Navigating *your* future.

APRIL 2019

# - SAVE THE DATE -

Thursday, May 23rd (evening)

HEALTH CARE and AGING: Challenges and Opportunities / Panel discussion of experts followed by Q&A

Willow Springs Winery - Stouffville

Invitation will follow

## MARKET UPDATE

**Winter of Content**

It seems like only yesterday we were taking down stockings and devouring the last drops of eggnog. For anybody who was paying attention to the stock market in December those last drops may have been infused with rum. 2018 ended on a very sour note with wild swings in financial markets driven by fear of higher interest rates. There was a U.S. government shutdown that carried into 2019, Brexit worries and fears of a slowing global economy. Given all those concerns it may be surprising to some that the first three months of 2019 have produced stellar returns. With all the pessimism building through the Christmas season central bankers took the opportunity to become more accommodative with their rhetoric. In other words they made it clear that their position had changed and higher interest rates were no longer imminent.

**Canada**

Since December 31 of 2018, the Toronto Stock Market (S&P/TSX Composite Index) has risen 12.4%. The rally has been broad-based and steep, driven by a slowly growing economy, low inflation, and crude oil prices that have jumped more than 32%. Forward-looking corporate earnings estimates have generally been discouraging as has the economic data that underpins them. On top of weak corporate forecasts we have seen what is known as an inverted yield curve (discussed below) which has often been considered a harbinger for recession. With all that is going on it is curious that the Canadian stock market has produced its best first quarter performance in almost 20 years. The simple explanation may be that the market was grossly oversold after a miserable fourth quarter last year.

**United States**

U.S. markets also proved very resilient through the first quarter of 2019 with the Dow Jones rising 11.2%, the S&P 500 jumping 13.1%, and the technology heavy NASDAQ posting an impressive 16.5% gain. Again, the greatest factor in the reversal appears to be the more dovish posture assumed by the Federal Reserve. Expectations last summer were that there would be multiple interest rate hikes in 2019. The expectation now is that rates will remain where they are for the current calendar year or until such time as the data drives them in a particular direction. The market may also be pricing in a positive outcome in the trade talks withChina which seem to be driving the headlines in recent weeks. On the negative side again the inverted yield curve, a phenomenon that also occurred south of the border, led to some jumpiness toward the end of the quarter.

**Overseas**

Although Europe may be in the economic doldrums their equity markets managed to participate in what became a global rally. The MSCI EAFE (Europe, Australia and the Far East - soon to include China) rose 9%. Germany, the largest EU economy, posted an 11.2% gain after a more than 18% slide in 2018. The Chinese economy started to show some signs of life as well after a sluggish 2018. In addition to the burden of U.S. tariffs, the government also endeavored to tamp down what is referred to as “shadow banking” in an effort to improve debt quality and avoid a systematic disruption. Additionally, they implemented simulative tax cuts which seem to be having a positive impact on consumption.

**Inverted Yield Curve**

When long-term interest rates are higher than short-term interest rates the yield curve is considered normal because we expect that the longer you lend money the more risk you are taking. If you are taking more risk, you expect a higher rate of return. When long-term interest rates drop below short-term rates the curve is inverted suggesting that the short-term risks to the economy are greater. In the past inverted yield curves have been precursors to recessions but they are not proof positive. The longer the inversion, the more likely it is to be predictive but there is no telling when that weakness will manifest itself in other ways. No doubt there will be a recession at some point but few expect one in 2019. Sometimes a recession is only apparent in hindsight.

**In Summary**

We always hope for the best and prepare for the worst. Over time equity markets trend higher which is why we stomach the extremes but we always try to temper the fluctuations by having something – fixed-income securities – that pays you consistently and reacts differently when stocks are misbehaving. Diversification is a key determinant of risk-adjusted returns which is why we try to assemble portfolios that are greater than the sum of their parts.




## GOING SOUTH

*By Kate & Dermont Gilderdale*

In 2015, after four decades of living in a detached family home, it was time for my husband and I to consider a smaller, maintenance-free alternative.

We originally moved to Stouffville because it was within commuting distance of Toronto, where we both worked. Although the city was our first choice, it was beyond our means financially, and Stouffville had a lively and walkable downtown, a brand-new library and a vibrant street life, which made it easy to meet people and make lifelong friendships.

By the time our children grew up and left home, the small town had grown into a suburb and most retail had moved away from the downtown core, which meant greater reliance on the car for everyday needs and fewer opportunities to meet other residents randomly on the street.

With both children now settled in Toronto, we began to discuss moving there too. The cost of owning property in the city was still a barrier, so we decided to explore apartment rentals instead. For us, it was the perfect solution. We sold our house and found a three-bedroom apartment in High Park, with a huge balcony and an unobstructed view of the park and Lake Ontario.

It's truly a vertical village where you can learn a surprising amount about your fellow residents in a single elevator ride. If your stove or fridge breaks down, the landlord will fix or replace it. And our big balcony offers a great outdoor space for dining and relaxing with friends and family.

Our car spends most of its time in the underground garage because the subway is directly across the street, giving us easy access to downtown and Toronto's many cultural delights. Walking in the city gives you a whole new perspective and I have never walked as often or as far as I do now, always knowing that if I get tired, I can hop on a bus, streetcar or subway and make my way home.

Best of all, we live within easy distance of both our children and get to spend lots of time with our beloved grandchildren as a result. We no longer have to maintain a house or back yard, but we have a 400 acre park right across the road, with nature trails, a pond, picnic areas, a zoo, a trackless train in the summer, Shakespeare in the Park and many benches to sit on and contemplate nature, people watch or just read.

And there's so much to do and see throughout the city: movies, live theatre, countless restaurants, the islands, ROM, the AGO, the waterfront and – heaven on earth for me – 100 libraries, making Toronto the library capital of the world.

Our building is one of the older ones and houses a diverse group of tenants – young people, old people, families, immigrants and Toronto natives. And many dogs, since High Park offers the ultimate canine paradise in its huge off-leash area.

What really surprised us was how easy it was to adapt to living in a high rise. We expected to feel a sense of loss when we left the old house, but instead we felt renewed and excited that we were embarking on a whole new adventure.

City life may not be for everyone, but for us it's a dream come true. And when we want to visit old friends in Stouffville, we just get on the GO and head north.



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*Notice of Assessment: You will receive this once your taxes have been filed and processed. This is where your 2019 RRSP contribution limit is recorded. Please drop it off at our office, email kmorton@ipcsecurities.com, or fax (905) 642-4537.*

*TFSA Limit for 2019: The limit for 2019 is $6,000. Unused contribution room may be carried forward.*

*Principal Residence: reminder that the sale of your principal residence must be reported on your tax return. You will need to report the date you acquired the property, proceeds from the sale and a description of the property on Schedule 3.*