Jack Way

Vice President

"The market doesn't feel"

"By The Way"

October 2017

Despite almost five decades of following stock markets it is still hard for me to process new highs for the S&P 500, the day after a tragedy such as the massacre in Las Vegas. But as our last letter indicated bull markets have a unique ability to ignore bad news, whether economic geo-political, weather related, or in this case simply gut-wrenching. The market doesn't feel, and the huge amount of liquidity provided by central banks continues to need to find a home, and a large part of that liquidity is flowing into financial markets. We have spent a lot of time focusing our comments on the world's central banks and on the circus in Washington and its head clown. But we don't want to overlook the fact that global economic growth, while not stellar, has been expanding at a rate that provides support for a positive market outlook. The table below gives a brief summary of the recent status of the major world economies, and also shows the current level of one of our favorite forecasting tools, the Purchasing Managers Index (over 50 indicates expansion).

	GDP % Y/Y June	Industrial Production % M/M July	PMI September
U.S.	2.2	2.4	60.8
Canada	3.7	5.2	55.0
China	6.9	6.4	52.4
Japan	1.4	4.7	52.9
E.U.	2.3	3.1	58.1

If we are to assume that a strong economy leads to growing profits and thus to higher markets (and in the long run we do believe that), it is noteworthy that global economies have been doing quite well. If we take a bit closer look at each of the five countries, individually, we can see pluses and minuses but still an overall positive trend.

The U.S. economy is benefitting from low interest rates, a weak dollar which helps trade, employment growth, and less regulation. The big uncertainty and potential negative is, of course, politics. In particular, to maintain and also improve the growth rate, we want to see progress made toward tax reform and increased fiscal spending. Also looming is the future make-up of the Federal Reserve Board. If Janet Yellen is not renewed as Chair, there will be 3-4 new members and a new Chairman. While policy is set by a consensus of the 12 members, the Chair has extra influence and will have new appointees who are likely to share his/her thinking. Broad policy is expected to continue as currently set, but there is certainly opportunity for the pacing and direction of monetary policy to change, with a concomitant impact on financial matters.

Canada has experienced this year the strongest growth of a major economy this side of China. The consumer has remained robust, and corporate profits have recovered which has led to a rebound in capital expenditures. That rate of growth is likely to moderate as the Bank of Canada has raised rates, and a strengthening dollar weighs on exports. Speaking of exports, the NAFTA negotiations are definitely of concern to our outlook. The elephant in the room is the future of the housing market, particularly given the high level of consumer debt.

China continues to manage a moderation in growth and a move to a more consumer-centric economy without experiencing a so-called "hard landing". Policies outlined at this week's Party Congress will give us guidance as to where China is headed.

Japan remains "all-in" on fiscal and monetary stimulation, which seems to finally be having a positive effect on the economy and the country's chronic deflation. Improvement is being seen across the board, notably in corporate profits, employment, and capital expenditures. Prime Minister Abe has called a snap election which he is likely to win, (a loss would be very unsettling), and the North Korea situation is definitely of concern.

Finally, the Eurozone as a whole is experiencing good growth, with low rates, monetary stimulus, and a much-improved business and banking environment providing much of the impetus. A stronger Euro, tapering of monetary policy, Brexit, and political populism (see Spain) remain potential negatives for the economy.

Stock markets are not cheap, but continue to act well and we expect that strength to continue. Still, we want to see continued growth in global economies and corporate earnings to support higher prices.

strathbridge ASSET MANAGEMENT

121 King Street West, Suite 2600
Standard Life Centre, P.O. Box 113
Toronto, ON
M5H 3T9

Tel: 416-681-3900
Toll free: 800-725-7172
Email: info@strathbridge.com