Euphoric Summers End

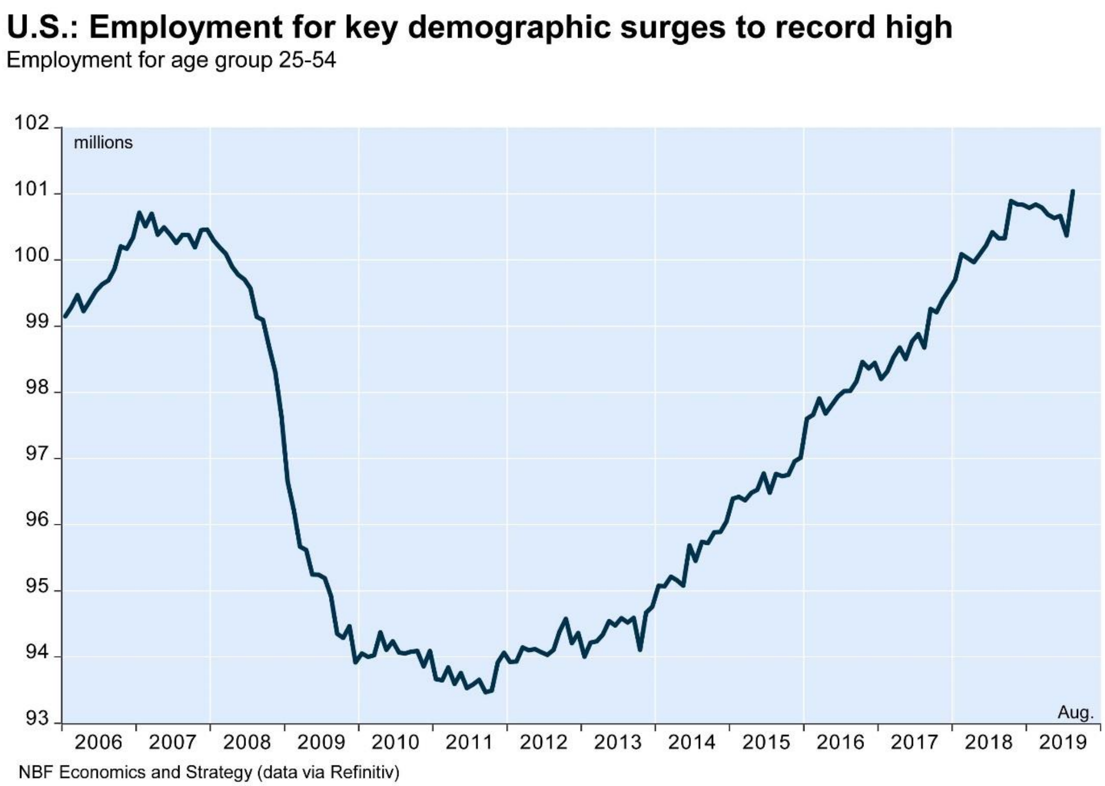
I sure feel the end of August into early September reflected my dog days of summer. Not due to a sweltering August night with no AC, but due to the quantity of trading I completed for clients (disclaimer: except for 2 clients). The equity and bond markets situation finally become irrational for me. We raised some cash and than in September bought Canadian banks due to their declined stock price with some of this cash. We are still holding cash and perhaps we may raise more cash again this year, we shall see.

Final Market Phase

The equity and bond markets continue unabated higher. This typically happens in the final phase of a Bull market, which I have stated on many occasions, is where we are. And it can last for years!

US Economy is still pounding out job growth, albeit in slower growth than previously. I am watching this very closely as it is one of my primary indicators of contraction of equity markets.

US unemployment is still extremely low at 3.7% (near 50 year lows) and wage growth is running at 3.2% year over year. Both are rather euphoric numbers...thus why I remain diligent.



Euphoric Summers End

A Bit too Euphoric

Even for this glass half full guy, there is a bit too much euphoria out there. Housing sales are off and running again. Folks are job hopping for the next salary bump. The bond market is way overvalued. The latter happens when the true worrisome folks jump into what they perceive as its safety. About a week ago you could buy a 30 year German government bond and receive negative return. Buying these type of bonds is going to pretty much guarantee a negative return! What if they default on their debt, what happened to the safety net?

Reminder, I have stated over the past year that one of my worries is government debt may be one of the biggest contributors to a market correction. Not Corporate debt, but Government debt.

US Trade truth

The answer to your first question, yes trade with China is important, however let's remember there are other countries around this globe we can trade with.

Total US trade in goods and services (exports plus imports, combined) was $4.9 trillion in 2016. In the past twelve months, it's been $5.7 trillion, an increase of 16.3%. US trade has grown faster that the overall economy. So have tariffs really hurt trade? I say that somewhat tongue in check, for yes I wish a different approach to resolving trade conflicts would work, however the truth is trade has grown. Remember trade is dynamic and companies will look for other avenues.

Where is this trade coming from?

US imports from China are down -12.3% from the same period in 2018.

However: Imports from Vietnam are up +33.2%, up +20.2% from Taiwan, +9.8% from South Korea, +9.7% from India and +6.3% from Mexico (and this without passing the revised NAFTA).

Dividends are growing

Of the 20 companies that make up this Core position of income and growth all but 2 have increased their dividends this year so far. 90% have already raised their dividends assisting us in why we own them.

Final comments

Bond market overvalued, Dividends are growing, Corporate earnings meeting or exceeding expectations, employment still growing, wage growth up, productivity up in the US, Canada is flat. Equity markets have been strong all year with a bit of softness in May and August with September climbing US and Canadian equity markets back to their year highs.

I will continue to watch closely and be assured I will be in touch.

(data used has been published by First Trust Portfolio's Chief Economist, Brian Westbury)

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