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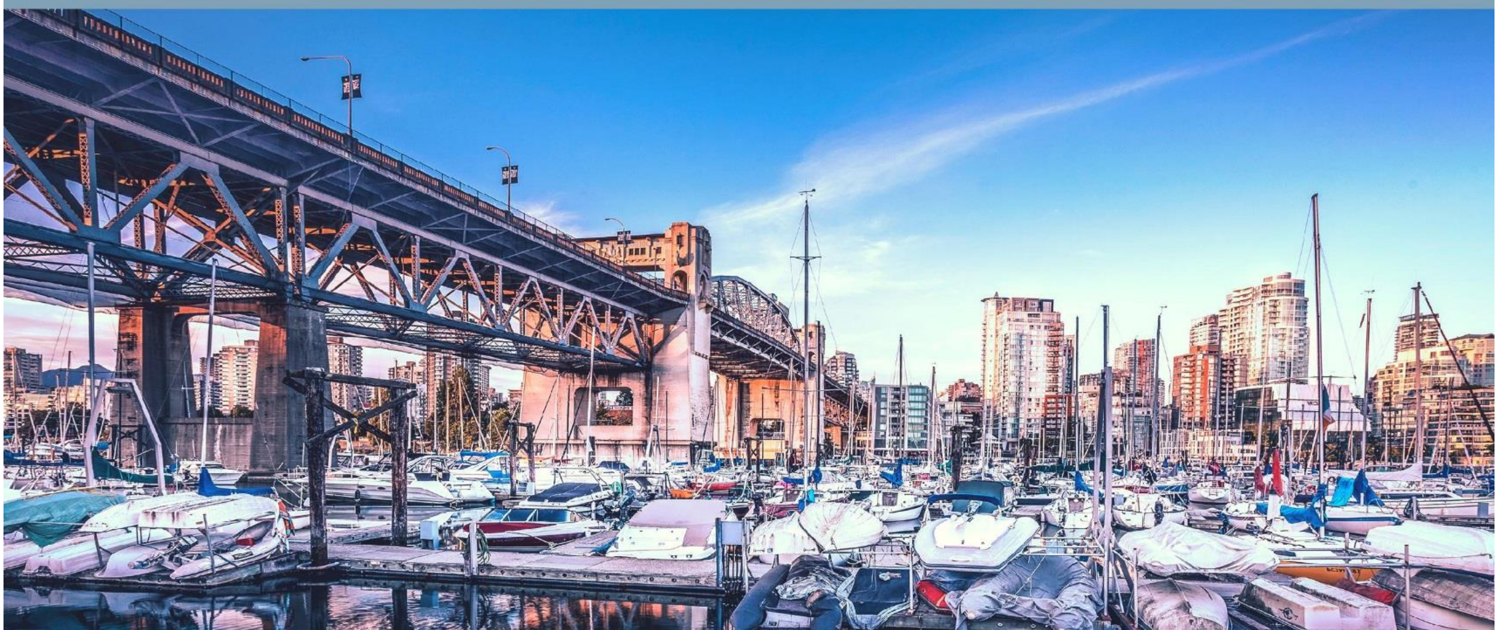
Market Watch Weekly

DHG DEKKER HEWETT GROUP

CANACCORD Genuity Wealth Management



Deja vu from February

October 12th, 2018

Canada's main stock index was marginally higher on Friday, breaking its five-day losing streak. Our counterparts south of the border also fared better following a two day sell-off that caused the Dow to shed over 1,300 points. Both indexes closed the week down over 5%; their biggest weekly declines since March…

Features

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CANNABIS MONTHLY OCTOBER 2018

TONY DWYER STRATEGY PICTURE BOOK

Canada's main stock index was marginally higher on Friday, breaking its five-day losing streak. Our counterparts south of the border also fared better following a two day sell-off that caused the Dow to shed over 1,300 points. Both indexes closed the week down over 5%; their biggest weekly declines since March.

Sentiment was rocked around the globe in recent sessions as investors grew nervous over the rise in interest rates. Jumping into the conversation was President Donald Trump who blamed the U.S. Federal Reserve for the decline in the stock markets. President Trump stated on Wednesday that he wasn't happy with how the central bank continues to raise interest rates. Some of you may recall the 10% selloff in February which was largely attributed to similar factors: rising yields and the Fed's more hawkish stance.

Meanwhile, as investors debate whether the correction has created buying opportunities, earnings growth remains front and centre as third-quarter earnings begin to trickle in from U.S. corporations. Investors will be watching closely to see whether the Trump Administration's tax breaks are still boosting corporate profits. Of the 28 companies in the S&P 500 that have reported earnings to date for Q3 2018, 85.7% have reported earnings above analyst expectations. This is above the long-term average of 64% and above the average over the past four quarters of 77%. Expectations for this earnings season remain high, with analysts expecting S&P 500 earnings to grow by 21.5% YoY.

As for the debate about whether the correction has created buying opportunities, we at Dekker Hewett Group believe the answer is a resounding yes! This week's pullback in the markets was abrupt, but there has been a total of 34 pullbacks in the current historic bull market run. In every one of those 34 pullbacks, it was clear that they were likely to remain brief because recessions are not driven by the performance of the stock market but rather by a shutdown of credit and lending activities. Surprisingly, this week, there has been an uptick in the number of pensions looking to put money to work in credit in the upcoming months. This is the opposite of the situation in November 2007, when a run on shadow banks triggered a financial crisis. There have been other yield driven pullbacks in this credit boom that have been bigger and more abrupt than the current one, including 2009, 2010, 2013 (the Taper Tantrum), 2015, 2016, and early 2018. Thus, we believe this yield driven scare is not likely going to end the credit boom.

TODAY'S STOCK WATCH

INDEXES	
S&P/ TSX Composite	15,414
Dow Jones Indus. Avg.	25,340
S&P 500	2,767
CURRENCIES	
Canadian/US Dollar	$0.7679
US/Canadian Dollar	$1.3018
Euro / Canadian	$1.5053
METALS	
Gold	$1222.00
Silver	$14.63
Copper	$2.80
ENERGY	
Brent Crude Oil	$80.60
WTI Crude Oil	$71.18
Natural Gas	$3.08

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These episodes are frightening and exhausting for both equity and bond investors, but it's important to stay the course. We know it might not feel like it, but the S&P 500 is back to where it was in July and is still up 5% total-return for the year.

Looking to next week, European Union leaders are meeting in Brussels and will discuss the populist Italian government plans to run a deficit of 2.4% of GDP next year; triple the previous administration's target. Also, expect to hear more on the status of Brexit. The group's agenda includes efforts to finalize a withdrawal deal with Britain.

"Today was the worst decline since the February - a decline you don't remember anymore."

- Morgan Housel (Twitter)

Have a great weekend!

Sincerely,
Dekker Hewett Group

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