Happy New Year!

Here are our key points. The full report is below.

- 2018 ended with large market declines.
- 2019 markets climbed to record highs, mainly due to lower interest rates and increased liquidity.
- 2020 should continue to see the TSX and other markets do reasonably well with some volatility, partly due to interest rates (an accommodative Fed and Bank of Canada), resolving of some trade issues (signing of USMCA and Phase 1 of China/US trade agreement) and the upcoming US election. After the election, markets could be unsettled.
- We maintain a focus on equities, taking profits from overweight holdings, and adding to cash to take advantage if a correction occurs.

In January 2019, markets were just emerging from a correction that took the TSX down 12% before that year end. Markets on both sides of the border had been testing 20% bear market declines as they bottomed on December 24th, 2018. Growth appeared to be slowing in both China and the US. The US Fed had raised rates and the yield curve had inverted. Trade wars were feared between the US and China, the US and Europe and the US and Canada. Many analysts feared a recession was over-due. The headlines going into 2019 were extremely pessimistic, which often signals a bottom is near.

2019 was a volatile year. USMCA was negotiated and should soon be ratified. BREXIT was finally passed although the final outcome is unknown. The phase one of a US/China Trade deal was negotiated. The President of the United States was impeached by Congress. American pressure on Iran led to conflict by Iranian proxies, the assassination of the General Soleimani, alienation of US allies and an uncertain future for the region. The US Federal Reserve became more accommodative. China stimulated their economy. Employment remained robust and wages began to rise.

Despite the mixed messages, markets climbed and pushed to record highs. Most of this was due to lower interest rates and increased liquidity. A shift from fixed income investments to equities drove rates higher for longer bonds, leading to losses in bond valuations and a reversion to a positive yield curve.

The markets have continued the positive trend established going into year-end as we digest the earnings from the 4th quarter. The Canadian markets will probably echo activity in the US markets. The economic picture in Canada appears to be improving although there are mixed signals. Job numbers bounced back after two disappointing months and we will see if this trend continues. The Bank of Canada appears to have taken on a more accommodative bias during their recent meeting, citing conflicting trends, and this bodes well for the TSX. The ratification of the USMCA should eliminate much trade uncertainty and could lead to increased business spending on plant and infrastructure.

Canadian energy/pipelines may see a rebound in 2020. There are indications that there is progress being made on the development of Keystone XL, Line 3 and the Trans-Mountain expansion pipelines. The shale boom in the US appears to be beginning to peak. Canada is seen a secure supplier of energy in an uncertain geopolitical climate. Producers have cut costs and are extremely efficient. We are seeing a trend away from fossil fuels as we concentrate on climate change, however this will take time and our large energy producers are focusing on becoming more diversified and socially responsible.

Despite the optimistic tone, market growth historically relies on economic growth and earnings, leading to expanding P/E multiples. Low interest rates and increased liquidity have extended the economic expansion and eventually this cycle will end. The US President will likely do everything in his power to keep markets buoyant until the election is over. Once the election is completed, equity markets could face uncertainty and some re-evaluation.

We remain constructive for 2020 as the US election will probably hinge upon elevated market valuations driven by a stimulated economy. The recently signed "Phase 1" China/US trade agreement might be seen in context of the impending election. Lowering trade barriers and promises of agricultural and manufactured products should help Donald Trump in swing states. We will be keeping a close eye on the Democratic nominee as markets will likely react negatively to a nominee that is deemed to have a negative business bias.

Short-term interest rates will likely remain at historically low levels. The US will probably continue to add to record deficits to keep the economy growing through the election. Long bond yields may continue to rise as investors begin to demand higher rates for new debt issuance.

We continue to see bonds, debentures, and preferred shares as un-favourable in terms of total return. We maintain a focus on equities and will continue to harvest profits from overweight holdings and add to cash/near cash or reinvest in dividend paying stocks. We believe that dividend paying equities represent better relative value than growth stocks at this time. In addition when a correction and/or recession occurs, dividend paying equities should relatively outperform and should recover more quickly than holdings that pay little, or no dividends.

We remain conservative in our investment posture and will participate if markets continue to march higher. We will be keeping a close eye on earnings and will take opportunities to take profits to hedge against a possible correction and be able to take advantage of future opportunities.

Have a great month, and as always if you have any questions or just want to touch base we are just an e-mail or phone call away.
We're here to help!

The Andras Group

p.s. As you start to collect your tax slips, this link will take you 2 documents that give the dates of Mackie tax mailings and a tax prep checklist, for your reference: https://www.mackieresearch.com/news/72
More to follow.