DHG DEKKER HEWETT GROUP

Market Watch Weekly

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This week we kicked off the second half of the year, how time flies. We ended the first half of the year with quite the policy signal change from our Bank of Canada, which will have an impact on how we invest moving forward.

For the longest time we were in the camp that the Governor of the Bank of Canada, Stephen Poloz, would remain on the sidelines with respect to increasing interest rates until at least next year. That abruptly changed in mid-June when during a speech in Winnipeg, Senior Deputy Governor Wilkins said that there are encouraging signs that growth is broadening across regions. What was promising is that the data shows that more than 70 percent of industries have been expanding and the labour market continues to improve.

The response within both the bond and currency markets was immediate, as the Government of Canada 10 year bond yield increased by 25 bps and our “Loonie” increased 4% over the remainder of June (For those keeping score, those are very big moves).

With the Canadian economy adding 45,000 jobs in June, significantly above forecasts, this marks the sixth straight month of strong job growth. There is now substantial credence that the Bank of Canada will initiate a policy shift towards rising interest rates at next Wednesday’s Policy meeting, thus removing the “economic insurance” rate cuts it made in 2015.

So what does removing “economic insurance” mean for investors? Well as the chart below points out, you don’t want to be holding Government of Canada Bonds.

As the Bank of Canada moves back to a position of normalized interest rates, yields will rise and prices will fall. Within the more traditional fixed income asset class, it is our opinion that the greatest risk lies in the longer term and passively managed Bond Funds and ETFs, whereas floating rate notes / senior secured loans are better able to take advantage of rising yields; especially those that are actively managed and currency hedged such as the **IA Clarington Floating Rate Note Fund** managed by Jeff Sujitno.

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Certain equity sector investments can also have their valuations priced relative to bond yields which should also begin to experience headwinds with respect to their valuation. Assets considered to be "bond proxies", such as Utilities, would be at the top of that list.

We have been suggesting for some time now that equity investors should be taking profits in both the Utility and Telecom sectors, and re-allocating funds towards sectors that benefit and grow during a rising interest rate environment. Financials, Industrials and Technology sit at the top of that list.

With so much of the recent North American market leadership having been concentrated within the Technology sector, we have been increasingly looking to diversify globally; especially with a near 4% appreciation in the Canadian Dollar over the past couple of weeks. Factoring in that European GDP growth forecasts are increasing and the political uncertainties are declining, we believe that Europe is likely to experience a notable "catch-up". Add to that, that aggregate earnings growth has begun to exceed those of US corporations, we would be looking at the **Sphere European Sustainable Yield ETF** as we take Utility sector profits and re-allocate funds across the pond.

Thank you for reading our Market Watch Weekly and have a great weekend.

Sincerely,
Dekker Hewett Group

TODAY'S STOCK WATCH

S&P/ TSX Composite	15,027
Dow Jones Indus. Avg.	21,414
S&P 500	2,425
Canadian/US Dollar	$0.776
US/Canadian Dollar	$1.287
Euro / Canadian	$1.468
Gold	$1209.70
Silver	$15.42
Copper	$2.64
Brent Crude Oil	$47.00
WTI Crude Oil	$44.23
Natural Gas	$2.86