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“Shakedown at the negotiating table!?”…

… it certainly looks that way. Donald and team are playing high stakes poker with America’s trading partners and thereby with the global economy all in order to achieve their objectives of better trade deals. Not seeing the progress sought, they have upped the ante launching punitive tariffs and thereby causing tariff retaliation throughout. While the effects remain small in the immediate, everyone will be impacted over time including the European Union, Canada, Mexico, China, the USA and Australia, never mind that every leader will also have been spurned one way or another by this tweet-free president.

Donald and team likely do not have in mind an extended period of trade threats or even less wars, if we take note of his parting words from the G7 Summit; “Don’t worry, in the end we will all be great friends once again”. The window of opportunity to complete trade negotiations could be short as the Republicans will need to prepare for the November congressional election when they aim to keep control of both the House and of the Senate.

In spite of these brewing complications, the growth of the global economy remains at near the 4% pace with corporate earnings improving nicely, both having provided a solid base of support to the equity markets. Short of trade wars, global growth is likely to maintain these levels for the nest 18 to 24 months. As SSgA points out in its June report (included herewith), the risks to the global economic forecast are to the downside and do hinge on how these trade tussles/wars play out.

Canada certainly does not appear in a very good bargaining position. It is becoming questionable whether a NAFTA renegotiation is truly in the cards and if it is, what the terms might be. As a result of a slowdown in the Canadian economy and questionable prospects, the Bank of Canada has been holding back on rate increases in contrast to the US Federal Reserve that has raised rates twice so far in 2018 to 2%. As a result the Canadian dollar has fallen from 79 cents to 75 cents to the US dollar.

One of the benefits of a slumping dollar has been an opposite windfall gain on US investments so far in 2018 with the S&P 500 up near 9% year to date in Canadian dollar terms. From a portfolio vantage, the overweight in US Equities has been beneficial notwithstanding that most of the underlying foreign equity funds have continued to outperform. On the other hand Canadian equities, where we are at neutral (note: having reduced exposure in all portfolios as a matter of Investment Policy revisions), are lagging once again in 2018 (+1.8%). Canadian small cap equities are underperforming as are dividend paying shares that we have tended to prefer for their above average return over time.

The emerging markets (-8% YTD) have also reacted quite negatively to the threats of trade wars, with both their stock markets and currencies feeling the brunt. In our view this is premature as some of the regions within the emerging markets, India and other Far East based countries in particular, remain areas of greatest growth over the next few years and this is unlikely to change.

In spite of a general commodity price upswing, gold prices have slumped back to around US$1250 per ounce level albeit all in US $ which is the strong global currency at the present time. The insurance position in gold shares remains in place within portfolios. It acts as a counter to any sudden shock and this in lieu of holding Canadian bonds that that we continue to avoid and up less than 1% year to date.

The largest “fixed income-like” investment is in the GWL Real Estate Fund that is up a net 2.2% year to date (in contrast to bonds that are flat). This Fund is showing steady lease income with more capital gains to come which will bolster returns over the next few years. As this fund remains fully liquid, we also favor it for any cash reserve build-up we see doing over the next few months (rather than use the Daily Interest Account or Short Term Fund).

All the very best,

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