Issue 25 Friday, July 6th, 2018

In a holiday shortened week in both Canada and the US, equity markets rotated from “risk on” to “risk off” and back again without making much headway in either direction until Friday. Markets globally had investors grappling with the uncertainty surrounding US trade policies, with emerging markets, China in particular, continuing to slide lower.

Equity prices on Friday finally broke out of their stalemate to the upside when the positive impact of the employment figures out of both the US and Canada outweighed the biggest salvo yet of the implementation of tariffs between the world’s two dominate economies. On the day the Dow and S&P/TSX advanced roughly 100 points.

After months of rhetoric, duties on Chinese goods started Friday in Washington as President Trump fired the largest shot yet in the global trade war by imposing tariffs on $34 billion of Chinese imports, a full 25% on goods ranging from farming machinery to semiconductors to airplane parts. While July 6th had always been tagged as day one for the implementation of US tariffs on China in particular, it should be noted that the US has an additional $16 billion in tariffs lined up to follow in two weeks time.

Neither side is in any mood to back down, with China implementing their own tariffs on US goods targeting soybeans and automobiles. Bilateral trade talks have already broken off after President Trump warned China that any immediate retaliation from China may result in America imposing further tariffs that could reach as high as $450 billion on imports.

The worry is about where this will all lead. The numbers in question only represent 0.1% of world GDP, but certainly the biggest risk is the potential indirect impact of tightening credit conditions and business confidence that could affect corporate investment and hiring.

To date, however, we have yet to see any immediate impact of trade tensions harming the North American economy. Real growth remains strong, inflation is only slightly above central bank official long-term targets of 2%, and our stock market has yet to suffer much.

The “not too hot/not too cold” employment picture in both Canada and the US came to the rescue on Friday. Domestically, against expectations of an increase of 20,000 jobs, the Canadian economy added 31,800 jobs led by a jump in part-time positions. The Unemployment rate drifted higher to 6.0% as more workers joined the labor force which expanded by 75,600 in June; the biggest surge in six years. The largest number entering the labor force came from job seekers in the 15-24 age bracket. Let’s hope that all our summer students find gainful employment.

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The minutes released from the Federal Reserve's June meeting mid-week were more closely watched than usual as the Fed has taken the most hawkish stance amongst world central banks. Committee members expressed concern that letting inflation run too hot could eventually lead to a "significant economic downturn" if the economy were to operate beyond its long-term potential. If left unchecked, sustained increases in economic growth and the resulting uptick in inflationary pressures could eventually lead to financial imbalances.

The key question immediately facing the FOMC is whether to increase rates another two times this year in September and December. The Fed has already moved seven times since December 2015, and if their current tightening bias continues, the Fed Funds rate could very well be above what they consider "neutral" by early next year.

In their minutes, the Fed revealed that their business contacts "expressed concern about the possible adverse effects of tariffs and other proposed trade restrictions, both domestically and globally, on future investment activity." Also, the US employment report that was released Friday morning may influence the Fed from tightening too aggressively. While the US economy added 213k jobs in June, against expectations of an increase of 195k, the Unemployment rate ticked back up to 4.0% from 3.8% as additional workers entered in to the labor force seeking full time positions.

Moreover, the conundrum of weak wage growth is staying with us with the year-over-year trend weakening to 2.7%. Economists noted that perhaps there is more slack in the economy than originally thought. We believe that the Federal Reserve may well be more cautious going forward as they move gradually to a more neutral monetary policy stance.

Sincerely,
Dekker Hewett Group

TODAY'S STOCK WATCH

S&P/ TSX Composite	16,371
Dow Jones Indus. Avg.	24,456
S&P 500	2,7589
Canadian/US Dollar	$0.7632
US/Canadian Dollar	$1.3099
Euro / Canadian	$1.5387
Gold	$1255.90
Silver	$16.07
Copper	$2.81
Brent Crude Oil	$77.10
WTI Crude Oil	$73.81
Natural Gas	$2.85

Crypto Quarterly – Q2 2018

Cannabis Monthly – June 2018

Tony Dwyer Strategy Picture Book – June 2018

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