

May 2019

Market Update



Important Topic: Perspective – Size & Strength of the U.S. Economy

It is difficult to comprehend how ridiculously large and strong the U.S. economy is. The Gross Domestic Product (GDP) – a measure of the value of goods produced each year – of the United States was \$20.5 trillion in 2018. The creativity, ability, focus, talent, imagination and hard work of the U.S. worker has produced an economy larger than any other in history. It is this success that has provided the wealth and continuously improving living standards enjoyed by its citizens.

To put this in perspective, the largest state economy is California which produced \$3 trillion of economic output in 2018. If California was its own country it would have the 5th largest economy ahead of the United Kingdom, France and India. The entire United Kingdom produced \$2.8 trillion of economic output. Now California was able to do this with a work force of 19.6 million people while the United Kingdom required a workforce of 34 million (World Bank Data). Amazingly, California required 42% less people to produce slightly more. This is a testament to the superior productivity of the American worker and reveals the sheer power of the U.S. “experiment”.

Similarly, the second largest state economy is Texas which produced \$1.8 trillion of economic output in 2018. If Texas was its own country it would have the 10th largest economy ahead of Canada (\$1.7 trillion). Texas was able to do this with a work force of 13.9 million people while Canada required 20.1 million people. (World Bank Data). In other words Texas required 33% less people to produce slightly more economic output (or Canada required 6.2 million or 50% more people to produce slightly less).

Lastly, it is important to note that the U.S. has developed leading expertise across industries and continues to create new industries. Most other countries specialize in two or three industries and are therefore less economically stable over time.*

TD Wealth Private Investment Advice

5140 Yonge Street, Suite 1600
North York, Ontario M2N 6L7
T: 416 512 6689

Meir J. Rotenberg, MBA, CFA

Vice President & Investment Advisor
meir.rotenberg@td.com

Adam D. Shona, B.Comm

Associate Investment Advisor
T: 416 512 7645
adam.shona@td.com

Nelson Gordon

Client Service Associate
T: 416 512 6813
nelson.gordon@td.com

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May was a step backwards as fear returned to the capital markets. After a few months of volatility in the markets May proved to be unremarkable.

This time the fear was based on Chinese-U.S. trade relations and the election of many right wing, anti-European Union candidates to the European Union Parliament. With many investors spooked out of the emerging markets and Europe, many flocked to the U.S. and to U.S. Government bonds in particular. The demand for U.S. government bonds results in a stronger U.S. dollar and lower U.S. mid to long-term interest rates. Lower rates might normally be a positive development for U.S. stocks but during times of fear lower rates are seen as a sign of a weakening economy.

As always the markets are trying to calculate the present value of the future. Fear has a negative effect on this calculation as the future looks less bright.

Year-to-date, the markets remain strong. Most equity markets around the world have still posted attractive gains year-to-date, while at the same time, the bond market saw prices rise as interest rates fell. It remains a profitable year with only a few exceptions.

Looking forward, the economy is performing just fine by most measures, only slowing slightly, political uncertainty and volatility remains high (and likely will for the foreseeable future), and inflation remains benign. As a result, we are neutral in the short term, but positive in the medium and long term. We continue to hold our positions and invest cautiously.

For the month, the bond market was up 1.7%, the Canadian market was down 3.6%, the U.S. market was down 6.3%, International markets were down 5.0%, the Emerging markets were down 6.3%, the Real Estate market was flat and the preferred market was down 3.2%. (Reuters)

Year-to-date, the bond market is up 4.6%, the Canadian market is up 12.7%, the U.S. market is up 10.6%, International markets are up 8.3%, the Emerging markets are up 3.4%, the Real Estate market is up 12.6% and the preferred market is down 1.7%. (Reuters)

Have a great month and let us know if there is anything we can do for you,

Meir



* Source: <http://www.aei.org/publication/putting-americas-enormous-20-5t-economy-into-perspective-by-comparing-us-state-gdps-to-entire-countries-2/>

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