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MARKET OBSERVATIONS FALL 2018

The 2008 market collapse began 10 years ago with the Lehman Brothers' bankruptcy on Sept. 15, 2008. Its severe effects touched everyone, including nations, banks large and small, huge corporations and the smallest businesses. Some — like Lehman — didn't recover at all, and many are still playing catch-up.

We are grateful for the long and sustained recovery, which began in June 2009 and has lasted over nine years — one of the longest recoveries in recorded history — and has allowed many to stabilize their finances and businesses.

US Economy:

National unemployment is historically low at 3.9 percent. Real wages are finally starting to increase. The very real gender pay gap is slowly improving. The unemployment gap for minorities is also narrowing. In good news for savers and bond investors, the 10-year Treasury yields are over 3 percent, and interest rates on savings are edging back to normal as the Fed raises interest rates and pulls back on stimulus.

The U.S. economy advanced a huge 4.2 percent (annualized) in the second quarter of 2018.

Jobs (non-farm) grew in August by 201,000 jobs, consistent with the rolling 12-month average of 196,000 per month, according to the U.S. Bureau of Labor Statistics.

Consumer Confidence is at its highest point since October 2000. That's a lot of good news for the average investor.

There are cautions for us. Inflation has reared its head, but rising interest rates will hopefully keep it in check.

As to the effects of the 2017 Trump tax cuts, Bloomberg reports "the true impact of the tax reform probably won't be known for years. But give credit where credit is due: In terms of bringing money back home, the new tax law is proving some of its critics wrong."

It remains to be seen how much of their newly available cash companies will invest in the U.S. through expanding jobs, increasing wages and spending on research and capital investment. It has given families a slightly to significantly higher take-home pay.

The dark side to the 2017 tax cuts is that they sharply reduce federal government revenue and thus balloon the annual budget deficit, adding to the ridiculously high national debt.

Of course, the other imponderable is the effect of the Trump tariffs. Conventional wisdom holds that tariffs are political plays to a country's economically disadvantaged and are self-defeating. Still, the U.S. has given the irresponsibly opportunistic Chinese a free ride, as tariffs have forced U.S. companies to share their technologies to do business in China and have been stingy in allowing U.S. companies to import products for the huge Chinese business and consumer markets.

Canadian Economy:

When it comes to economic developments, Canada has been thrown several curve balls over the past decade: the financial crisis; lower commodity prices; and now, trade tensions. It was only a little over a year ago that change to lower oil prices was sufficiently behind us that the Bank of Canada began withdrawing the monetary stimulus put in place in 2015. Since then interest rates have increased four times to the current 1 1/2 per cent. During this period, overall Canadian economic performance has been solid and broad-based. Growth has been running close to potential, the rate at which the economy can grow on a sustained basis without sparking too much inflation. And core inflation measures are now around 2 per cent.

The global economy is performing largely as expected, and that is a good thing because it will support growth here at home. The US has seen particularly strong demand, driven by household and business spending.

The most recent data for Canada indicates that growth should average near potential over the next couple of years.

The GDP data recently released by Statistics Canada shows that the growth rate is where it should be at this time; the economy grew at an annual pace of 2.9 per cent between April and June, twice the pace seen earlier this year. Growth was fuelled by consumption and exports and, to a lesser extent, business investment and government spending. The data supports the view that the shift in demand toward exports and investment is continuing. Healthy growth in consumption and home renovations also indicates that households are generally adjusting well to higher interest rates.

A wide range of sectors are contributing to these developments. The resource sector continues to expand after a few tough years. The services sector is also growing in many high value-added areas.

GDP growth is expected to be volatile for the rest of 2018, but to still average around 2 per cent. Temporary factors that pushed up exports in the second quarter are expected to slow down, and there have been some outages in the oil sector. Those factors will likely weigh on growth in the third quarter, but do not point to weaker underlying momentum.

The housing market and household debt, are responding to a wide range of policy changes. These include the tighter guidelines for mortgage financing that came into effect in January, some provincial measures to target specific housing markets and, of course, higher interest rates over the past year.

Resale activity in the housing market slow markedly at the beginning of 2018, particularly in the greater Toronto and Vancouver areas. This shift was improved by the fact that many households had rushed to secure their financing and complete transactions ahead of the new rules coming into effect. Recent data shows that in Toronto resales are rebounding and prices are stabilizing too,

although in Vancouver activity and price growth remain subdued. Therefore, on a national basis, sales and prices appear to be stabilizing.

Growth in household credit has slowed, and the household debt-to-income ratio is edging lower. We see an improvement in the quality of new uninsured mortgages, resulting in a smaller proportion of these households becoming highly indebted. These are early positive signs.

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NAFTA:

Just hours before a midnight deadline, U.S. and Canadian officials reached a deal to revamp NAFTA, which also includes Mexico, after more than a year of intense negotiations.

Until recently, Canada appeared to be on the brink of being excluded from a final agreement but negotiations over the weekend eventually culminated in all three countries signing up to the new United States-Mexico-Canada (USMCA) accord.

As the smoke of heated NAFTA talks clears, here's a look at what will be included in a trade deal between the three countries — and what that could mean for Canadians.

THE AUTO SECTOR

After U.S. President Donald Trump threw threat after threat at Canada's auto industry, peace has been tentatively achieved. Canada seems to have escaped the president's favourite sledgehammer — which would slap 20 to 25 per cent duties on cars and auto parts imported into the U.S. Trump has agreed that no hard limit will be placed on Canadian auto exports to the U.S., though if the U.S. moves forward with the imposition of worldwide 232 tariffs on autos, those would also apply to Canada.

However, what Ottawa has negotiated is effectively an exemption, because it would still be able to export cars and parts tariff-free up to a certain amount well above what Canada currently sends south of the border.

Canada exported $71 billion in cars and vehicle parts to the U.S. last year, according to the United States Trade Representative. Ontario would be hardest hit by corrective measures, as the majority of Canada's 120,000 auto jobs are in Ontario.

DIARY INDUSTRY

Access to Canada's dairy market irritated Trump even before NAFTA renegotiations began, as the U.S. has long dealt with chronic overproduction of milk products. The new deal would give American farmers greater access to Canada's dairy industry, worth about 3.6 per cent of Canada's current dairy market, according to the Dairy Farmers of Canada. The U.S. had negotiated access worth about 3.25 per cent of Canada's market in the Trans-Pacific Partnership, but then withdrew, leaving that share of Canada's market now available to dairy products from the countries that remain in the agreement, like New Zealand and Australia.

NATIONAL SECURITY

National security was the catalyst of the all-out tariff battle this summer, and it looks like that could continue.

Canada was scrambling to secure an exemption from steel and aluminum tariffs, but it became clear the Trump administration wasn't budging easily. No agreement has been reached at this point. This will be negotiated in separate deal.

During the summer, Trump's announcement that Canada would be subject to tariffs on steel and aluminum drew gasps from the halls of Parliament Hill. Canada quickly punched back with equal $16.6 billion-dollar counter tariffs on an excess of carefully chosen U.S. products, including bourbon, household appliances, playing cards and sailboats.

Foreign Affairs Minister Chrystia Freeland repeatedly said the tariffs were "illegal," but Trump remained unfazed. So much so that a former senior economist with the Bush administration said it indicated the president was seeing how far Canada could be pushed.

CULTURAL EXEMPTIONS

Unchanged from the original version of NAFTA, cultural exemptions will remain in the new deal.

This particular segment became a Canadian must-have, Trudeau argued, because otherwise it could enable American companies to buy Canadian newspapers or TV stations.

Groups representing Canadian artists and others who make their living producing Canadian content were quick to man the barricades — particularly in Quebec, where French-language cultural programming is seen as a barricade protecting the province's unique identity in North America.

LAST THOUGHTS:

Overall, the global economic growth trend continues to remain positive for at least another 12 months. Recently portfolio managers have been shifting portfolios to more international holdings for growth opportunities and while the US growth momentum has peaked there is still valuable prospects in this country. Canada remains the least desirable position in the portfolios because of its heavy exposure to oil & gas as well as banks which have not been performing as well as expected.

Bonds continue to be bearish but recently more inflows have been going into this position as a result of the market volatility. I believe they continue to be a valuable position in portfolios because of their downside protection.

I continue to research the best possible investments for clients by attending conferences, reading as much as possible thru reliable newsfeeds and participating in webcasts with portfolio managers. The main takeaway I recently learned is that clients should expect to see returns between 4% to 6% if they are in a growth portfolio, less if they have a conservative portfolio. As I review portfolios and their performances on a daily basis, I or Karen (my new associate) will be in touch with respective clients if any rebalancing is necessary.

THANK YOU!

I would like to thank clients for continually referring my team to their family, friends and collegues. I consider this the highest form of flattery that a client can give my team. We will continue to provide the best possible service to you, your family and friends.

Recently we added Karen Gibb to the team because Loretta and I felt that in order to keep up with providing quality service we needed the help of a seasoned advisor. She has been a great addition to the team and I look forward to providing even more initiatives to offer our clients.

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

Isabel Oliveira is a Financial Advisor with Raymond James Ltd. The views of the author do not necessarily reflect those of Raymond James. This is for information only. Securities-related products and services are offered through Raymond James Ltd., Member-Canadian Investor Protection Fund. Insurance products and services are offered through Raymond James Financial Planning Ltd., which is not a Member-Canadian Investor Protection Fund.

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