

Week of September 9th, 2019

Market Overview: September 2nd – September 6th, 2019

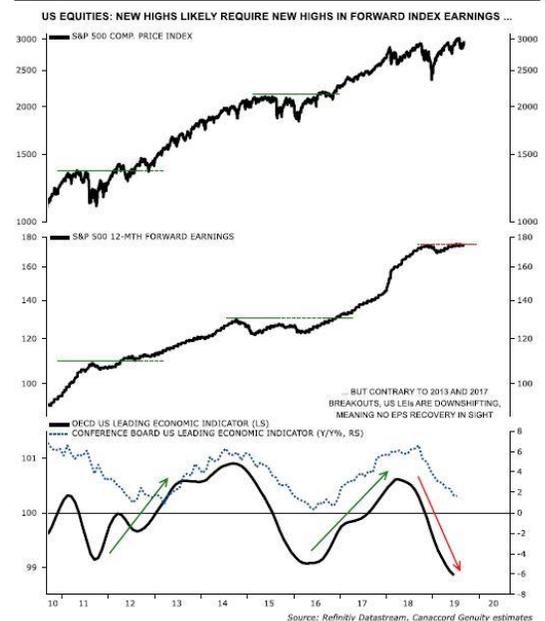
Overview

Stocks had another positive week, climbing above key resistances. US and China have agreed to hold trade negotiations in Washington in October, but after the tariff rate on \$250 billion of imported Chinese goods is increased to 30% from 25% on October 1. Some would say that the only thing missing for stocks to move to new highs would be an announcement of a delay to US-China talks to November. Joking aside, it is as if trade uncertainties are keeping markets afloat as investors are unwilling to sell stocks ahead of an eventual trade deal and an upside blow-off in equities. Time will tell if downside risk comes after a trade truce when the carrot disappears. Elsewhere, risk-off assets such as gold and bonds have borne the brunt of the equity rally. Such a correction was bound to happen as net speculative positions had become just too crowded on the long side. Risk-on commodities such as oil and copper have rebounded.

Cyclical/Price Correction in Stocks to Persist a While Longer

Among the factors why we expect the cyclical/price correction in stocks to persist a while longer, we highlight the direction of corporate earnings. As our *Chart of the Week* shows, so far in this bull market, new highs in US equities have required new highs in forward index earnings as well. Indeed, when we look at the S&P 500 breakouts in 2013 and 2017, the S&P 500 12-month forward EPS line broke to new highs concurrently. A key factor boosting forward EPS back then was economic growth reacceleration as portrayed by the Organisation for Economic Co-operation and Development (OECD) and Conference Board LEIs. Also, in 2017, President Trump's stimulus provided more impetus to earnings. The ambiguity this time around is that both Legal Entity Identifier (LEIs) are signaling further US economic weakness and US fiscal stimulus is nearly over. When we account for the US\$ appreciation and the full impact of Trump's 25% tariffs beginning in Q3, it is difficult to see how the S&P 500 forward Earnings-per-Share (EPS) can climb above the \$175 wall. Thus, while pre-blackout buybacks and European Central Bank (ECB)/Bank of Japan (BoJ) monetary bazookas could push stocks higher in the near term, the all-clear signal for stocks seems further down the road.

Chart of the Week



Economic Data

Regarding economic data, as expected the Bank of Canada (BoC) left its target rate unchanged given that inflation is right on target. As a reminder, the BoC has one and only one job (as opposed to the Federal Reserve), keep inflation

between 1% and 3%. Otherwise, employment remains strong considering that the Canadian economy added 81k net new jobs in August. In the US, nonfarm payrolls came in at 130k, a 1.388% increase from year-ago levels. Since 1950, every growth reading below this number eventually led to a US recession. Suffice to say that we will monitor US employment closely over the next few months. As for Purchasing Manager's Index (PMIs), the ISM mfg. index fell to 49.1 in August (from 51.2), below the 50 boom-bust line for the first time since January 2016. But the ISM non-mfg. PMI advanced to 56.4 (from 53.7) suggesting service sectors are holding up despite ongoing manufacturing weakness. Elsewhere, In China, the Caixin mfg. PMI advanced to 50.4 (from 49.9) and the People's Bank of China (PBoC) announced a 50bps cut in its reserve requirement ratio hoping to stimulate bank lending activities. In India, the Markit mfg. PMI declined to 51.4 (from 52.5). As for South Korea, exports declined 13.6% YoY in August (from -11%) and the mfg. PMI remains below 50 at 49.0 (from 47.3). In all, business surveys and other measures continue to suggest a protracted global growth slowdown is underway and the need for additional monetary and fiscal stimulus.

Next Week's Forecast

Next week, we await inflation and retail sales in the US. Sticky inflation could weigh on rate cut expectations. In Europe, the ECB is on deck and at risk of disappointing markets if it does not deliver a fresh stimulus cocktail. In China, we will monitor exports, industrial production, inflation and social financing to gauge the strength of the economy. Finally, in India our focus will be on inflation statistics¹.

Please contact LeBlanc Group at leblanc.group@cgf.com or by phone at 604.661.7839 to learn more. You can visit our website by following the link <http://www.leblancgroup.ca/>.

All information is given as of the date appearing in this document and Canaccord Genuity Wealth Management (CGWM) does not assume any obligation to update it or to advise on further developments related. All this information has been compiled from sources believed to be reliable, but the accuracy and completeness of the information is not guaranteed, nor in providing it do CGWM assume any liability.

All views expressed in this document are provided for informational purposes only and does not constitute an offer or solicitation to buy or sell any securities. The statements expressed herein are not intended to provide tax, legal or financial advice, and under no circumstances should be construed as a solicitation to act as a securities broker or dealer in any jurisdiction. All views are intended for general circulation to clients and do not have any regard to the specific investment objectives, financial situation or general needs of any particular person.

Forward-looking statements and past performance are not guarantees of future results. To the fullest extent permitted by law, neither CGWM nor its affiliates or any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of the information contained in this document. Canaccord Genuity Wealth Management in Canada is a division of Canaccord Genuity Corp. Member – Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada.

Investing in any of the securities mentioned above may not be suitable for all investors, as there are different types of risks involved with these investment strategies. Even if suitable to your level of risk tolerance, any or some of those securities may not be appropriate for your portfolio, depending on what other investments you hold. Please note that, from time to time, we may have personal investments in any or some of those securities and that past performance may not be repeated. Please do not hesitate to contact us should you want to know more about them or have any related questions.

¹ September 2019. Source: Portfolio Strategy Incubator: Weekly Market Wrap-Up.