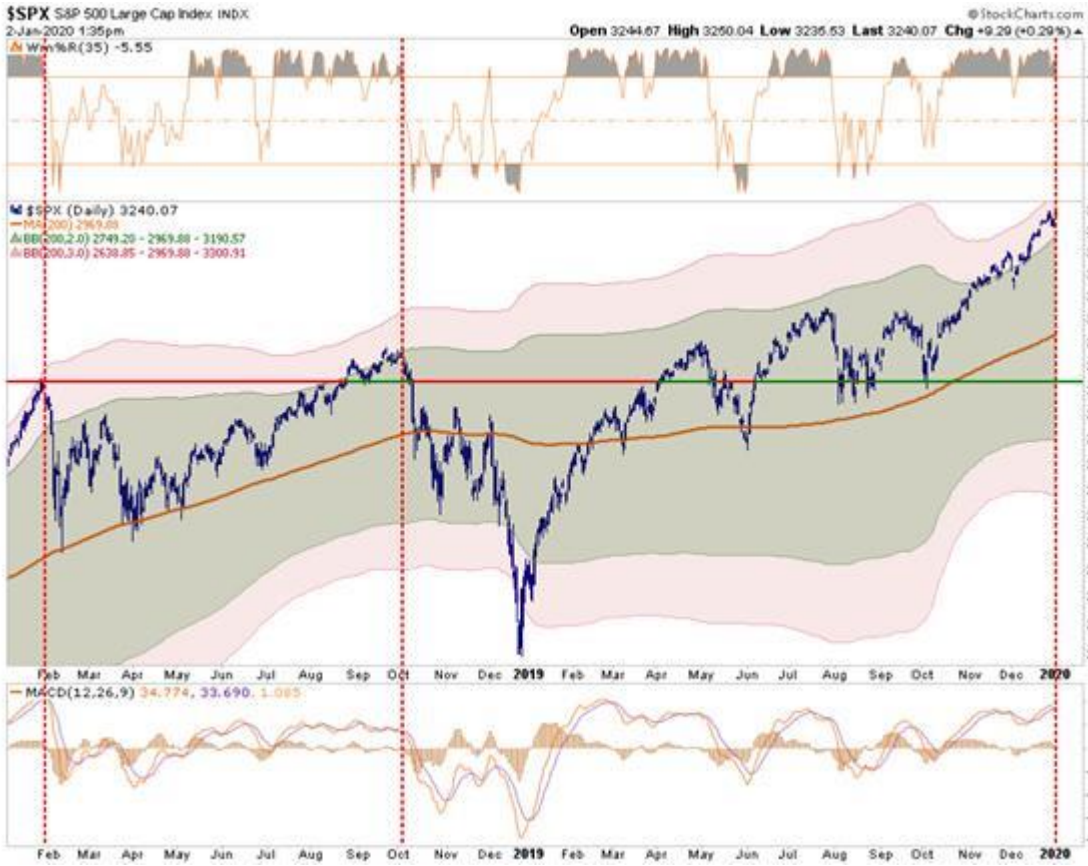
This support from the FED has propelled the markets higher. But at what cost?

The chart below struck us as somewhat more concerning when compared to a longer historical timeline. The escalated liquidity as compared to 2008 seems to be more critical. It makes us ask the question, what is really happening behind the curtain that we don't know about?



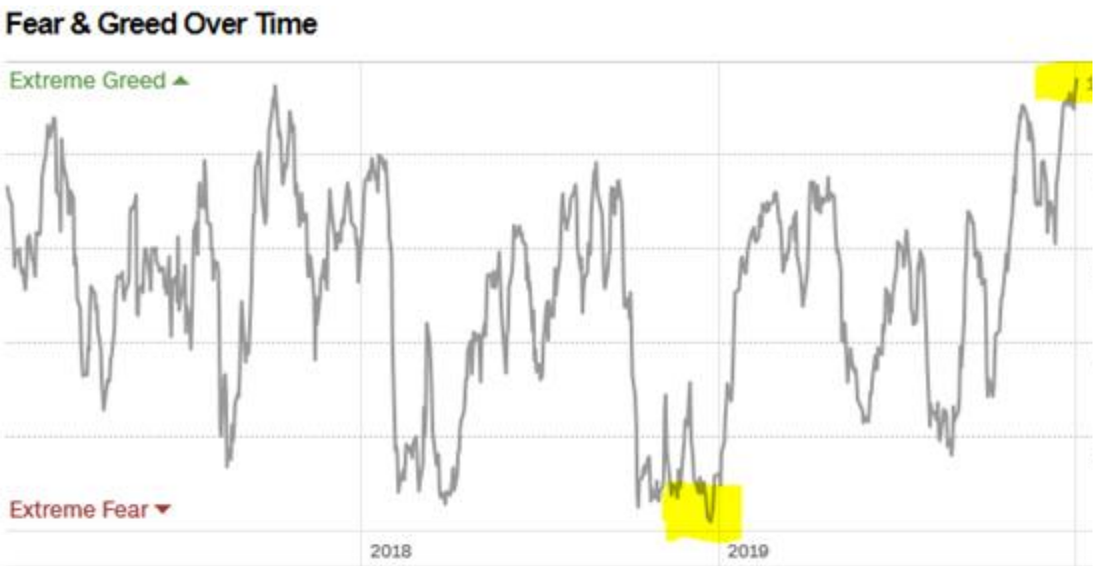
The market is trading 3 standard deviations above the 50-day moving average. The question remains: is this sustainable? The answer is typically no... But I guess if we put enough money in the system we can move higher for longer?

The chart below illustrates this excess valuation:



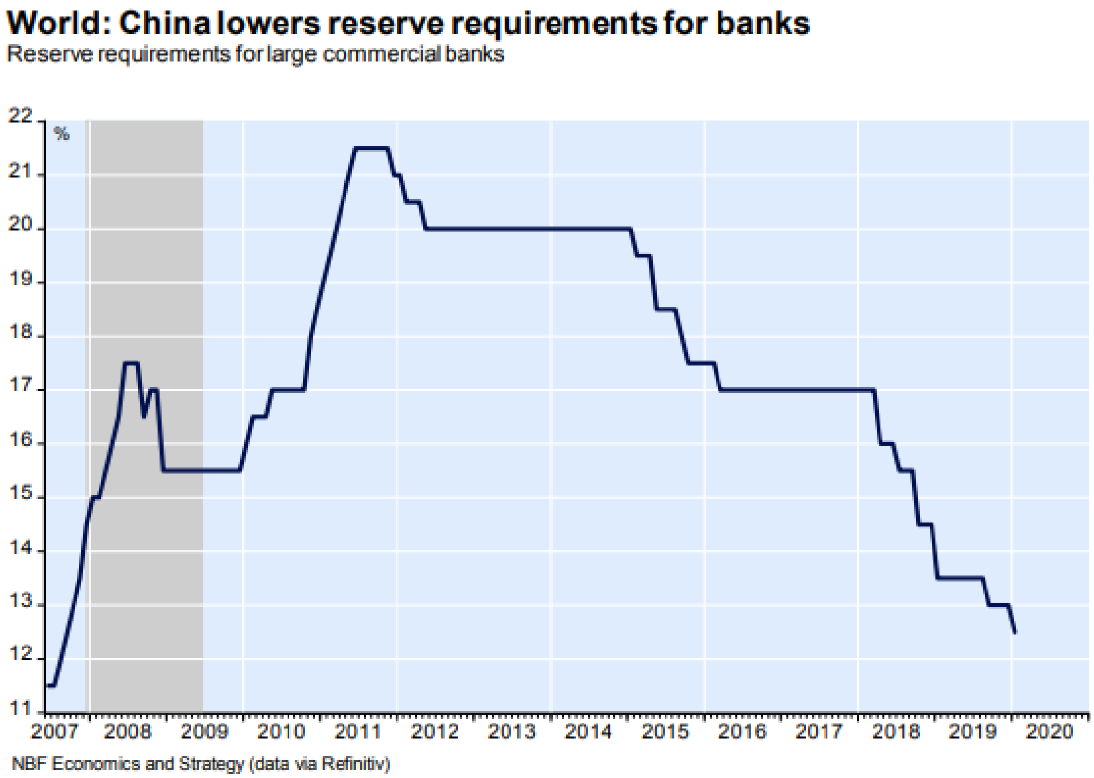
Source: Stock Charts

We look at a lot of data from many different sources and one that stuck out was the CNN Fear and Greed Index. Perception is sometimes reality in the investment world and our world at large. This illustration is a good reflection of where we might be in the cycle. The attitude has become greedy!



Source: CNN

What is China up to? It appears that China has also been feeding the ducks. The activity of lowering reserve requirements gives support for lower rates and more stimulus. Note the comparison to 2008. Reserve requirements are well below the 15.5% level established to help the economy back then. It appears there may be more room to lower them. At some point, something has got to give?



Final Thoughts

The market is trading at about 18 times forward expected earnings. Historically, this is a high level. Multiple expansion can continue, and we may trade at 20 or 22 times forward expectations. We have written before that trees do not grow to the sky forever and today this remains true. 2020 is the start of a new decade and an election year in the US. There will remain a lot of noise in the system for some time to come and we will continue to pick our way through it. How high the melt is remains in the hands of the FED.

Happy New Year and all the best for 2020!

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

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