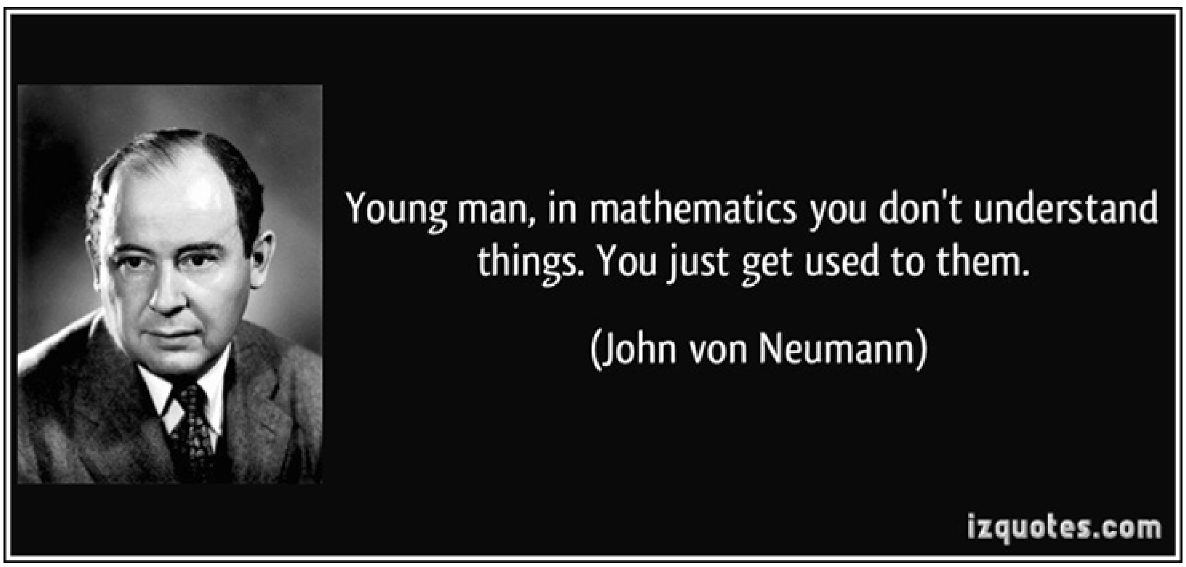
Ermes Monaco

From: Ermes Monaco
Sent: May-31-17 4:31 PM
To: Ermes Monaco
Subject: VALUED CLIENT MAIL LIST: Early Summer 2017 Economic Outlook

HollisWealth
MonacoAdvisorTeam

WORDS OF WISDOM FOR THE FINANCIAL MARKETS



Source: Google Images

John von Neumann was an Hungarian-American mathematician, physicist and economist in the 1930's to the 1950's that recognized the uncertainty of certainty in applied science. His belief was captured in two other often quoted thoughts:

"There's no sense in being precise when you don't even know what you're talking about."

"Anyone who attempts to generate random numbers by deterministic means is, of course, living in a state of sin."

This is a useful perspective to keep in mind when economic and financial market indicators being reported are mixed. There is normally a degree of concurrent conflict amongst indicators which is typically overshadowed by a stronger underlying trend. However, in particular since 2000, growth has been become spread over a broader global economy, causing the general rate of individual growth to be moderated. This has made conflicting indicators more recognizable and is contributing to on-going investor uncertainty and anxiety. Consequently, despite post-recession growth, mixed economic environments have created a number of **"sideways"** cycles with North American GDP still chronically below 3%, Euromarket GDP barely 1% and Asian GDP's showing signs of slowdown.

Source: Google Images

Here is a quick look at some of the prevailing conditions creating a **sideways sentiment** at this time:

- The Trump "bump" effect has largely been discounted by the market now although U.S. political concerns are beginning to create a negative sentiment. Consequently, the market has returned to trade on fundamentals.
- Stock prices remain at all-time highs largely on earnings strength.
- Automation continues to erode employment and wage growth; Ford has cancelled some of its production plans in Mexico in favour of returning it to the U.S. although the company has also recently announced 1400 lay-offs there.
- Consumer confidence remains buoyant but the U.S. moral indicator is declining.
- GDP growth and inflation remain modest although a U.S. central bank rate increase is anticipated in June.
- The traditional "Sell in May and go away" cycle has not borne itself out yet this year as cash reserves are seeking the prospect of summer pricing opportunities.

The longer the market moves sideways, the more investors tend to become indifferent to event risk. <u>However, complacency represents a risk in itself</u>.

FIGURE 15.—Man being bombarded by "invisible" rays.

Source: Google Images

Nonetheless, the process of push and pull inevitably creates its own dynamic which has become measurable on a technical level pointing to renewed recovery and growth.

THE TRADING RANGE IS WEAKENING.
THE MARKETS WANT TO RESUME THE MAJOR UP TREND.

Do not underestimate the underlying strength of the bull market in its recent horizontal phase. The S&P 500 has taken the first steps to exceed its recent trading range. The next requirements are to stay above 2,400 and make a strong follow-through. The bull market continues to be probed for fatal flaws by bearish forces, but it continues to pass these examinations with ease. A further test of the bull's credentials will occur when the S&P 500 approaches 2,500.

Source: HollisWealth Portfolio Advisory Group: Phases and Cycles May 30/17

In the meantime, what should we reasonably, if not precisely, expect in the near term based on current conditions?

1. **Periods of significant market strength will likely continue to be followed by phases of pullback and profit taking within reasonable ranges to create room for further performance and capital deployment within a sideways market environment.**
2. **Cash reserves in portfolios to continue to be maintained.**
3. **Companies will continue to adjust to automation, moderate energy costs and global competition to achieve greater operating efficiency and profitability while easing reliance on employee reductions for margin improvement.**
4. **Wage growth will continue to be a modest inflation pressure as union demands remain muted.**
5. **Companies will continue to expand into greater global players independent of government posturing particularly from the U.S. where a business backlash may develop due to mounting resentment to the current administration.**
6. **Quality companies will continue to provide greater reliable performance due to their ability to maintain profitability during periods of extended modest growth.**
7. **The possibility of relaxing defensive investment measures should become more practical although they should remain a portfolio component.**

Regards
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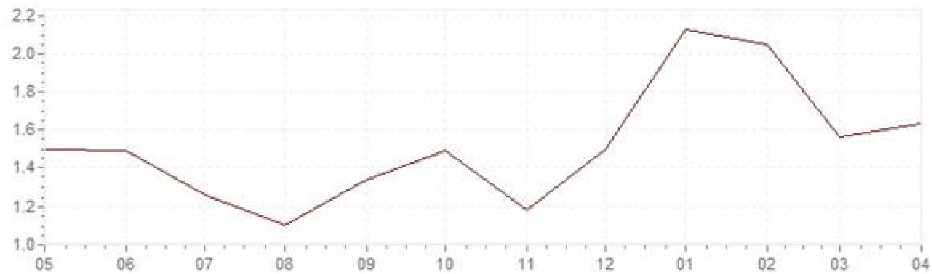
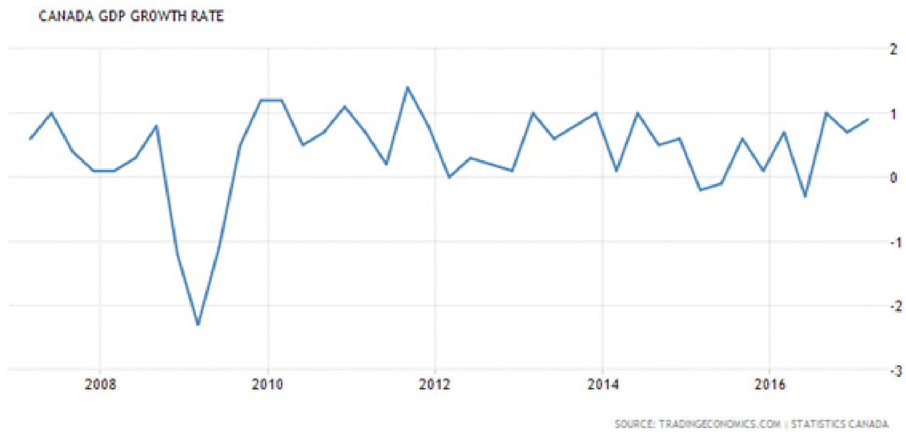
KEY ECONOMIC INDICATORS and BUSINESS SECTORS	
 **Last 3 Years** **Source: Globeinvestorgold**	**The Canadian dollar continues to be range-bound and reflect oil commodity price levels.**
Canadian Inflation	



Source: Inflation.eu

Inflation remains contained although consumer consumption and GDP have strengthened recently. However, the economy continues to contain considerable slack which will contain inflation before inflation risk becomes a factor.



Source: Trading Economics.com

Canadian GDP continues to demonstrate gradual improvement supported by the latest quarterly index of 3.7%. This is expected to continue to gradual improve as the impact of the energy pricing decline is absorbed by the economy.

ENERGY

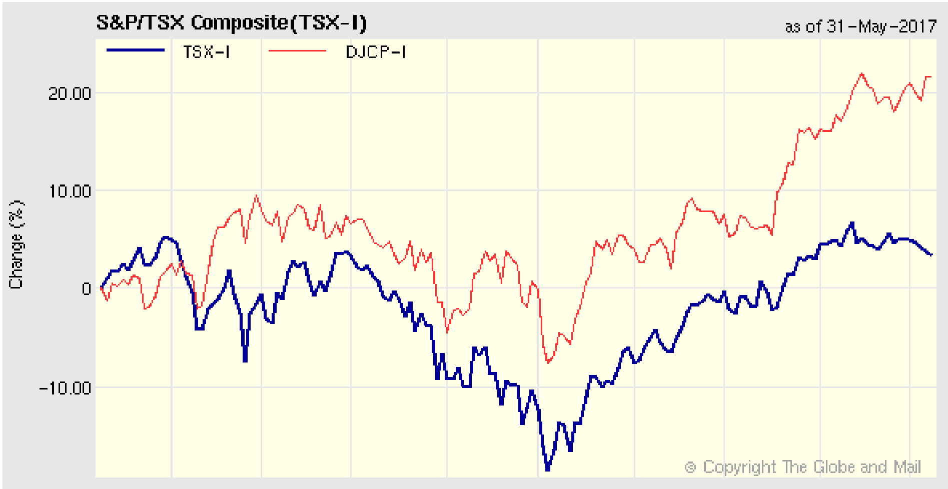
Last 3 Years

Source: Globeinvestorgold

The price of crude continues to have support around US$50 although it remains exposed to the possibility of higher U.S. and non-OPEC production.

FINANCIAL MARKETS

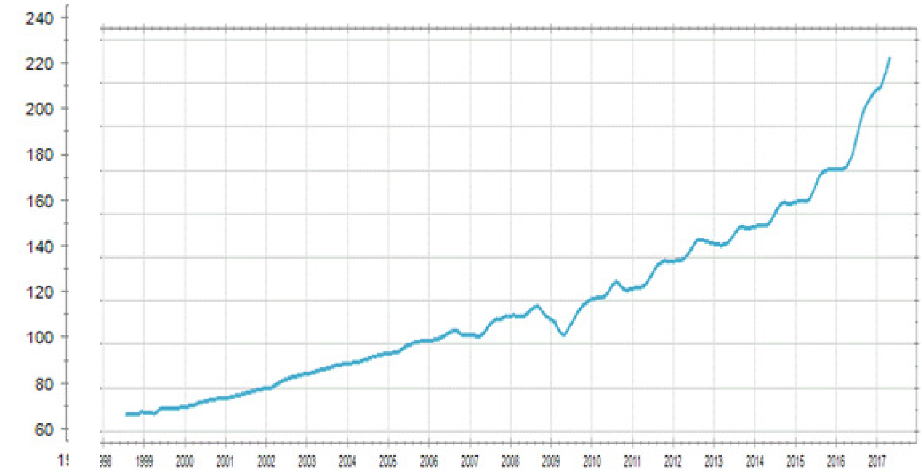
The financial markets have shown weakness recently due to uncertainty being created by U.S. administration policy and market prices remaining near all-time highs. However, the extent of the weakness is being moderated by corporate earnings which are demonstrating continued strength.



Last 3 Years

Source: Globeinvestorgold

REAL ESTATE
Canadian Index



Source: Teranet

Following the latest government initiatives intended to moderate the pace of real estate price increases, the balance of buyers and sellers has recently moved slightly in favour of the buyers. This is creating a modest price stabilization.