CIBC PRIVATE WEALTH MANAGEMENT

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August 2019 Market Update

The dog days of summer are soon upon us. Enjoy time relaxing with family or friends. The summer months are periods where an objective of many is to pay less attention to finances and what the future brings, and more time enjoying the now.

While we may wish to ignore the investment markets, they are striving for attention. Since the May Market Update, the TSX300 is trading roughly the same levels now as three months ago. The DOW Jones and S&P500 are up slightly over this same period. One might think that the equity markets simply have not done anything over the past quarter. To the contrary, the markets have been quite choppy and volatile. Still, it is positive to see that the market recovery so far in 2019 is being maintained. Where 2018 was full of doom and gloom (TSX300 down 11.6% and the Dow Jones down 6%), 2019 has seen much more optimism in the investment markets. Some of this optimism and higher stock prices is not in keeping with logical thought. For example, stock prices are going up because interest rates may soon start to drop. Interest rates decline because the economy is/ has slowed down. A slowing economy often leads to lower corporate profits. So, why is the stock market remaining strong?

By the time this update is distributed, there is a good chance that the U.S. Federal Reserve has lowered U.S. interest rates. Interest rate policy (lowering) is one of the first acts of a central bank to soften the negative effects of a recession. The U.S. is not in an economic recession. Canadian and U.S. central bankers should be careful to ensure that they have the tools necessary to deal with an economic recession when one does come.

One reason for a strong equity market is the lack of investment alternatives globally. Approximately 40% of all global bonds are now yielding less than 1.00%.

The argument made in support of lowering interest rates before a recession occurs is to try to stimulate the economy and hopefully avoid a recession. Good luck. When the U.S. Federal Reserve begins to lower interest rates, this may well result in another rally in the investment markets. I do have to question how lowering interest rates while experiencing record low unemployment and a stable economy will stimulate any more demand for goods and services.

The Bank of Canada has no current intention of lowering interest rates in Canada. Governor Poloz will, however, be monitoring any strength in the Canadian dollar. If the Canadian dollar appreciates too much (i.e. 78-80 cents), the Bank of Canada may be forced to lower interest rates to weaken the dollar. If not, Canada's competitiveness will decline as our goods and services appreciate in price when compared to U.S. goods.

But, I may be wrong and "this time it's different". Quoting Sir John Templeton who said that these are the four most dangerous words in investing.

Back to our own local world of investing and managing investment portfolios. In positive, optimistic market periods like this, we will want to continue to focus on our individual goals and objectives. Stay the course with a plan that invests in good quality companies. Ones with strong balance sheets that can withstand whatever economic or political obstacle appears on our doorstep. If you have any concerns or questions about your portfolio, or any individual investment, please contact us so that we can address your concern and answer your question.

A couple of Out of Office notes.

1) I will be working away from the office during the week of August 19-23. I will still be working and available, just not in the Victoria office.

2) With my annual driving south holiday, I will be away from the office starting September 6. I will be back in the office on September 18.

Valerie will be in the office and available during both of these absences.

As always, remain optimistic, yet cautious.

Best regards,
CIBC Wood Gundy

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