

# MacKay Weekly Investment Report



WEEK ENDING FRIDAY, JULY 20, 2018

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## Summer Doldrums / Back in Business / The Cycle

Are we in the summer doldrums – equity markets up slightly this week. Historically equities rally during summer months – with Sept/Oct pullback.

**Positives:** Good earnings – especially US banks – they have expectations for continued economic growth – rising rates help – regulatory relief – more M&A – sizeable returns of capital – RBC expects EPS for US banks to grow 26% – their back in business . Fed char – J Powell strikes optimistic tone on economic outlook – resilient growth – steady inflation – stimulus could counter risks or trade disputes. US buybacks a tailwind – 4% of market cap of S&P500 – \$1Trillion projected. US Companies are showing massive gains in productivity, corporate profits are soaring, companies are consistently beating earnings expectations, strongest job markets in decades, housing uptrend – focus on facts – not pouting pundits. Yield curve close to flat now – inverted does not cause a recession – inversion is because Fed drives short term rates too high & overtightens monetary policy – it's the tightening – it's far from tight now – as short term rates are far below inflation & pace of nominal GDP growth + 10 year rates far too low. Nominal GDP growth great 4.7% in four quarters ending in March & looks to have growth even faster in the four quarters ended in June – more importantly economy is accelerating. (B. Wesbury). AAI investor's bullish sentiment 35%. Markets do not think Trump policies will blow up into a full-fledged trade war – if fears were put to rest, equities might jump 10% ( J Siegel). US consumer comforts near 17 year high on better finance views. Rising rates historically causes a recession / financial crisis as borrowers can't service their debt – widespread credit review then stocks fall – bottoms once fed starts to ease credit conditions – end of crisis – the cycle – not the end.

**Negatives:** Fed chair comments – based on empirical evidence countries that have remained open to trade and have not created barriers including tariffs have shown faster and higher incomes, higher productivity, and countries that have gone in a more protectionist direction have worse – we wait. Canadian regulations & mortgage fraud – how big is it. China growth slackens as trade & domestic policy headwinds mount – GDP 6.8% – regulation to dampen buildup of leverage & escalating trade fractions is likely to further undercut growth momentum. Housing & materials – change in mortgage principal repayments rate has seen first YoY increase since 2008 recession – an indication of housing turning in Canada.

**Investment Wisdom:** “If you can follow only one bit of data, follow the earnings – assuming the company in question has earnings.” – P. Lynch

## PORTFOLIO MANAGEMENT-Week's Highlights Stock of the Days:

Have a great weekend. Bruce

Exchange	19-Jul-18	YoY	MoM
S&P/TSX	16,543.01	9.3%	1.6%
DJIA	25,064.50	16.3%	-1.0%
S&P 500	2,804.49	14.6%	0.6%
Nasdaq	7,825.30	24.7%	1.6%
FTSE 100 Index (UK)	7,683.97	3.6%	-0.3%
DAX Index (Germany)	12,686.29	0.4%	-1.2%
Hang Seng Index (HK)	28,010.86	6.3%	-9.9%
Nikkei 225 (Japan)	22,764.68	13.3%	-0.5%
Shanghai 180 (China)	7,397.42	-7.6%	-9.6%

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