

Commentary

ECONOMIC OUTLOOK

- US GDP expected to grow 3.5% with continued strong consumer confidence and low unemployment
- Canada's growth expected to be only 1.5 – 2.0% with slower housing and retail spending
- Growth in European Union now slowing; Brexit solution still pending
- China maintaining growth near 6.5% but US tariffs would cause short term economic weakness
- Economic recovery in Japan continues with stronger corporate profits and accommodative monetary policy

INTEREST RATE/INFLATION OUTLOOK

- US and Canadian short term rates at 2.00% – 2.25% and 1.50% respectively
- US short term rates increased in June and September by 0.25%; expected to increase by 0.25% by December
- Canadian short term rates increased 0.25% in January and July; one more rate increase of 0.25% expected this year
- Longer term rates will rise slightly with continuing U.S. economic expansion
- 2.0% inflation expected in North America and Europe

ASSET MIX OUTLOOK

- Favoured equity markets (in order): US, Canada, Japan, Europe, Emerging Markets
- Continue to overweight equities vs. fixed income as earnings still growing while interest rates rising slowly

MARKET OUTLOOK

- Markets remain supported by strong US economic growth, higher corporate profits and deregulation; still concern over extended market levels and rising interest rates
- New trade deal finalized – US, Mexico, Canada Agreement (USMCA); will provide more stability for Canadian economy
- US tariff battle with China still a concern for world markets
- US corporate profit growth expected at 15% plus this year and more than 10% in 2019
- Lower taxes and strong corporate balance sheets in the U.S are supporting acquisitions / dividend increases / stock repurchases
- Oil \$72 – \$80 US; C\$ 0.78 – 0.80 range vs. US\$ in 4th Q
- Focusing on Canadian dividend paying equities, US growth equities, International (EAFE) equities and Canadian corporate bonds