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May 2019 Market Update

Welcome to the spring season (in most regions) and summer days.

As we wrote a couple of months ago, the sharp market sell-off of late 2018 ended just as quickly as it started. The strength of 2019 has been stellar to-date. From January 1 through the end of April, the TSX Composite was up over 15%. The DOW Jones Industrials up 14% and the S&P500 up over 17%.

There is much that can be learned from the past 12 months. The first, and most important lesson, is to remain calm when viewing the sometimes wild swings in the investment markets. There is no denying that 2018 was a tough year for investors – particularly Canadian investors. Investors who remained calm and patient through the market correction have been rewarded for not joining a panic environment. This does not mean that we should remain forever loyal to our investments and hold them without question. There are several valid and necessary reasons for removing an investment from your portfolio. The compnay may change its focus and no longer be the company we invested in. That company may be losing market share; building up too much debt; be seen as over-valued, etc. But selling just because share prices are declining is not a worthy reason for selling.

A second lesson learned, is that investment markets don’t go up forever, nor do they go down forever. With the strong year-to-date performance of equity markets mentioned earlier, this strength will not continue without market pullbacks and corrections. Though I do not expect a near term correction of the severity of last year’s fourth quarter, we must be prepared that these severe corrections can and do happen. We should expect some weakness in the markets sometime soon.

A third lesson come from one of the excuses given for last year’s correction. There was concern that we were entering a recession. Though an economic recession was not beginning, and one does not appear in the near term, we do have to keep in mind that there will likely be an economic recession starting sometime in the next few years. I wish I had the crystal ball that will tell us when a recession will appear. High interest rates are often a factor in the beginning of recession. Neither Canada nor the U.S. appear to be raising rates any time soon. The U.S. President is calling for lowering interest rates. This would seen to be political posturing as he really hopes the next recession will not begin before November 2020 (Presidential election). The

U.S. economy is strong, is growing, and currently experiencing record low unemployment.

The Canadian economy, though experiencing some economic growth, is struggling to maintain that growth environment. Our GDP actually declined in February of this year. One month does not make a recession, but we do need some positive influences to get Canada back into a sustained growth environment. Many of our economic issues are made-in-Canada problems that should be able to be fixed.

As we head into the sunny weather months, we will continue to review our portfolios to ensure that they meet your individual goals and objectives. The world is changing (no kidding!); the global economics are changing; the investment environment is always changing. We will always work towards staying on top of these changes to ensure your best interest is being met.

If you have any questions, comments, or concerns please call or email us at any time.

As always, remain optimistic, yet cautious.

Best regards,
CIBC Wood Gundy

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