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DEKKER HEWETT GROUP

Market Watch Weekly

Issue 22**Friday, May 26th, 2017**

This week was a busy one, with commentary from both our Bank of Canada as well as the US Federal Open Market Committee, various economic data reports and the final results from the BC Provincial Election.

While at the end of the day, the final election results were no different than those reported on May 9th, at least now we know we are stuck with a minority government with Andrew Weaver of the Green Party holding the balance of power. The uncertainty however, is that we will not know until May 31st whether it will be the BC Liberals or NDP who will lead that minority government. That is the date Mr. Weaver has said he would return the writ to the lieutenant-governor.

It is our belief that we will have a minority government with the BC Liberals and Green Party, versus a coalition government between the NDP and Green Party. There are scenarios where a coalition government may come to fruition; however we believe those are unlikely. We agree with Richard Johnston, political science professor at UBC, who was quoted in a recent Business in Vancouver article as saying “a more likely scenario is that Weaver would agree to strike a supply and confidence agreement in which the Greens would support the Liberal government on things like budgets, while reserving the right to vote with the Opposition on other bills.”

So don't be surprised if we do this all over again within the next couple of years, as we all know, minority governments tend not to last very long.

Earlier this week, as expected, the Bank of Canada held its key overnight interest rate at 0.5% as it continues to balance low inflation and a recent pickup in economic growth. However, it is uncertain as to how long Governor Poloz can keep rates so low, with both inflation and economic activity beginning to pick up. As one Bay Street analyst put it, the Bank of Canada's decision to stand pat on interest rates lies less in any real troubles on the ground than in uncertainties that Washington politics represent for trade.

The Bank of Canada will meet again in six week's time, and we would not be surprised at all that Governor Poloz begins to lay the groundwork for higher rates in Canada.

This week we also saw the minutes of the Fed's FOMC previous meeting suggesting that a June rate hike is coming, stating that it would “soon be appropriate” to hike the fed funds rate again. Signaling that further rate hikes are around the corner is that Policymakers almost unanimously supported the Federal Reserve's plan to begin normalizing their balance sheet by allowing the Treasury and MBS securities bought during the credit crisis to begin rolling off their balance sheet. In laymen terms this means that Federal Reserve sees an economy strong enough to support rising interest rates and need for a pause in the normalization of interest rates.

Last week we talked about risk, and that what you don't see coming typically causes the unpleasant results. Thus we see the risk of rising interest rates by the Bank of Canada as something that needs to be planned for. It is our belief that the best way to avoid or reduce the impact from rising interest rates is to avoid owning assets that carry higher risk of loss during rising interest rates.

Erik Dekker, BBA, CIMVP, Sr. Investment Advisor &
Portfolio Manager**Mark Hewett, P. Eng., CIM, FCSI**VP, Sr. Investment Advisor &
Portfolio Manager**Erik Benson, BA**Investment Advisor &
Portfolio Manager**Alan Berge, CFA, AIF**Investment Advisor &
Portfolio Manager**Alix Rogers**

Investment Advisor Assistant

Massimo Beltramo

Business Development Associate

David MacLachan

Business Development Associate

Canaccord Genuity
Wealth Management
P.O. Box 10337
2200 - 609 Granville Street
Vancouver, BC V7Y 1H2T: 604.643.0285
F: 604.601.5966
TF: 1.800.663.1899E: dghinfo@canaccord.comwww.dekkerhewettgroup.com

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As we mentioned last week, we see the greatest risk for investors right now in higher yield dividend equities, such as the Utility sector that is already trading at historically high valuations. Given that a major underlying trait of the markets is that they trend towards long term averages over time, we just see too much risk going forward in owning Utility companies over the next year or so.

We would much rather own cheaper, high quality non-Utility companies such as those in the Financial Services, Industrial and Technology sectors with lower dividend yields. Because as we wrote last week, picking up a few extra points of yield by assuming higher risk is never a good idea.

For those who are racing fans, enjoy the Indianapolis 500 this Sunday. I know I will enjoy watching cars driving at over 200 mph turn left for 500 miles.

Thank you for reading our Market Watch Weekly.

Due to travel, there will be no Market Watch next week.

Sincerely,
Dekker Hewett Group

TODAY'S STOCK WATCH

S&P/ TSX Composite	15,417
Dow Jones Indus. Avg.	21,081
S&P 500	2,415

Canadian/US Dollar	\$0.7434
US/Canadian Dollar	\$1.3447
Euro / Canadian	\$1.5029

Gold	\$1271.40
Silver	\$17.35
Copper	\$2.57

Brent Crude Oil	\$52.50
WTI Crude Oil	\$49.62
Natural Gas	\$3.31

*As of 11:00AM



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