Market Watch Weekly

DHG
DEKKER HEWETT GROUP

Issue 26 Friday, July 13th, 2018

For a mid-summer week in the markets, there was no lack of excitement which made us somewhat happy to be inside to beat the extreme heat. Both the S&P/TSX and the S&P500 advanced by roughly 1%, with the Canadian broader index reaching an all-time high. In the US, while the Dow continues to play catch up, this week brought new highs to both the tech heavy NASDAQ and to the broader small and mid-cap Russell 3000.

If equity prices are to move higher from here, we'll need an exceptionally strong second quarter earnings season which began today in the US. Bank earnings were first on the docket, with JP Morgan providing solid beats on the top line, bottom line, core trading and surprisingly strong loan growth despite a flattening yield curve. Wells Fargo and Citigroup were not as solid in their releases, but partly thanks to the President's corporate tax cuts and a more benign regulatory environment, the US banks have easily passed their most recent Federal Reserve stress tests and their balance sheets are light years ahead of the chaos that surrounded them a decade ago.

In our Market Watch Weekly, we have often argued that the main determinant influencing equity prices are corporate earnings. This gives us a perfect segue into Tony Dwyer's core investment thesis that we would like to highlight below. Always worth reviewing:

- ***The equity market is most closely correlated to the direction of earnings.*** SPX Operating EPS should end the year with over 20% growth.
- ***The direction of earnings is driven by economic activity, which remains in uptrend, and is accelerating.*** Business and consumer confidence all remain near a historic high. NFIB Small Biz confidence hit a cycle high in May, and the median lead from cycle peak to recession is 41 months.
- ***Positive economic activity is driven by the positive yield curve and availability of money.*** Over the past seven cycles, a recession doesn't begin for a median 19 months after the initial date of inversion of U.S. Treasury curve.
- ***The slope of the yield curve and availability of credit is driven by Fed policy, which is neutral.*** The real Fed Funds Rate using the Core PCE is roughly at zero, which is well below any other period that drove recession. Our checks and balances in case it might be different this time for credit are the NFCI stress Indices, which show historically low stress.
- ***Fed policy is driven by core inflation, which should remain in the range of past 20 years*.**

We encourage our readers to review Tony Dwyer's full July Strategy Picture Book.

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Midweek we had the Bank of Canada raise their benchmark lending rate by 25 basis points to 1.5%. They have done an admirable job balancing a consistently strong domestic economy nearing full employment against the uncertainty surrounding NAFTA negotiations and the tit-for-tat tariff war with our largest trading partner south of the border. The Bank is mandated to keep inflation in check, and they have been able to maintain advancing prices just slightly above their 2% target. Governor Poloz did caution that the Bank perceived trade protectionism as “the most important threat to global prospects” and that it is “weighing on investment in some sectors”.

The last word for the week (again) must be reserved for Donald Trump’s global trade battle, especially with the US stating that it plans to impose tariffs of 10% on a further $200 billion of Chinese goods. A vast 6,000 items will be affected, many of them consumer goods from handbags to mattresses.

These new tariffs could be implemented by August 31st, and were announced a few days after China and the US applied reciprocal levies worth about $32 billion. The weakening trade relations between the two counties may well present the single, major downside risk that could torpedo the ongoing growth in the global economy. Hopefully the worst of the trade issues are behind us and we can let President Trump turn his attention to NATO and the UK Brexit dilemma. Heaven help us!

Our thoughts on the future direction of equity prices, however, rest with the steady hand of central banks, continued positive corporate earnings, and Tony Dwyer’s core thesis…all highlighted above. That direction in stock prices is higher for the second half of the year.

So, rest easy this weekend dear readers and enjoy the last two games of the World Cup in what has turned out to be a tournament for the ages. In the background, we at Dekker Hewett Group will continue to construct portfolios that provide both income and capital growth on which true value can be compounded.

Sincerely,
Dekker Hewett Group

TODAY’S STOCK WATCH

S&P/ TSX Composite	16,561
Dow Jones Indus. Avg.	25,019
S&P 500	2,801
Canadian/US Dollar	$0.7602
US/Canadian Dollar	$1.3149
Euro / Canadian	$1.5369
Gold	$1241.40
Silver	$15.83
Copper	$2.77
Brent Crude Oil	$74.85
WTI Crude Oil	$69.52
Natural Gas	$2.73

Crypto Quarterly – Q2 2018

Cannabis Monthly – June 2018

Tony Dwyer Strategy Picture Book – July 2018

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