McDowell Financial Management Team
News Bulletin

Wealth Management
Dominion Securities

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RBC Dominion Securities Inc.

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Pushing Forward Through Trade Disruptions

Equity markets in the United States, Europe, and Japan are still below their January highs after volatility returned and a significant drop in the markets occurred in February and March.

Markets are working on recovering but have been struggling through a handful of issues since then. These include trade disputes, rising interest rates, Chinese deleveraging, and European political uncertainties. Most markets have held up or improved since their March and February lows, however, China's Shanghai Composite Index slipped into negative bear market territory in June.

The U.S. economy still remains strong and we expect strong corporate earnings to push developed markets higher throughout the year but we suspect any growth to be more volatile than what we experienced the past couple years. This is mainly powered by tax cuts, low unemployment, and improved business and consumer confidence.

Trade War Uncertainty

Trade disputes between the U.S., Canada, Mexico, and China, have increased the volatility in the markets but they have not yet dented consensus on economic and earnings announcements but this could change if the U.S. imposes more tariffs and if their trading partners respond in kind. We see trade disputes continuing for the time being as we assume the Trump administration will continue with their America first agenda.

In regards to NAFTA, which has a direct impact on U.S. and Canadian trading, we believe that any hope for a quick resolution has gone. Our trading partners' focus will most likely be prioritized with U.S. midterm and Mexican elections. So negotiators will have to go through elections season and then be approved by politicians; so we foresee trade discussions continuing well into next year.

Interest Rates Continue To Rise

The U.S. Federal Reserve increased their interest rates again by 0.25% in June. This was expected but the biggest news from the U.S. Fed last month was probably the change in their tone in regards to future interest rate increases. We are now expecting the U.S. Federal reserve to increase their interest rates 2 more times in 2018 and then and then another 3-4 times in 2019.

This has widened the gap between U.S. and Canadian interest rates but the Bank of Canada is meeting on July 11th and we would not be surprised if Canada increased their interest rates due to our economy running beyond capacity but we believe the Bank of Canada will be taking more of a slow and gradual approach compared to the U.S.

As interest rates gradually move higher they will have a negative impact on the economy due to the increased cost of borrowing on consumers and companies. This will eventually lead to an economic and earnings downturn. We do not see this downturn happening in the immediate future so we expect interest rates to continue to increase unless earnings growth or inflation occur weaker than expected.

Short Term Outlook

With increased volatility the markets have been able to withstand trade disputes so far and have begun to recover from the market turmoil earlier in the year. We expect the market to continue to grow as long as economic and earnings growth continues which we believe is currently largely impacted by tax cuts in the U.S. and corporate share buybacks.

However, there are several things that could easily disrupt the market and put a dent in economic growth which include the risk of tariffs from a trade war, and risk of geopolitical issues in the U.S., U.K., Europe, and China concerns.

Rest assured we have you well invested to navigate the financial markets and we are here to help with any financial concerns that you may have.

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