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# MARKET OBSERVATIONS JANUARY 2019

Financial markets went into correction territory in recent months because of concerns of economic weakness in the U.S. and China; policy makers fear that a trade truce between both countries may not hold. Political issues also contributing to market volatility is the continuing Brexit negotiations and the U.S. government shutdown.

## China Concerns:

The chief concern is that Chinese officials are unable to strengthen their economy, the second biggest worldwide and responsible for about a third of global growth. Data indicates that 2018 was the slowest expansion since 1990 as the government tries to rely less on investment and debt while isolating demand threatened by the trade war.

## Implications of the US government shutdown:

As the shutdown of much of the US government continues (as of this writing), there is growing concern about the potential negative economic consequences. About 800,000 federal workers are not getting paid, a fact that will have an increasingly unsettling impact on consumer spending and mortgage delinquencies. However, this is only part of the problem. The federal government employs many outside contractors. Many contractors are small businesses that are becoming financially stressed as a result of the shutdown. The chief economist for the White House, Kevin Hassett, said that the impact of this will turn out to be greater than previously thought. He said that the shutdown will reduce economic growth by a tenth of a percentage point each week that it continues.

Meanwhile, the president of the New York Federal Reserve Bank, John Williams, concurred that the shutdown of the federal government will have a negative impact on US economic growth. He said that depending on how long the shutdown lasts, it could cut annualized growth in the first quarter by between 0.5 and 1.0 percentage point. Past shutdowns were not especially important, but this one might be different because of how long it is lasting and how much uncertainty and doubt there is about the duration of the shutdown. Many government agencies that are involved in the processing of private sector paperwork are unable to fulfil their duties in a timely manner. In addition, the Internal Revenue Service may be delayed in sending out tax rebates. And, of course, the government produces considerable data on economic activity. Without this data, the investment and business communities will lack the information that they often use to make key decisions. At the least, this will create the kind of uncertainty that is likely to boost market volatility. All these factors could hurt consumer spending, increase consumer delinquencies, and create uncertainty for businesses that rely on government contracts.

This current shutdown is showing no signs of coming to an end. The president says that he will not agree to reopen the government until Congress funds a wall on the southern border. He is under intense pressure from like-minded advisors not to compromise with the Democrats in the House who firmly oppose a border wall. It is possible that this stalemate will not end until enough Republican members of Congress break with the president due to pressure from their own citizens.

## Canadian Economy:

Canada continues to exhibit all the characteristics of an economy in the mature phase of the growth cycle. Employment growth remains healthy, with the unemployment rate at a historic low. Meanwhile, the rate of expansion has weakened recently to a pace more consistent with normal levels, expanding by 2.0%.

The structure of growth in Canada continues to gradually drift away from interest-sensitive household spending considering high indebtedness and rising borrowing costs. Business investment outside of the energy sector is expected to help fill the gap, supported by elevated capacity utilization rates and strong investment intentions.

Within the energy sector, the breakdown of Canadian heavy oil prices and the resulting decision to curtail production by the Albertan government will drag near-term energy investment and exports.

Although recent pricing improvements from those decisions have already helped to ease income shocks, there will still be negative implications for real economic output in both Canada and Alberta.

## LAST THOUGHTS:

What exactly does this mean for our markets today and going forward? Overall, the global economic growth trend continues to remain positive, but growth will be stunted because of geopolitical issues.

The recent market volatility, it gave investors a good yardstick to see where their risk tolerance lies. Clients who have been through market corrections in the past were calm during the storm and understand that this is a normal market environment and remained focused on their long-term investment objectives. Others, who have recently started to build their investment portfolios were more uncomfortable about the decline in their accounts (which is understandable). I continue to reassure both seasoned clients and new clients that portfolios do have good, high-quality investments and will return to normal levels once market volatility subsides.

During volatile times it allows me the opportunity to re-examine current investment products and quickly rebalance accounts accordingly. As I review portfolios and their performances daily, Karen (my associate) or I 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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