

# MacKay Weekly Investment Report



WEEK ENDING FRIDAY, MAY 31, 2019

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Serving clients and friends at RBC Dominion Securities Inc. – a member of RBC Financial Group since 1983.

## CDA optimism/ 1998 Repeat? / Will They Change

Equity markets continue to correct this month – is it just seasonal – many point to inverted yield curve – summer equity rally tends to follow.

**Positives:** Bank of Canada optimistic about economic rebound even as it stays neutral on interest rates (5<sup>th</sup> straight decision) - they site stabilization in housing, recovering production in the oil sector, stronger consumer spending + exports as well as a firming of business investment along with employment gains. Canada moves to ratify the NA trade deal (USMCA). Does it matter how the 10y-3m yield curve inverts – in Sept 1998 this occurred during Russian long term debt capital crisis, which triggered massive risk aversion – but it was also a buying opportunity – key point is global risky asset risk off trade - not business cycle turn – investors could be overreacting to inversion like in 1998 when we saw equity markets bottom + then embark on a strong rally over the next 10 months – “is this election timing in the works?” US growth has been acceleration – real GDP growth rose at a 3.2% annual rate in Q1, up 3.2% from a year ago – expect 3% now – this is due to changes in policy - a combination of lower marginal tax rates – particular on corporate profits – as well as deregulation - so major foreign economies do worse as they have not followed the same policies – US a better place to conduct business – so slow growth abroad is not affecting US (B Wesbury) “ will foreign economies change their policies - they should”. The selloff is, at last hitting the emotional stage, while it’s painful to do so, investors need the negativity to play out so they can get better opportunities in the form of lower stock prices. , the market doesn’t bottom until pessimism peaks. (J. Cramer). Cash on the sidelines keeps building especially in money market funds. Jeremy Siegel optimistic on trade deals being resolved as it needs to , as US election approaches.

**Negatives:** Trump latest Tariff talk and the retaliation he didn’t count on. US Treasury yield a new low – 2.22% lowest level since sept 2017 – US yield curve inverted again as inflation expectations drop and rate cut expectations increase. Inversion is a recession indicator. Financial stability landscape in the Euro area has become more challenging over the last six months – ECB released FSR report has growth outlook & slowing global growth due to high level sovereign debt, increase lower corporate debt. Disorderly Brexit. Future of European Union leadership remains in question. Out past 4 Q’s real GDP expansion of 1.5% in the 28 countries that make up the European Union, slowest pace since 2013. China up 6.4%, slowest gains in decades.

**Investment Wisdom:** “Although it’s easy to forget sometimes, a share is not a lottery ticket. It’s part ownership of a business.” - Peter Lynch

## PORTFOLIO MANAGEMENT-Week’s Highlights

**Stocks of the Day:** WM, INDA, VZ, CPX, QQQ

**New Issues:** Have a great weekend. Bruce

Exchange	30-May-19	YoY	MoM
S&P/TSX	16,089.24	0.8%	-1.5%
DJIA	25,169.88	1.7%	-3.8%
S&P 500	2,788.86	2.4%	-3.1%
Nasdaq	7,567.72	2.2%	-4.3%
FTSE 100 Index (UK)	7,218.16	-6.3%	-2.8%
DAX Index (Germany)	11,902.08	-8.6%	0.4%
Hang Seng Index (HK)	27,114.88	-12.0%	-10.1%
Nikkei 225 (Japan)	20,942.53	-6.9%	-3.9%
Shanghai 180 (China)	8,123.60	-2.6%	-9.3%

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