

# MacKay Weekly Investment Report



WEEK ENDING FRIDAY, MAY 17, 2019

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1-800-561-4468

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## Low Inflation / 17 Months Now / \$100B vs. \$14T

Volatile equity markets again in the US – this time positive – is it all about the tariffs – traders & hedge funds move markets – best to wait it out.

**Positives:** Tariff talks started January 2018 – its been 17 months now – its now all about the upcoming US election. US closer to resolving tariffs with Canada & Mexico. US import prices climb more slowly than expected – a sign that a strong dollar may be contributing to low US inflation. President of Federal Reserve Bank of New York last week “inflationary pressures remain absent despite a strong economy.” Canadian households are currently benefiting from a stellar jobs market, rising disposable income, and falling mortgage rates – renewal mortgage rates are barely above previous ones. JPM equity strategy – JPM believes in tariff compromise – predicts most probable outcome – as both sides stand to suffer from the adverse trade fallout with sensitivity increasing into the US elections and 70<sup>th</sup> anniversary of the Peoples Republic of China. US jobless Claims – 50 year low. Economic growth vs. short-term interest rates – spread remains firmly in positive territory – provides a good long term perspective for investors to determine when money is getting tight. Canadian economy added 160,500 jobs in April, the largest monthly gain on record. Back to Tariffs – its true tariff increases will not help the US economy – but \$100 billion of tariffs spread over \$14 trillion of consumer spending is not a recession inducing drag – the status quo means accepting hundreds of billion in theft from companies that are leading edge of future growth – either way, if tariffs nick the US economy, China gets hammered – last year US exported \$180 billion in goods & services to China (0.9% of US GDP) – China exported \$559 billion to the US (4.6% of Chinese GDP) –US has enormous economic leverage they can’t match. (B Wesbury.)

**Negatives:** US IPO Boom – at this pace will beat the 1999 peak of the dot com bubble – is this a sign of equity peak? Also Dodgy Wall Street Deals point to market trouble ahead (Bloomberg). China needs the west, not North Korea, Russia or Venezuela – all these trade hysterics just aren’t warranted (B Wesbury). End of cycle now slightly more likely than mid cycle. Strong earnings season may be hard to maintain. US industrial production dropped in April -0.5% and long term trend in manufacturing production shows sector pulling back after a strong 2018. US consumer prices were soft in April – is this a sign of broad economic weakness. Summer tends to see volatile equity markets and includes summer equity rally.

**Investment Wisdom:** “Opportunities come infrequently. When it rains gold, put out the bucket, not the thimble.” – Warren Buffett

## PORTFOLIO MANAGEMENT-Week’s Highlights

**Stocks of the Day:** CSCO, WMT, AQN, HON

**New Issues:** CJR, EIT.UN, NVU

Have a great long weekend. Bruce

Exchange	16-May-19	YoY	MoM
S&P/TSX	16,443.86	3.0%	0.7%
DJIA	25,862.68	4.5%	-1.1%
S&P 500	2,876.32	5.6%	-0.1%
Nasdaq	7,898.05	6.7%	-0.1%
FTSE 100 Index (UK)	7,353.51	-4.5%	-1.0%
DAX Index (Germany)	12,310.37	-5.5%	3.9%
Hang Seng Index (HK)	28,275.07	-8.2%	-6.2%
Nikkei 225 (Japan)	21,062.98	-6.4%	-3.4%
Shanghai 180 (China)	8,300.35	-0.4%	-7.4%

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