

October 25, 2018

“Bull Market Cycle 2009-18; Not likely to be an Encore!!” ...

Clients will have noticed that we sold down in September between 10 to 15% of their portfolios out of the equity markets reinvesting into 1) cash (daily interest), 2) the GWL Real Estate Fund and to a lesser extent 3) into the safer Canadian Dividend Fund. This is due to the fact that the probability of higher stock markets seems squarely offset by the compounding effects of all of the negative controversies emanating from global politics onto the tightening financial and labour conditions of the industrialized world. Furthermore clowns, despots, promoters and followers have also been allowed to get on center stage unchecked leading one to think it may be time to leave this theatre. We are no longer likely to get an Encore after nearly 10 years of up equity markets.

One certainty is that we will get more headlines of nonsense, disrespect, bullying of all kinds at the highest levels, tariff threats and tariff wars, the odd assassination here and there, an increase in armed conflicts and of late, even talks of ending what were World Peace nuclear treaties. Faced with all of these uncertainties, corporate spending will very likely fall short of expectations and global economic growth forecasts will fade into the shadow of the next recession. Furthermore, mankind is also falling well behind on adopting the necessary measures to tackle global climate change, likely the real time bomb even though, from an investment perspective, it remains too far into the future.

Within the financial circles, the US Federal Reserve is remaining steadfast to increase its FED rate (2.25% currently) to 3% next year and on its way to perhaps 4%, while the Bank of Canada, having held back somewhat pending the outcome of the NAFTA renegotiations, is now on a similar track with a 0.25% hike to 1.75% at the time of writing. Not much difference is visible in Trump’s new USMCA (NAFTA 1b when translated in good old Canadian English) that will be put to Congress for approval. This is good news for Canada and arguably for all three partners. Tariff Happy Trump nonetheless is keeping US tariffs on Canadian steel and aluminum for reasons better known to him and to his negotiating team.

China is also feeling the heat from US tariff impositions and this is causing discomfort if not some pain. Its stock market is under serious pressure (down 16% YTD in Cdn\$) and to a lesser extent its Renminbi currency. Adjoining Asian countries that are leveraged to US dollar debt are not being spared. At some point these markets will become true bargains,



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as they remain those regions of the world with the highest economic growth profile.

Within portfolios, the year-to-date results are mixed. The strategy of avoiding bonds almost entirely (down net 1.5% YTD) while favouring the GWL Real Estate Fund (up a net 3.2%) has been an excellent decision as has been the slight overweight in US Equities. The Q2 2018 change of investment policies that saw us increase foreign equities over Canadian equities proved untimely with foreign markets underperforming since. The other negative was the gold protective position (4 to 5% of portfolio's are in the Precious Metal Fund) that slumped nearly 20% in the first 9 months as gold prices eroded (largely on the strength of the US dollar) from US\$1,350 to just under \$1,200.

In spite of this, we are of the view that this gold position remains a useful protection in times of turmoil, which we may well be heading into. Since the start of October global stock markets have sold off by about 8%, causing gold prices to rebound to \$1,230 and the Precious Metal fund to appreciate by 8%. It also appears as if the fundamentals for this metal may be improving with a number of Central Banks showing a greater interest in increasing gold exposure in their reserves rather than US treasuries. Under Trump's leadership many countries, now defined by him as "foes", are clearly questioning why they are helping prop the US dollar as the prime currency of the world.

Our asset mix strategy is to be underweighted equities for the time being with an even weight in US and Far East Equities. At the time of writing, the outcome of the US mid-term elections is likely to produce a House of Representatives led by the Democrats and a Senate still in the hands of the Republicans. This stalemate will lead to an even more bellicose US president as he continues on with his tactics/antics toward the 2020 US presidential election. Sigh!!!

Time to get our snow tires on and prepare for the long winter ahead!

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PS Please find on the following page the performance table for the various funds utilized in our management of portfolios. With the assistance of Great West Life and at our request, clients will also soon have access to the Fiera Global Equity Fund and to the PIMCO Global Bond Fund. We intend to utilize both of these top rated funds.

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Great-West Life Group Retirement Services Investment performance for segregated funds Gross annualized returns as of September 30, 2018

FUND	CODE	YTD	1 YR	2 YR	3 YR	4 YR	5 YR	10 YR
Asset Allocation Funds								
Benchmark Conservative	BCON	1.21	4.04	3.03	4.43	4.30	5.44	6.00
Benchmark Moderate	BMOD	2.09	5.53	4.89	5.82	5.48	6.76	6.64
Benchmark Growth	BG	2.90	7.06	7.13	7.58	6.74	8.31	7.64
Benchmark Aggressive Growth	BAGGG	3.84	8.89	9.51	9.50	7.97	9.85	8.51
Benchmark Maximum Growth	BMAXG	3.71	9.77	11.78	11.24	9.19	11.40	9.71
Canadian Equity								
Canadian Equity (Jarislowsky Fraser)	CEJF	2.10	5.85	7.64	9.63	6.18	9.16	7.82
Equity (CC&L)	PCE	2.44	7.10	7.04	9.55	6.01	9.25	7.90
Canadian Equity Index (TDAM)	S120	1.41	5.85	7.49	9.65	4.86	7.78	6.29
Pure Canadian Equity (Beutel Goodman)	CEBG	2.77	7.26	9.81	11.40	7.02	10.00	9.45
Canadian Equity (Leith Wheeler)	S195	1.58	6.93	10.19	13.23	5.61	9.23	8.30
Dividend (GWLIM)	LDVDG	1.39	5.08	7.98	9.97	6.09	9.07	8.88
Growth Equity (Montrusco Bolton)	MTGE	2.09	8.60	5.78	12.00	3.63	5.63	9.57
Fixed Income								
Bond (Jarislowsky Fraser)	BJF	-0.18	1.73	-0.31	1.91	2.59	3.31	4.91
Canadian Bond Index (TDAM)	S079	-0.45	1.54	-0.81	1.46	2.38	3.14	4.29
North American High Yield Bond (Putnam)	NABMK	1.27	2.13	4.91	6.70	4.22	4.90	n/a
International Bond (Brandywine)	LIBP	1.08	1.75	0.79	2.67	4.81	6.44	6.97
International Bond (CLI)	S036	0.28	1.94	-1.80	1.10	4.07	4.98	4.82
Commercial Mortgage (Portico)	LMG	0.86	1.83	0.59	1.63	2.51	3.17	4.45
U.S. Equity								
U.S. Companies (Invesco - Trimark)	S329	12.06	23.80	21.06	15.61	16.51	19.51	15.83
U.S. Equity Index (TDAM)	LUSET	13.05	21.39	16.82	15.41	16.26	18.82	13.74
U.S. Value (Putnam)	USVEP	9.32	17.49	15.33	13.85	14.48	n/a	n/a
International Equity								
International Equity (SRA)	IESR	0.93	6.20	12.07	10.52	9.94	11.35	10.52
Int'l Opportunity (JP Morgan)	LIOP	-1.04	3.83	9.27	9.37	11.02	10.98	10.66
Int'l Equity Index (TDAM)	LIEIT	1.17	6.26	9.74	7.91	8.36	9.36	7.50
Regional Equity								
European Equity (Setanta)	LEES	1.94	5.19	8.87	6.77	10.19	10.95	9.15
Emerging Markets (Mackenzie)	LLEMS	-8.20	-0.07	7.88	11.23	8.34	9.13	7.83
Far East Equity (CLI)	S038	-2.51	6.30	12.01	8.33	6.05	8.95	9.67
Special Equity								
Real Estate (GWLRA)	LREG	5.70	7.27	6.36	5.81	5.56	5.71	6.73
Precious Metal		-19.8	-15.95		15.48		5.26	2.23

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE PERFORMANCE