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DEKKER HEWETT GROUP

Market Watch Weekly

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For a summer week that was chock-full of quarterly corporate earnings per share releases in the United States and President Trump/White House political highlights almost hourly, it is somewhat surprising that North American equity markets closed essentially flat for the week.

This holding-pattern performance may well be considered a moral victory as investors digest the strong gains that we've experienced off of the February lows. Through this period, stock prices are up 9.5% for the S&P/TSX composite and 8.7% for the S&P 500 index. We are currently in the second-longest bull market since World War II, coming in at 112 months and counting.

While it can be a fool's game to extrapolate performance too far out, we are of the view that future portfolio returns for the second half of the year will be lower than the most recent returns, and future price volatility will be somewhat higher than past volatility — especially when compared to the extremely low volatility that we enjoyed in 2017.

Our Canadian portfolio strategist out of Montreal, Martin Roberge, argued in his Incubator this morning that there may yet be more life in this bull market domestically, with a potential rotation out of growth stocks into value stocks. We may still be a good distance away from a market peak.

While Roberge is cautioning that foreign investors may currently be shunning Canada while NAFTA negotiations are in a state of flux, overall investors may be drawn back to the TSX as the resource and value sectors come into favor as late business cycle investments. Combined, energy, materials and financials account for approximately 65% of market capitalisation which is by far the highest percentage among developing market equity indexes.

The US equity market by comparison has a 21% weight in the technology sector as compared to 7% for non-US equities. It is also worth noting that Amazon and Netflix are considered Consumer Discretionary stocks. For the week, despite the weakness we share in Netflix shares as they missed on their forecasted subscriber growth, there was no carry-over into other FAANG/growth stocks, a number of which hit new all-time highs this week. On the corporate EPS release front, we saw exceptional reports out of Bank of America, Morgan Stanley and Microsoft.

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We would also like to highlight a few economic releases and forecasts that caught our eye this week. Domestically, on Friday, we had further signs that the Canadian economy is proving to be increasingly robust as both inflation and retail sales came in ahead of economist's expectations. Our consumer price index rose at an annual pace of 2.5% in June, the fastest year-over-year acceleration since 2012, spurred on by a further increase in gas prices. The survey estimate was for a 2.3% increase.

In a separate report, Statistics Canada noted that the nation's retailers rebounded from a lackluster April reading to post a full 2.0% growth in sales in May, the biggest monthly advance since last October and double the median forecast from analysts. Fixed income traders are increasingly pricing in a third Bank of Canada rate hike for this year and following the reports, the Canadian dollar jumped 1.1% against its US counterpart.

In the US, the key surprise on the economic front came with June Housing Starts which missed by their widest margin since 2007. Nevertheless, the Federal Reserve's latest Beige Book report and Chairman Powell's semi-annual monetary report to Congress both highlighted the fact that the US job market and inflation continued to strengthen in the first half of the year.

On Thursday, the US Dollar index hit a fresh high for the year against a basket of trading partners (particularly against the weakening Chinese Yuan) which prompted President Trump's senior Economic Adviser Larry Kudlow to argue that US GDP could reach 4% on average over the next two quarters. Now if President Trump could only back off from criticizing Federal Reserve monetary policy and be a little less heavy-handed in imposing new increased tariffs on Chinese goods, we'd have a clear runway ahead of us for advancing equity prices. May cooler heads prevail in the summer heat.

Sincerely,
Dekker Hewett Group

TODAY'S STOCK WATCH

S&P/ TSX Composite	16,435
Dow Jones Indus. Avg.	25,058
S&P 500	2,801.83

Canadian/US Dollar	\$0.7618
US/Canadian Dollar	\$1.3125
Euro / Canadian	\$1.5389

Gold	\$1231.10
Silver	\$15.535
Copper	\$2.7555

Brent Crude Oil	\$72.99
WTI Crude Oil	\$68.09
Natural Gas	\$2.730

[Crypto Quarterly – Q2 2018](#)

[Cannabis Monthly – July 2018](#)

[Tony Dwyer Strategy Picture Book – July 2018](#)



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