

# McDowell Financial Management Team News Bulletin



Wealth Management  
Dominion Securities

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## Aggressively Neutral, but not Frozen

Continuing on the theme from our last newsletter, the first part of 2019 was incredible. With the Dow and TSX creating new all-time highs during the first quarter from a very low point on December 24th 2018. Although we were happy about the market growth, we believed that the highs came too quickly. The market patterns continue to be chronically volatile, as they have been over the past few years. So, in anticipation of a market drawdown we took action during the spring and early summer to reduce your risk and protect your 2019 returns.

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### Sentiment is important

As the summer continues, investor sentiment has been slowly moving in a negative direction on fears of a global economic slowdown. This is largely due to trade wars implemented by the USA on China and its allies. Since corporations strategically plan ahead for their growth based on where they see a clear path to success, the uncertainty from the trade wars have made corporate investment decisions challenging. And because equity markets are driven by corporate growth and profits, this uncertainty will no doubt have a damaging impact on the economy. Add to this the increased costs on consumers and the yield curve inverting - we could have a recipe for a recession.

### Tariffs

It's been two years since the President of the United States decided to use tariffs as an economic weapon. What he didn't realize is that tariffs are a weapon of mass destruction! According to Tom Porcelli, chief US economist at RBC Capital Markets, while proposed tariffs could increase prices on some consumer goods, the total impact is estimated to be about 0.1% of the US economy. Meanwhile in China the tariffs are raising concerns about job losses and economic growth as large companies like Apple and Amazon begin to look into shifting their manufacturing. You don't have to look too far in history to see that nobody wins in tariff trade war and it's

becoming clearer that the use of tariffs by the President of the United States is having a negative impact on the global economy. Whenever any economic tools like tariffs are implemented to resolve an issue, the impact - whether positive or negative - will be delayed roughly one to two years.

### Emotional Intelligence

I don't believe the President can get much leverage with world leaders, including China, if he continues this draconian heavy handedness approach to negotiations. Everyone feels alienated by a person who clearly does not have the emotional intelligence to negotiate in good faith. The Americans would be better served if they approached their trade issues with China as a united front, shoulder to shoulder with its allies. The Chinese are better off to wait and take their chances in the next election.

### So where does that leave the market?

Volatility will be the norm for now and the probability of a recession increases daily as businesses and consumers plan for the future with a cloudy crystal ball. With this in mind, we will remain neutral until sentiment changes because being strategic in our asset allocation is the right thing to do at this time. When it's time to act, we will be ready as always!



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