QUARTERLY COMMENTARY

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Spring Revival

It's been a long winter but spring has finally sprung! And thankfully so has the stock market - the bounce back in equity markets in the first quarter was mighty impressive. After the worst December since 1931, the first quarter of 2019 was one of the strongest quarters for equity markets in recent history. The Canadian benchmark S&P/TSX composite index posted a robust quarterly gain of 13.3%. Although most sectors added value, Canada's resource-heavy market was particularly buoyed by higher oil prices, while the industrials, information technology and health care sectors also performed well. The North American markets are almost back to the all-time highs recorded in late September and other markets around the world are catching up.

Equity markets were lifted by the prospect of easier monetary policy when economic data indicated a growing slack in the global economy. The two protagonists responsible for deflating the global growth story have suspended or reversed their actions to normalize policy. After moving to raise interest rates several times in 2018, the U.S. Federal Reserve left rates unchanged and put further increases for 2019 on hold. In China the green light was given for renewed infrastructure spending in 2019, personal and corporate tax cuts, consumption tax reductions, and directives from the central government to commercial banks to lend to small- and medium-sized private companies.

Looking back over the last few years, it's evident that periods of reflationary economic strength came from expansionary fiscal policy. China stimulated in 2015 and 2016, which led to the global rebound in 2016-17. America cut corporate taxes, which drove U.S. economic strength through much of 2018. But once the effects of those measures dissipated, global growth slowed so new stimulus was necessary. For a really big catchup to occur internationally, investors would need to see signs that political risks have eased and business conditions are improving enough to rebuild confidence and set the stage for faster earnings growth in Asia Pacific and Europe. The primary difficulty in Europe of course is the interminable Brexit affair which looks to drag on until much later in the year now.

So now that we are reaching possibly new heights in the stock markets, how do we manage our investment portfolios going forward? The key factor to watch when putting money to work is corporate earnings – ultimately growing earnings is what moves stocks higher. On the whole, companies are reporting better than expected profits – more than 75% of the companies in the S&P 500 that have reported have topped analyst expectations. That together with the recent very strong employment reports bode well for the markets maintaining this momentum. Also, it seems to me that the markets are building in an expected positive outcome to the trade talks between the US and China. The rhetoric has been positive – they're close to an historic agreement and China is playing ball, making important concessions. Any deterioration in tone from the U.S. or Chinese administrations though would leave markets vulnerable to a reversal. I believe that an agreement will be reached, but if the result is not as positive as the markets expect then a sell off is possible.

Markets are forward looking. Asset prices tend to anticipate changes in economic conditions about six to nine months ahead of time. Therefore, what matters isn't so much what happens in the economy as what markets think will happen. Not every investor's crystal ball is that clear so in order to take some of the risk out of investing, buying companies that are growing their dividends improves your chances for better results. When investing at market highs, and during periods of heightened market volatility, companies that have a consistent track record of increasing their dividends tend to outperform. This is in part due to the perception that the cash flows generated by dividend growers generally tend to be more resilient than their non-dividend paying counterparts and therefore, are better able to withstand economic downturns. It's important to remain invested in companies that have the ability to consistently increase their cash flows and dividend payout rates over time. When a company decides to increase its dividend, it generally does so because it is optimistic about its future prospects. After all, a dividend increase is seen as a commitment to distribute a larger portion of earnings to shareholders. And when a company increases its dividend consistently over time, it is an affirmation of the underlying confidence management has in the strength and outlook of the business.

If you have any questions about your portfolio or any changes you would like to discuss, please don't hesitate to contact my office at any time.

Sincerely,

Richard