WHAT TO DO FOR AN ENCORE

Late every year, I like to review economists and equity strategists' forecasts for equity markets for the year ahead, not only from RBC but from our competitors as well. In Early December, the consensus was for an Ok year for US stocks (around 5-7% gain) and low double digit returns for Canada, Europe and Asia. Well surprise, surprise, only 4 months into the year and when I look at my quote screen I see some very impressive year-to-date returns:

- In **North America**: the S&P 500 up 17%, closely followed by our TSX, up almost 16%
- **Europe**: Germany up 16.6% and France almost an 18% gain. Even the Brexit-challenged UK is in double digits
- **Asia** : Shanghai leads the pack, up over 23%, but Hong Kong, Japan and Australia are all ahead 11% or more

The question we must ask ourselves is: *has the economic world improved that much since the global stock market downturn of late 2018 or are we seeing the (embarrassed) panicked sellers of December come flooding back this year?* The old FOMO story (fear of missing out).

And what does the balance of the year hold? The answer, to quote a wise and much older friend of mine, is "it all depends".

Last week, we saw US markets hit new highs, buoyed by a very strong 3.2% GDP growth of the first quarter; the economists, again making weather men look good, expected only a 2.5% gain. In Canada, however, the Bank of Canada now expects growth of 1.2% for the whole year, down significantly from 2.1% only six months ago. Also cut was the outlook for Canada's rate of growth for the next two years and an expectation that full economic growth would be only 1.8%. Needless to say, that sent our Loonie down a full half cent!!

Yet the TSX is also at a new all-time high and, as noted, has made sizable able gains this year. So, we have one strong economy with expectations of its continuing vibrancy, at least for a while, and one economy apparently slowing fast – yet both major stock market indices are within a few percent of each other. While there appears consensus that some agreement on the US-China tariff battle will occur, signing of the USMCA (United States-Mexico-Canada Agreement) seems to have lost traction. **Globally**: The Chinese government stays committed to supporting economic growth as internal debt concerns and external trade issues remain, and in Europe there is small but growing evidence of an economic improvement despite ongoing socio politico issues.

Bottom line: after such a strong start, it is likely any performance encore may be muted, and in the case of Canada maybe even lower share prices lie ahead if the Bank of Canada economic concerns are understated. However, if as anticipated, the BOC does cut interest rates mid-year, that should buoy our dividend paying shares, but may well put further pressure on the Canadian dollar.

T**his week's Global insight** looks at the dismal performance the **Health Care sector**, where strong earnings are being over-shadowed by health care reform being a focus point of Democratic Presidential Candidates. As the election is still some 18 month away, this uncertainty is not likely to go away soon. Because of the pivotal nature of the 2020 Presidential race, I fear less and less attention will be paid to running the country in the long months ahead. I, for one, would love to see the USA move to the British system – 38 days from dissolving Parliament to voting day!!

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