The PFP Monthly

Wealth Management
Dominion Securities

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Quarterly update

Historically, the summer months tend to be the quieter times of the year for markets. However, 2018 seems to be an anomaly, as there have been many headlines over the last three months. Media topics like trade tariffs, NAFTA uncertainty, economic issues in Turkey and revamped interest in the cannabis industry turned a supposed quiet summer into a pretty loud one.

Concern or opportunity?

Overall, world growth continues to move forward in a fairly united fashion. However, individual economic growth doesn't always equate to the rise in their subsequent markets. While the United States seems to be taking advantage of the tax cuts implemented last year, and reporting healthy economic numbers, China, Europe and emerging markets haven't been so fortunate. Much of this has been caused by uncertainty, trade disputes and a rising U.S. dollar. While many of the countries involved have made strides to resolve the noted issues, uncertainty still looms offstage. On September 30, you would have seen the Euro Stoxx 50, MSCI EAFE and MSCI Emerging Markets indices produce returns of -4.00%, -1.18% and -7.12%. Subsequently, this has caused both emerging markets and developed markets (excluding the U.S.) valuations to come down from their five-year averages. Conversely, what the price-to-earnings chart on the following page shows is a potential opportunity for developed and emerging markets from a valuation perspective. While we believe there will still be rocky times over the near future, we believe that these two markets could present a good opportunity for growth.

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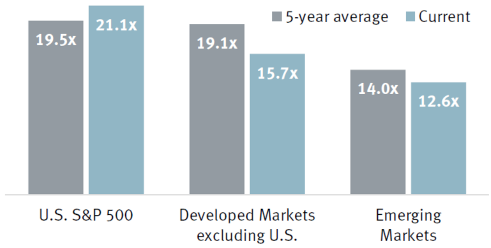
Price-to-earnings ratios based on trailing 12-month earnings (in USD)



Note: "Developed Markets excluding U.S." is represented by MSCI World ex-U.S. Index; "Emerging Markets" is represented by the MSCI Emerging Markets Index.
Source - RBC Wealth Management, Bloomberg; data through 9/26/18

Global Portfolio Advisory Committee economic indicator scorecard

Indicator	Status		
Yield curve (1 year vs. 10 years)	✓	-	-
Unemployment claims	✓	-	-
Unemployment rate	✓	-	-
Conference Board Leading Index	✓	-	-
ISM new orders minus inventories	✓	-	-
Fed funds vs. nominal GDP growth	✓	-	-
	Expansion	Neutral	Recessionary

Unanimous readings consistent with the economic expansion having further to run.

Source - RBC Global Portfolio Advisory Committee

NAFTA 2.0?

At the time of writing, Canada and the U.S. have come to a proposed agreement at the 11th hour to create the new USMCA agreement. This long, drawn-out negotiation between the U.S., Canada and Mexico, which looked unsolvable at times, is now completed (barring any hold up from Congress). Although we cannot fully realize the changes to the trade deal today as many companies that are affected are just starting to map out how they will adjust and change their supply chains based on the new trade parameters, the fact that the deal is now done removes some uncertainty which is always a benefit to the financial markets and the economic players within. The new trade deal includes an interesting clause relating to free trade with other or "non-market countries." This could affect future trade deals that the partnering countries make with non-market countries, most notably China. More than anything, we believe this is a big step in removing some of the uncertainty within the U.S. government's tit-for-tat trade tariff binge. We view the new USMCA deal as neutral to modestly negative from an economic perspective. Having said that, we believe that although inferior to the previous NAFTA deal, North America can live with it.

What we've done

Within the current economic landscape, we have overhanging situations like: the China-U.S. trade disputes, forecasted interest rate hikes for this year and 2019, as well as rising U.S. interest rates. But at the same time, U.S. GDP numbers are still strong, unemployment is some of the lowest in history, and consumer confidence is the highest it's been in 18 years. As seen in the economic indicator scorecard above, all major recessionary indicators continue to point towards continued expansion. As mentioned in the previous quarterly note, we continue to believe that global economic expansion is still strong, however, we are getting closer to the later innings of the cycle. This has led to making active changes to both our fixed income and equity buckets. On the fixed income side of the portfolio, we have made an active effort to reduce our duration and further lower our sensitivity to interest rate hikes by adding the Mackenzie Floating Rate Note (which will take advantage of interest rates moving up) and implementing a one-year GIC. Due to the raising rate environment, we believe that short-term, high-quality fixed income positions offer the best risk-reward in this space. On the equity front, we have been adamant on continuing to add high quality companies like Pembina Pipeline, Finning International Inc., CVS Pharmacy and Netflix. The recent quarter offered attractive opportunities to create positions in these large cap names with great business models and potential upside growth. As we continue to roll into the later parts of this current 10-year cycle, we remain focused on maintaining a high-quality, well-diversified portfolio.

Thank you for your continued support.

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