Market Watch Weekly

DHG DEKKER HEWETT GROUP

Issue 24 Friday, June 16th, 2017

This week we had monetary policy driving the markets as each of the EU, US and Canadian central bankers took center stage. Not surprisingly, these comments were eagerly awaited and needless to say moved the markets.

Starting in Canada, we had Senior Deputy Governor Carolyn Wilkins certainly talk up our Dollar when she stated in a speech in Winnipeg that first quarter GDP growth has been “pretty impressive” and that the Bank sees economic growth broadening. The following day, Governor Poloz commented that previous interest rate cuts “have largely done their work.”

These comments were interpreted as relatively hawkish, resulting in a two day surge in the Canadian Dollar and leading us to believe that the next interest rate move by the Bank of Canada will likely be to increase, not decrease, interest rates.

We also heard from the US FOMC, who as expected did raise interest rates by ¼ point. However, what was not expected was the ensuing commentary that although inflation is expected to remain below their 2% target, they still foresee making one more rate hike this year. Although Janet Yellen continued to reiterate that near term risks look to be roughly in balance, the general markets seemed to take a hawkish stance, leading to this week’s modest decline.

It is our belief that this week’s pullback in the markets is actually quite positive longer term as the market breadth had become exceedingly narrow which can be quite bad for investors if gone unchecked for a lengthy period of time. While no one enjoys a market decline, we would much rather see several individual small periods of decline as opposed to one prolonged correction.

The closest analogy we can make is that of earthquakes. You would much rather see many small 2.0 quakes versus one large 8.0 quake. The resulting damage is very different, but geologically speaking, the earth’s mantle ends up getting to the same place.

We also attended an Alternative Strategy conference this week where the theme was “Changing Conventional Thought – Alternative Investment opportunities in a rising rate environment”. Both Jason Mann who manages the Edgehill Partners Fund and Craig Chilton who co-manages the Vertex Arbitrage Fund on behalf of many of our clients mentioned that one of the greatest risks they see in the markets right now is that of the ‘bond proxy’ trade that has become overly crowded.

With the US Federal Reserve already raising rates and the Bank of Canada indicating that their next move will be to follow suit (we don’t anticipate any moves until the beginning of 2018), it is our belief that the next ten years will certainly present a different landscape than the previous ten for income investors.

Erik Dekker, BBA, CIM
VP, Sr. Investment Advisor &
Portfolio Manager

Mark Hewett, P. Eng., CIM, FCSI
VP, Sr. Investment Advisor &
Portfolio Manager

Erik Benson, BA
Investment Advisor &
Portfolio Manager

Alan Berge, CFA, AIF
Investment Advisor &
Portfolio Manager

Alix Rogers
Investment Advisor Assistant

Massimo Beltramo
Business Development Associate

David MacLachan
Business Development Associate

Canaccord Genuity
Wealth Management
P.O. Box 10337
2200 - 609 Granville Street
Vancouver, BC V7Y 1H2

T: 604.643.0285
F: 604.601.5966
TF: 1.800.663.1899

E: dghinfo@canaccord.com

www.dekkerhewettgroup.com

Our own strategist, Martin Roberge, noted something very similar this week, pointing out that the Canadian Utility and Telecom sectors are trading at nearly 2 standard deviations above their historical averages. In simple terms, this means that the high yield equities that so many investors have recently chased are now trading at unsustainably high valuations.

We saw a similar theme take place in the United States last year, and have since seen the corresponding equities begin to correct back to their historical norms. We fully expect to realize something similar here in Canada as our rates begin to rise. The correlation of interest rates beginning to rise and the correction in both the Utility and Telecom sectors is not lost on us. It is our belief that a similar correction will be felt here in Canada as our central bankers begin to raise rates as early as six months from now. As Wayne Gretzky would always say, "skate to where the puck is going, not to where it has been".

As a group, we are never surprised with activity amongst publicly traded companies. But when we came in this morning to see Jeff Bezos' Amazon express its intention to acquire Whole Foods for US$13.7 billion, it was pure genius. Not often, in any acquisition, do we see the stock price of both companies involved move to the upside. Further innovation is on its way.

Thank you for reading our Market Watch Weekly and have a great weekend.

Sincerely,
Dekker Hewett Group

Happy Father's Day!

TODAY'S STOCK WATCH

S&P/ TSX Composite	15,446
Dow Jones Indus. Avg.	21,202
S&P 500	2,426
Canadian/US Dollar	$0.7427
US/Canadian Dollar	$1.3465
Euro / Canadian	$1.5077
Gold	$1272.20
Silver	$17.22
Copper	$2.65
Brent Crude Oil	$48.20
WTI Crude Oil	$45.87
Natural Gas	$3.03

*As of 12:30PM on Friday, June 9th, 2017

DHG
DEKKER HEWETT GROUP

CANACCORD Genuity
Wealth Management