

**DHG**

DEKKER HEWETT GROUP

Market Watch Weekly

Issue 14**Friday, April 7th, 2017**

Our week started with market participants cautiously looking ahead to the Thursday/Friday head of state meeting at Mar-a-Lago between President Trump and his Chinese counterpart Xi Jinping. Heightened tensions surrounded trade disputes, China's claims in the South China Sea and how to handle North Korea's nuclear ambitions. If we remember during the election campaign, Mr. Trump threatened to tax imports from China by as much as 45% and was designating the country as a currency manipulator. The fireworks never appeared, but we experienced enough excitement from more traditional sources; the Federal Reserve and March employment figures.

Mid-day Wednesday, we received the minutes from the March 15th Federal Open Market Committee meeting which caught most market participants quite off guard. The minutes were interpreted by the market as being somewhat less dovish than Fed Chair Yellen's post meeting news conference a short three weeks ago. The key takeaway was that the Fed is starting to discuss various paths to the unwinding of the central bank's massive \$4.5 trillion balance sheet. Coming out of the 2008 recession, the balance sheet was a modest \$1.0 trillion.

With quantitative easing and Fed tapering firmly in the rear view mirror in the US, it was only a matter of time before the Fed addressed the policy of reducing its balance sheet. To keep the concept as simple as possible, the Fed can let its holdings of US Treasuries and Mortgage Backed Securities (MBS) fall off their balance sheet as these bonds mature, and not roll them over into longer term positions. The pace of the reinvestment shift over time and whether or not it would immediately include both Treasuries and MBS at the outset will be key determinants in their interest rate policy moves and the resulting shape of the yield curve. Currently, Fed Funds Futures markets are pricing in a 63.2% chance of an interest rate hike at their June 13-14 meeting.

Equity markets have expressed some concern that anticipated policy shift of reducing Fed asset holdings would come into effect just when the market has been concluding that there may be a delay in the timing of the Trump Administration's fiscal policy stimulus. It also didn't help that a few Fed officials held the view that equity prices were "quite high".

The market closed the week on a mixed note with differing takes on employment growth in North America. The Canadian economy unexpectedly added 19,400 positions in March, against expectations of 5,700, with the vast majority of the positions being full-time, although in the more precarious self-employment category.

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Conversely in the US, non-farm payrolls for March missed the mark, coming in at only 98,000 versus expectations of 180,000, and far below the mid-week ADP private payroll data that reached 263,000. The unemployment rate in the US inched lower to a ten year low of 4.5%; mixed signals all around.

Now, as important as ever, the market will be concentrating on the upcoming quarterly earnings release season that may well be the strongest since 2011. Estimates for year-over-year earnings per share growth range between 9.1% and 10.2%.

Our US Strategist, Tony Dwyer, expects this double-digit EPS growth to be led by Financials and Technology, coupled with a strong rebound in Energy and Materials. Numbers as strong as these may well be needed if the current stock market rally has further room to run.

The inaugural Augusta National Invitation Tournament (named the **Masters** Tournament in 1939) is being played at Augusta National Golf Club this weekend. With world No. 1 Dustin Johnson being forced to withdraw from the tournament after suffering a back injury on Wednesday, the remaining field will battle for the most prestigious title in professional golf.

Thank you for reading our Market Watch Weekly, and enjoy the weekend with friends and family.

Sincerely,
Dekker Hewett Group

TODAY'S STOCK WATCH

S&P/ TSX Composite	15,694
Dow Jones Indus. Avg.	20,703
S&P 500	2,360

Canadian/US Dollar	\$0.7453
US/Canadian Dollar	\$1.3417
Euro / Canadian	\$1.4203

Gold	\$1255.70
Silver	\$17.99
Copper	\$2.64

Brent Crude Oil	\$55.13
WTI Crude Oil	\$52.16
Natural Gas	\$3.26

*As of 11:45AM on Friday, April 7th



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