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MARKET OBSERVATIONS SPRING 2019

A year ago, economic activity was accelerating in almost all regions of the world. One year later, much has changed. The escalation of US–China trade tensions, needed credit tightening in China, disruptions to the auto sector in Germany, and financial tightening alongside the normalization of monetary policy in the larger advanced economies have all contributed to a significantly weakened global expansion, especially in the second half of 2018.

US-China Trade talks:

US President Donald Trump said recently that the United States and China are "rounding the turn" in a lengthy negotiation over trade and predicted that "something monumental" and great for both countries could be announced in a matter of weeks.

"We are rounding the turn. We'll see what happens," Trump said during an Oval Office appearance with both countries' negotiating teams. "We have a ways to go but not very far," he added.

Vice Premier Liu He, China's top trade negotiator, agreed, telling Trump that "because of your direct involvement, we do have great progress".

China and the US are working to end a standoff that has shaken financial markets and darkened the outlook for the world economy.

Washington wants sweeping changes to China's economic and trade policies, while Beijing wants Trump to lift expensive sanctions on Chinese goods.

US and Chinese negotiators on Wednesday began their ninth round of talks to resolve the dispute over US allegations that Beijing is using destructive tactics, including cyber-theft, in a campaign to challenge US technological dominance. China has denied the allegations.

Trump has slapped tariffs on $250bn in Chinese products. In retaliation, China has targeted $110bn in US imports.

Once an agreement is negotiated it will create a positive reaction in the global markets.

Brexit in detail:

EU (European Union) leaders have agreed a short extension to Brexit until October 31 at the latest, in order to give the British parliament time to agree a deal. This date avoids the UK still being a member when the next EU budget cycle starts.

The withdrawal agreement, which provides the legal framework for the UK’s exit from the European Union, includes arrangements to determine its financial settlement with the EU.

The final payment figures are yet to be determined, both because of uncertainties over future developments – including of course the date when the UK actually leaves the EU – and also because the bill is to be settled in euros and therefore depends on the future exchange rate between the pound and the euro.

Under the financial settlement, the UK will continue to participate in the EU's budgets over 2019 and 2020, which takes us up to the end of the current EU budget cycle. This can be seen as the UK simply honouring the commitments it made as an EU member state at the start of the current EU budget round, and continuing to receive agreed funds through payments from the Common Agricultural Policy, structural funds and other EU programmes.

A key factor is that the UK should not pay more than it would have done as an EU member, nor should it be expected to make any payments earlier than it would have been required to do as a member. The UK's net payments include its long-negotiated budget rebate. The UK is the third-largest contributor to the EU budget in total. It is a net contributor to the EU budget payments, when the funds the UK receives back are taken into account, although it is only sixth in terms of net payments relative to its GDP.

The key uncertainties over the future payments arise from future possibilities and the final settlement of accounts with the EU. A key principle is that of the UK not making payments any sooner than it would have done as a member. Under the final settlement, the UK continues to be liable for spending commitments undertaken during the current EU budget round while it has still been a member – although it will also receive back its share of assets including capital in the European Investment Bank. The largest item in the outstanding liabilities is for EU staff pensions and other benefits. EU staff pension commitments are unfunded, meaning the EU has not set aside providing for these future payments, as it operates on a "pay as you go" system. This means there is uncertainty over the size of future EU pension liabilities and therefore the UK's future commitments to paying them.

It is estimated the total payments will be around 35-39 billion pounds. Payments from the UK to the EU will continue for many years into the future (up to the 2060).

The next multi-annual financial framework for the EU budget is scheduled for 2021-27. Should the withdrawal agreement eventually be agreed by parliament, a short extension of Brexit beyond October 31 would not lead to large changes in the financial settlement, but a longer extension into 2020 could potentially lead to greater commitments if the UK remains a member into the next budgetary period.

Canadian Economy:

Canada recorded smaller trade deficits than expected in the first two months of 2019 on a rally in oil prices, but figures released Wednesday show the nation's exporters are still struggling.

The nation posted a smaller-than-expected $2.9 billion deficit in February, and Statistics Canada revised down its initial deficit forecast for January by $1 billion. Yet, the improved trade balance reflected stronger crude prices and masked what seems to be a deteriorating outlook in just about every other sector.

The stagnant trade performance will need to change if the nation's economy is to emerge from its current soft patch. Exports in the non-energy sector fell 4 per cent in February and dropped to the lowest level in 12 months. In volume terms, the drop was even larger at 4.5 per cent.

Total exports are still down more than 6 per cent from record highs last July, and the slump is one of the main reasons why Canada’s economy has practically stalled over the past six months. Even

with the smaller than expected deficits in January and February, the nation’s trade gap is hovering near historic highs.

All of this is beginning to undermine business sentiment, hampering investment and threatening to spill over into other parts of the economy. Earlier this week, the Bank of Canada warned the recent economic slowdown and global trade tensions were beginning to hamper confidence. This could have a negative impact on the Canadian Dollar as well as the Canadian stock market.

LAST THOUGHTS:

I recently read in our Raymond James Morning Tack letter (written daily by Jeffrey Saut) the following “2019 Principals for Successful Long-Term Investing."

1. Plan on living for a long time and save more for it.
2. Cash is not always king, even when, like now, a lot of people are relying on it.
3. Harness the power of dividends and compounding. Investing in risk assets – and reinvesting dividends – can be powerful moves.
4. Avoid emotional biases by sticking to a plan. Don’t let biases – home-country or otherwise – sway your better judgment.
5. Volatility is normal; don’t let it derail you. See through the noise.
6. Diversification works. Time and again, diversification serves its purpose.
7. Staying invested matters. It’s always darkest before the dawn.

The principals listed above are in line with my philosophy when it comes to investing and have discussed over the years with clients. We have recently been rebalancing portfolios back to their original allocations so that accounts are truly diversified.

As I review portfolios along with Karen (my associate) we will be in touch with respective clients if any rebalancing is necessary.

Should you have any questions regarding your portfolios or inquiries, or comments please do not hesitate to contact our team.

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