We hope that you are well and staying warm!

Markets on both sides of the border have reacted to fears of a slowing global economy, the trade war with China, the potential impeachment of the President of the USA and Brexit. This has increased volatility, however the markets continue to climb a wall of worry and the bias remains to the upside.

Canada has not been immune from global events. China suspended exports of canola and pork due to the ongoing extradition hearings surrounding Huawei CFO Meng Wanzhou. The negotiation and hopefully eventual ratification of USMCA will provide a boost to the economy especially in the West as pipelines should move ahead. Despite the worrying international news, the Canadian economy has been remarkably resilient. Employment growth has been solid, housing growth appears to be expanding and wages are growing. GDP growth has outperformed other OECD counties posting 3.7% annualized growth in the 2nd quarter.

The BREXIT saga continues. A tentative new deal was approved by the EU. The UK Parliament has sidelined PM Johnson's promise that the UK would leave on October 31 with or without a deal. The EU has allowed for an extension beyond October 31 and an election has been called for December 12th. BREXIT uncertainty has disrupted supply chains, has caused additional cost for relocations and has delayed critical decision making and corporate planning. The resolution of this issue is becoming more likely and no matter what the outcome the certainty is welcome.

In the US, trade issues with China have led to tariffs on goods by both parties, causing higher prices for consumers and lower profitability for manufacturers. Despite rounds of talks there is little resolution on fundamental issues. Chinese Growth has slowed to 6%, the slowest in many years and the ISM index in the US is tracking below 50 indicating contracting manufacturing. This indicates that the trade war is starting to bite. This makes some form of a truce possible as President Trump faces re-election and the Chinese need an economic boost, allowing for tariff reduction and trade expansion. The possible impeachment by the House of Representatives of President Trump has distracted law makers. The uncertainty surrounding impeachment and an "America first" attitude to international relations diminishes America's reputation on the global stage.

Although there is considerable economic uncertainty the direction of equity markets appears to be higher. A resilient consumer, stable housing and the service sector are compensating for slowing manufacturing activity. Financials have been especially durable, finding ways to increase earnings in the face of slowing corporate finance conditions.

Canadian equities appear to be somewhat undervalued. Canadian banks, for example, are trading at P/E ratios that reflect much higher loan loss exposure than currently being experienced. There is still concern, especially among US Hedge funds, that Canada has a housing bubble that will inevitably lead to loan losses and much lower bank common share valuations. Measures taken by banks and governments to stress test mortgages and dampen speculation has lessened the likelihood of the negative outcomes hoped for by short sellers. Dividends are continuing to grow for banks, utilities and REITs and earnings are supportive.

The U.S. equity market continues to benefit from global capital inflows, share buy backs and earnings, which although deteriorating, are still supportive. The US financials look to have taken market leadership and the technology sector, previously the driving force behind the market is now more value driven. Indicators are that investors are looking for value and stock selection with an eye to perceived security. Overall we are of the opinion that equity markets on both sides of the border will continue to go higher over the next year. However, market risk, due mostly to trade tension and geopolitical events, needs to be closely monitored.

As always if you have any questions or just want to touch base, we are a phone call or e-mail away. We're here to help.

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