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Carte WEALTH MANAGEMENT INC.

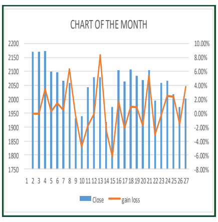
KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 8, ISSUE 2 FEBRUARY 2019

CONGRATULATIONS TO RYAN SIMONE FOR SUCCESSFULLY ACHIEVING THE CHARTERED LIFE UNDERWRITERS AND CERTIFIED HEALTH INSURANCE SPECIALIST DESIGNATIONS

Sergio Simone
EDITORIAL COMMENT

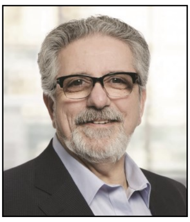
Sergio Simone
HARNESS THE POWER OF DIVIDENDS



TYPICAL SIGNS OF RECESSION ARE NOT PRESENT

Ryan Simone
PRE-RETIREMENT ASSESSMENT SERIES (IV)

Editorial Comment



Sergio Simone

The Baby Boomer phenomena has had an enormous impact on our lives since they first appeared shortly after the end of WWII. When baby boomers were born, the average life expectancy was only 63 years, today it is 15 to 20 years more. According to Statistics Canada, more than half of senior men over 65 reported working in 2015. Senior women are also staying in the workforce longer as 38.8 percent were working past age 65. This is almost twice the level in 1995.

Continue Reading

Harness The Power Of Dividends

Sergio Simone

I am a big proponent of investing in dividend paying companies. Dividends are concrete; they can't be faked or created by fraudulent accounting methods. Dividends are an important indicator of the health and value of a company. Good fund managers will often search out healthy dividend paying companies whose stock is bargain priced. These bargains can provide above average returns on your investments.

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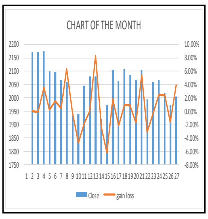
Typical Signs of Recession Are Not Present



There are usually leading indicators to a recession, the most prevalent being an inverted yield curve.

Currently, we have none of the typical signs of recession and as such, we continue to believe recessionary risks into 2019 remain low.

Continue Reading

The Pre-Retirement Assessment Series: Theme Four: OK To Spend More

Ryan Simone

For pre-retirees, creating a Life Plan typically involves a pre-retirement assessment (PRA). This is where we gather information that is categorized as either a cash source or a cash use.

Continue Reading

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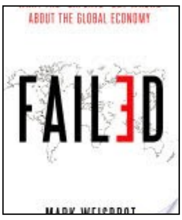


The Broken Leg

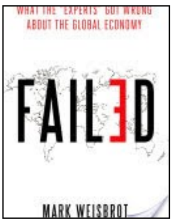
BOOK OF THE MONTH

FUND OF THE MONTH AGF GLOBAL SELECT

INVESTMENT TERMINOLOGY

BLOG OF THE MONTH THE BROKEN LEG

BOOK OF THE MONTH



FAILED

—By Mark Weisbrot

Why has the Eurozone ended up with an unemployment rate more than twice that of the U.S. ? Why did the vast majority of low– and middle-income countries suffer a prolonged economic slowdown in the last two decades of the 20th Century? What was the role of the International Monetary Fund in these economic failures? 'Failed' analyzes these questions, explaining why these important economic developments of recent years have been widely misunderstood and ignored.

FUND OF THE MONTH

AGF GLOBAL SELECT

The Fund offers concentrated exposure to global equities focusing on innovation to identify companies that exhibit exceptional product development and corporate leadership. The Fund Manager uses a bottom-up earnings growth momentum investment style, looking at a company's revenue, earnings, profitability, earnings quality, growth potential, as well as industry and country strength.

INVESTMENT TERMINOLOGY

BOTTOM-UP INVESTING

Bottom-up investing in an investment approach that focuses on the analysis of individual stocks and de-emphasizes the significance of macroeconomic cycles and market cycles. In bottom-up investing, the investor focuses attention on a specific company and its fundamentals, rather than on the industry in which the company operates or on the greater economy as a whole. This approach assumes individual companies can do well even in an industry that is not performing, at least on a relative basis.

BLOG OF THE MONTH

The Broken Leg

WHY INDEX INVESTING WILL LEAD TO POVERTY IN RETIREMENT

Despite what Warren Buffet says, passive index investing is a bad bet.

On January 1, 2008, Warren Buffett, the king of value investing, famously bet $1 million that over the next decade passive index investing—buying and holding a fund that tracks a broad stock index—would outperform active management strategies.

The Oracle of Omaha waged with a New York hedge fund that a Vanguard S&P 500 index fund would beat a basket of actively managed hedge funds over a ten year period. At the end of 2017, the loser will donate $1 million to their favorite charity.

Buffett didn't get to be the fourth richest man on the planet by making dumb bets.

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PRIVATE WEALTH

INFORMATION AND SOLUTIONS FOR HIGH NET WORTH INVESTORS

RBC Dominion Securities

JOINT OWNERSHIP ACCOUNTS

As part of the estate planning process, individuals will often consider establishing a joint account with one or more of their adult children or other family members. Sometimes, this is done as a tool for expediency so that a joint account holder can help to manage the account, or to make the assets immediately available to the surviving accountholder(s) upon the death of the first joint accountholder. In other cases, a joint account is a planning technique used as part of a strategy recommended by an individual's legal and tax advisors to seek to minimize probate tax.

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Private WEALTH CANADA Online

WHY LEAVING A LEGACY CAN BE ONE OF LIFE'S GREATEST GIFTS TO LOVED ONES

A New study by Merrill Lynch conducted in partnership with Age Wave finds nearly half of Americans ages 55 and older do not have a will, despite the widely held belief that people should have their end of life affairs in order before they turn 50. Furthermore, only 18 percent of people over the age of 55 have all three expert-recommended legacy plan essentials, which include: a will; a healthcare directive and a durable power of attorney.

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Robb Report

FACE YOUR MONEY FEARS

Our-of-control wealth is always fascinating to watch on the big screen. In the past month, we've seen Kardashian-style spending Singapore style in the movie *Crazy Rich Asians,* and a little girl in diamond earrings who wants "money as big as this room" in Generation Wealth, the sobering documentary by Lauren Greenfield that's showing in select cities. But if purposeful wealth is more your style, this kind of excess might make you wonder if having money is a shameful secret.

Continue Reading

TOP DATA PROTECTION ISSUES FACING HNW INDIVIDUALS—Caroline Rao, UK

Often referred to as "the oil" of the modern economy, data is strikingly vulnerable to abuse as more personal information goes online and can be cross-referenced. High net worth individuals are among those with the most to lose.

Caroline Rao, senior associate at UK-based law firm Harbottle & Lewis, outlines how the wealthy can control their personal data and put proper safeguards in place. High net worth individuals are particularly at risk, Rao says

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FUND MANAGER COMMENTARY

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DAN BASTASIC
IA CLARINGTON

REGINA CHI
AGF INVESTMENTS INC.

DRUMMOND BRODEUR
CI INVESTMENTS

STEVE LOCKE
MACKENZIE FINANCIAL

Dan Bastasic, Senior Vice-President, Investments

I. A. Clarington

The rally in global markets was extremely strong in January—the complete opposite of what we experienced in December. With high volatility to both the downside and upside, investors will naturally be left wondering if the January rally was simply a “dead cat bounce” and we eventually head lower again. Continue Reading

Regina Chi, V.P. and Portfolio Manager—AGF Investments Inc.

The EM Millennial Moment

Millennials, the cohort largely born in the 1980s and 1990s, are one of the key drivers of consumption growth in Emerging Markets (EM) and globally. Their sheer numbers, rising incomes, greater overall wealth and technological savviness,

Continue Reading

Drummond Brodeur, Sr. V.P. and Global Strategist—CI Investments

2018 is on course to end with almost every major asset class delivering a negative return, an achievement rarely seen over the past century. Yet despite the broad-based carnage across global asset markets, the global economy remains in healthy shape. For 2018, global GDP growth is expected to be robust, led by strong U.S. economic growth, while global earnings per share growth should be strong

Continue Reading

Steve Locke, Head of the Mackenzie Fixed Income Team

Market sensitivity to higher US interest rates, and generally tightening monetary policy, showed through strongly in the fourth quarter of 2018. The Federal Reserve’s tightening path continued through the fourth quarter as the policy rate was increased a ninth time since late 2015, to 2.50%. Chairman Powell’s slight increase in hawkishness as Q4 began, when combined with the slowing global growth projections, expectations of slowing growth in US corporate profits, and the by-then significant declines in many emerging market equities and bonds, caused a sharp revaluation of US equities and high-yield debt.

Although there are no immediate signs of recession for the US economy in 2019, some areas of the domestic economy have begun to feel the pressure from higher interest rates and yields ushered in by the Federal Reserve over the past two years. For example, as mortgage rates moved higher through the middle of 2018, applications for mortgages fell as affordability became more challenging for a greater number of households.

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LINKS

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Fed Holds Rates Steady

While the Fed said continued US economic and job growth were still "the most likely outcomes," it removed language from its

BMO's Annual RRSP Study

BMO Financial Group today announced the findings of its annual Registered Retirement

Italy Slides Into Recession After Economy Shrinks

The Italian economy contracted in the fourth quarter of 2018

In This Time Of Uncertainty, Careful Not To Confuse Economic Slowdown With Recession

Fears about economic growth

Brexit Countdown: UK Readies For "No Deal"

UK and European Union financial regulators have agreed to co-operate and swap information in

BMO Blue Book

The Canadian economy has begun to moderate, with growth coming in at just below 2% in the second half of 2018, highlighting

RBC—Econoscope

GDP activity in October bounced back 0.3%. That more than reversed the disappointing 0.1% decline reported in September. Market expectations

Canadian Pensions End 2018 With Solvency Decline

The solvency positions of Canadian defined benefit pension plans

Help Maximize RDSP Carry Forwards

Registered Disability Savings Plans (RDSPs) were first introduced in 2008 to help people

In an era marked by disruption across nearly every part of the global economy, it's no surprise uncertainty continues to dog investors.

Continue Reading

RETIRING RIGHT: UNDERSTANDING THE TAXATION OF RETIREMENT INCOME

What types of income might you receive in retirement? How will your retirement income be taxed? In a January 2019 CIBC Retirement Poll, 74% of respondents said they worry about having enough income in retirement. Yet the majority of respondents didn't know how retirement income is taxed, which may result in lost opportunities to implement strategies that might save hundreds of thousands of tax dollars annually. This report provides an overview of the main ways to fund your retirement and describes how each source of funds is taxed.

VIDEO LINKS

Larry Berman: Market outlook for 2019 with David Rosenberg

On this week's education segment, Larry Berman is joined

Monthly Market Update

Markets around the world had a great start to the year, with almost everything going up.

Here's What Millennials Are Investing In.

CNBC's "Closing Bell" team breaks down how millennials are investing with JJ Kinahan

2019 Review and Outook

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EDITORIAL COMMENT-CONTINUED

One factor that has contributed to this situation is the global banking crisis in 2008, where many company pensions failed to recover, and boomers were forced to provide for themselves during retirement. Another, equally important, non-financial factor is that people are living longer and in better health than people were even a generation ago.

This will likely have an impact on the Canada Pension Plan sometime in the future. The CPP was created in 1965, as a response to growing poverty among retired Canadians. The concept was a good one as employers matched employee contributions, and employees could count on some form of income during their retirement years.

Since the average male life expectancy in 1965 was 66.8 years and the average for females was 73.7 years, it seemed that the CPP was destined to thrive on the excess contributions that would be kept after the death of the candidate. Thirty-two years after the inaugural debut of the CPP, the government realized Canada's population was aging and living longer. On average, the life expectancy for both men and women increased by approximately 6 years. The government realized that they couldn't maintain funding of the plan without some changes so, in 1997 the contribution rates were doubled to 9.9% of pay.

Even if changes can be made to make CPP viable for the baby boomers, there are real and increasing concerns that this large cohort group of seniors will be unable to fund their retirements. According to a study released by the Insured Retirement Institute, Baby Boomers are in large part unprepared for retirement, having failed both to plan adequately and save enough. The study states that 42% of Boomers have no retirement savings and of those who are saving, 38% have less than $100,000 saved. An interesting statistic is that 79% of Boomers who work with a financial professional have at least $100,000 saved for retirement.

A Scotiabank poll conducted in June found that 44% of boomers expressed concern about outliving their retirement savings. The poll also concluded that less than 15% of Canadians have done little to no retirement planning. There are two questions that are asked at almost every first retirement planning meeting. "Do I have enough money saved and will it last for the rest of my life?" Whether the client is a factory worker or factory owner, these questions are asked.

I believe one of the weaknesses in many retirement plans is the failure to understand and deal with longevity. For example, for a husband and wife age 65 today, there is a 73% chance that one will be alive at age 90 and 47% chance that one will live to age 95. It is critical to plan for income to last 30 to 35 years.

Retirees do have other options, but many of these options are less than satisfactory. For example, they can sell the family home and rent; spend less during retirement out of fear; deplete investment assets faster than desired due to lack of income; take lump sums periodically out of Retirement Savings, that may create undesired tax outcomes. A recent survey by Harris Poll suggests that the majority of baby boomers would like to transition out of the workplace through part-time or consultant positions, and many would like the opportunity to mentor younger workers. The problem seems to be that most workplaces don't provide that option.

This may be on the cusp of changing as unemployment in Canada is at record lows and a labor shortage is poised to hit critical levels when the boomers hang up their hats. Semi-retirement is an alternative that could help manage this crisis. There is a two-pronged benefit to this. Since working longer puts more money in people's wallets when they do retire, that increased spending power would benefit the economy as well.

While this all sounds like bad news for the boomers, there is a light at the end of the tunnel. According to a research report issued by "Financial Finesse" on financial wellness across different generations, Baby Boomers are in the strongest overall financial position when compared with other age groups. The caveat is that Baby Boomers must begin thinking about their retirement prospects as early as possible.

John Lennon wrote, "life is what happens while you're busy making other plans." In our financial lives, we can easily become distracted when multiple goals are competing for the same limited resources of time and money. The best way to prioritize your financial life goals is to create a plan and put it in writing like KPW's Life Plan.

One of the biggest retirement planning concerns are health care costs yet people do not typically address this in their retirement budgeting, even though health-related costs are a significant portion of the budget during our retirement years. Long-term care costs can become a burdensome drain on your retirement nest egg. You may have done an outstanding job accumulating enough retirement assets to live comfortably only to see it vanishing after just a few years of long-term care expenses. One frightening projection was delivered by the Alzheimer's Association which says the cost of dementia will rise from over US$220 billion to more than US$1 trillion over the next 30 years.

Another strategy should be to regularly review your investment portfolio to verify that it is properly diversified according to your risk tolerance. The "buy and hold" approach to investing for retirement may not be such a big deal when you're younger, but as retirement approaches your time horizon is much shorter and you don't normally get a second kick at the can so recovery from a large loss can be devastating. It is prudent to make sure your overall investment portfolio is allocated appropriately between different types of asset classes like, equities, bonds, real estate and cash. One of the simplest ways to achieve this diversification is through mutual funds.

Whether you are approaching retirement or are already retired, a question that should regularly be asked and answered is "How much income will I really need during retirement?" Creating a KPW Life Plan with regular reviews will bring this to the forefront, but without a structured approach, procrastination becomes an issue. It is important to assess whether you plan on simply maintaining your existing standard of living or whether you will require more or less.

If you are within 15 years of retirement or are retired, it would be beneficial to sit with a retirement specialist and create a road map for your future. There will be many forks in the road, but a structured plan will help keep you on track when you come to these crossroads.

Last year's theme for the National Retirement Planning Week was "Rethink Retirement." I believe this should become a mantra for anyone approaching or in retirement. It is important to have a plan, save as much as you can and seek the help of retirement professionals to make sure you are using all possible resources to prepare for a comfortable retirement.

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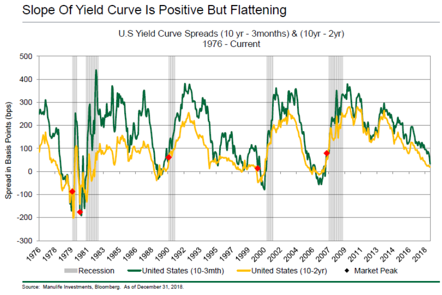
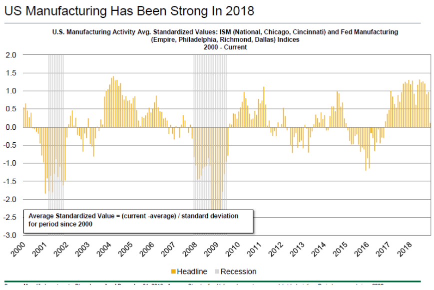
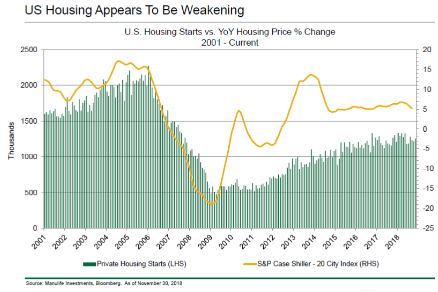
CHART OF THE MONTH-CONTINUED

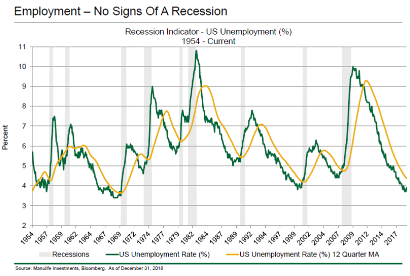
Most bear markets coincide with recessions and therefore we do not anticipate the current market volatility to result in a bear market.

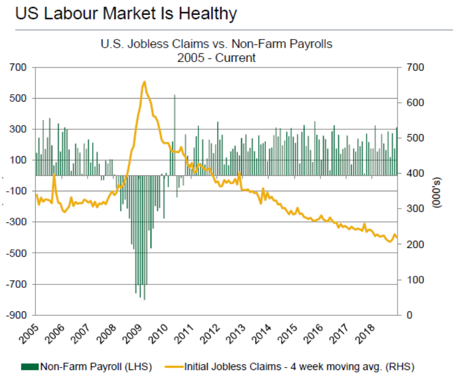
Sign of Recession	Present Today
Inverted Yield Curve	No
ISM Manufacturing PMI Below 45	No
Positive Inflationary Trends	No
Capacity Utilization above 80% and peaking	No
Housing Starts Declining	No
Labor Market Weakening	No
Leading Economic Indicators Negative	No







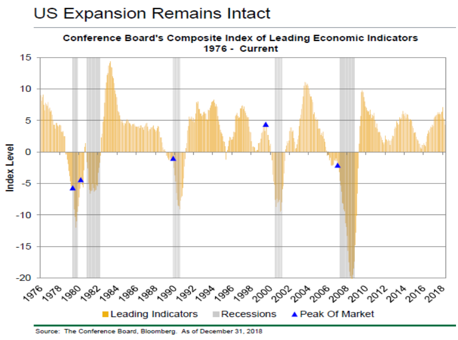




⇒ The 12-month average is 204K with the 3, 6 month average at approximately 170K and approximately 195K respectively.

⇒ The labor market has added 9 Million more jobs than were lost in the last recession and added 9 Million more jobs than the last expansion

⇒ 4-week moving average for initial jobless claims is near the lowest in over 40 years.



The Conference Board's Composite Index of Leading Economic Indicators (positive/neutral/negative)

1. Average weekly initial claims for unemployment insurance
2. Average weekly hours, manufacturing
3. Manufacturers' new orders, consumer goods and materials
4. ISM® Index of New Orders
5. Manufacturers' new orders, non-defense capital goods
6. Building permits, new private housing units
7. Stock prices, 500 common stocks
8. Leading Credit Index™
9. Interest rate spread, 10-year Treasury bonds less federal funds
10. Average consumer expectations for business conditions

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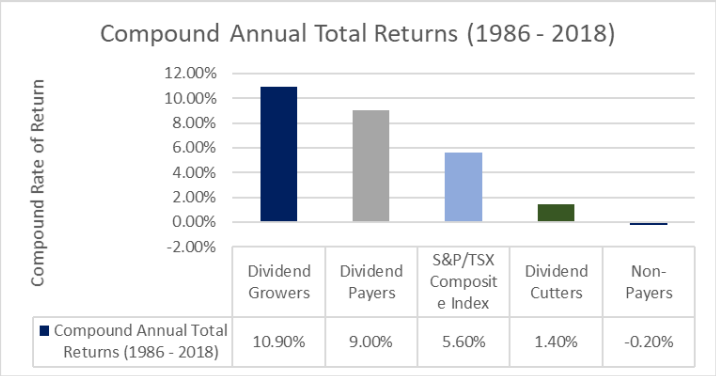
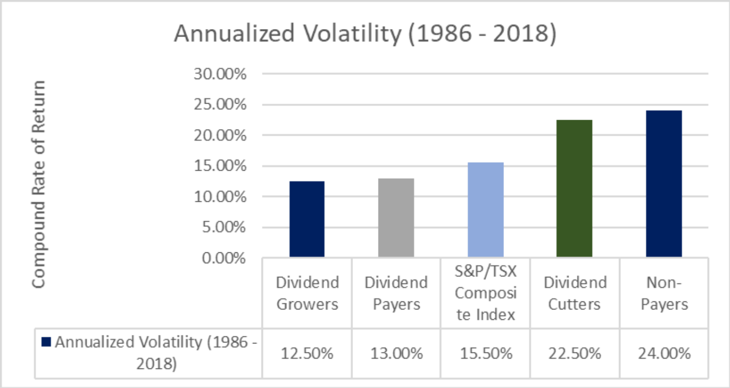
HARNESS THE POWER OF DIVIDENDS-CONTINUED

Historically, dividends have provided investors with a reliable source of income and additional growth from their investment portfolios over time. An added benefit of dividends is that they can help mitigate the effects of excessive market volatility on an investment portfolio, thereby creating a sense of calm in investors, especially during turbulent times.



Dividend-paying companies represent a significant portion of both the Canadian and U.S. equity markets. These are typically well-established companies with stable businesses and an enduring pedigree. In fact, as the chart above illustrates, the shares of companies that pay dividends during the year have historically outperformed the index.

Another benefit of dividend paying equities is that shares of these companies have historically shown lower volatility than those that did not pay dividends in the same year.



Aside from the better risk/reward characteristics of dividend payers, there are other benefits to consider.

Dividends allow an investor to get “paid to wait”. Historically dividends have provided 43% of the S&P 500 total return. Dividends give you the satisfaction of earning income during falling markets while waiting for capital appreciation to return.

For those who choose to reinvest their dividends, there is the benefit of exponential growth. Not only are your shares going to appreciate in value, but so will the number of shares. The exponential power of dividend growth compounding can provide competitive returns regardless of whether the price of the stock increases in value or not.

The effects of reinvested dividends during bear markets is that shares are being purchased at reduced prices. Later, when prices recover, the return is actually enhanced by the temporary fall in the stock price. Reinvesting dividends and accumulating more shares during corrections and bear markets greatly boosts dividend growth investing returns in the long run.

Dividends also provide a regular income stream. Most stocks pay a quarterly dividend that can provide a consistent monthly income stream.

For me, dividend investing should be a crucial part of an older investor’s portfolio. Investing in dividend paying mutual funds allows an investor to take advantage of many aspects of investing while avoiding the pitfalls that are often associated with constant trading of winners and losers. By focusing on an income stream instead of a stock price, which is significantly less predictable, investors can insulate themselves from stock market volatility and shocks.

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Pre-Retirement Assessment Series—Continued.

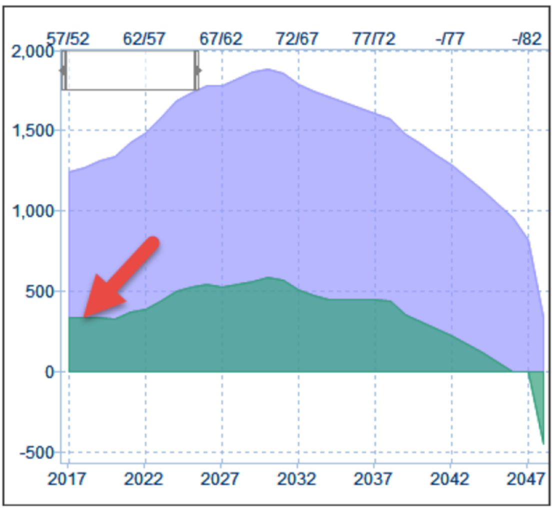
For example, employment income or rental income are cash sources; whereas, contributing to an RRSP, paying into CPP, or paying down debt are cash uses. From this information, one of five themes will inevitably take form.

Every plan, without fail, exhibits characteristics of one of these themes and identifying which theme applies to the plan is the best way to understand a person's core planning issue.

The five themes are: House Rich and Cash Poor, Large Latte Factor, Net Cash, OK to Spend More, and HNW (High Net Worth). In the previous three months I discussed the House Rich & Cash poor theme, the Large Latte Factor theme and the Net Cash Flow theme. This month I'll address the OK to spend more theme.

Each of the three prior themes have had a "financial gap" that needed to be addressed. Too much unaccountable spending, annual cash flow shortfalls, and income asset shortfalls create gaps in plans, and prevent clients from realising their financial goals. Of the five themes, the "OK to spend more" theme is the only theme without a so-called 'gap'. It is also the dominant theme for many retirees.

From a planning context, this theme is identifiable by looking at a client's income assets forecast. When this forecast stays positive, this tells me that the client is in good shape to spend money.



Income Assets

The projected life expectancy of the clients shown in the income assets graph is 82 years. The purple area of the graph shows the income assets for one spouse, while the green area shows the income assets of the other spouse (ages 57 and 52). Throughout the projected lifespan of these clients, their income assets continue to grow even as the first spouse reaches age 70. The decline (during their 70s) in the green and purple areas of the graph represents a point of retirement since each spouse is beginning to draw from their income assets while no longer earning employment income. The overall impression of the graph is that this couple's income assets is easily able to support their current spending. In fact, these clients can spend more; for example, if they wanted to take an additional vacation each year, or start contributing to a grandchild's RESP. When all is said and done, this theme tends to put retirees at ease; especially if there was any worry or question about running out of money. It is also a theme that gives clients some extra room to play around in their lifestyle needs and wants.

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Pre-Retirement Assessment Series—Continued.

We do know the $50,000 exists because we know the client's exact career income amount as reported to the CRA. We also know to some degree of accuracy the larger regular expense commitments of the client (ie: cars, bills, mortgage, etc).

In other words, $50,000 is somewhere in the 'void'.

In the Large Latte Factor theme, I can surmise that the client is spending more than they realize and this may ultimately hurt them in retirement. Of course, we are in the business of helping clients realize their long-term goals, so there are strategies to help in this theme. For example, a new spending plan could be structured, or a PAC program could be set up (this is particularly useful for younger clients). However, we all have a Latte Factor so it's important that any plan leaves sufficient room for a little Latte Factor spending.

Dan Bastasic, Commentary continued

I believe markets are poised to produce better-than-average returns during the year. Here are a few reasons why:

From a fundamental perspective, I believe the U.S. economy remains strong. The unemployment rate has been low enough for long enough that we should see larger gains in wage growth during the next several quarters. Wage growth will be a positive input to the overall economic picture during the intermediate term. Saving rates are high and loan growth is positive, which should be supportive of corporate earnings as we progress through the year.

The biggest boost to investor confidence has once again been provided by the Fed. After spooking the markets in December, the Fed has since turned dovish on its outlook for short-term interest rate increases. I wasn't surprised by the shift in tone, as the sell-off in December was more broad-based than the one we saw at the beginning of 2018. Markets declined across multiple asset classes and we saw a reasonably significant rise in credit spreads.

Supporting the Fed's decision to take a more dovish tone has been weakening inflation expectations stemming from the decline in oil prices.

Are we in the clear? There are three major issues that I believe will impact whether we see a sustained bull market in equities over next 12-18 months:

The path of interest rates – As mentioned above, the Fed has already reduced fears they will tighten too quickly. However, I don't believe investors should get too comfortable with the idea of no rate increases in 2019. If aggregate demand remains strong, the Fed may have to raise rates once or twice in the second half of 2019. Keeping an eye on potential wage growth also becomes important because that could be an early indicator of renewed inflation.

Positive earnings growth – The market has already reduced 2019 earnings expectations from the unsustainable levels we saw in 2018, but investors will still want to see growth. It's early in the Q1 reporting season, but a number of companies' results have looked promising, and I believe 7-8% earnings growth is possible this year – in-line with long-term trends.

Resolution of the U.S.-China trade dispute – It's still too early to tell what will happen here, and the outcome is impossible to predict, as all negotiations take place behind closed doors. But the longer the dispute continues, the more uncertain investors will likely become, and the greater the chances it impacts economic growth in the U.S. We've already seen an indication that China is slowing considerably, so I believe both sides have an incentive to make a deal.

Hopes for synchronized global growth waned in 2018, but there are some early indications that global equity markets may have found a bottom. Many achieved the threshold of a bear market in 2018 by falling more than 20%. It's early days, but emerging markets have participated in the rally to start the year and have received an additional boost by a weakening U.S. dollar, which may have reached a near-term peak. Once again, a more dovish Fed has at least in the short-term slowed the appreciation of the U.S. dollar.

Dan Bastasic, Commentary continued

Of course, what matters to investors in IA Clarington Strategic Corporate Bond Fund and IA Clarington Strategic Income Fund is how the events of January have affected high-yield bonds. As expected, spreads have tightened along with rising equity markets, but high yield still offers outsized yield potential for investors.

I still believe that having exposure to high-quality high-yield bonds is a wise decision, given their low sensitivity to rising interest rates and attractive overall yields. Yields remain over 7% and defaults remain low at just 2%. As indicated above, I do not believe the Fed is done raising interest rates in this cycle; it is, however, a lot closer to being finished than it was six months ago. A surprise rate hike or two in the second half of the year will likely cause some short-term volatility, but should also reaffirm a positive economic backdrop as we move forward. Long-duration fixed income will likely be challenged in the second half of the year.

We put some of our defensive cash positions to work during the month, as it became evident that our expected positive market scenario for the year started a couple of months sooner than anticipated. In sum, I have been a little surprised by how quickly markets have bounced back in January, and I wouldn't be surprised to see equities give back some of the early returns from January. But in my view, the fundamental backdrop remains supportive of both equities and high-yield markets for 2019.

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Steve Locke, Commentary continued

Even though some leading indicators of growth, in particular, some of the well-observed sentiment surveys, have recently come off their highs, labor indicators for the US economy are expected to remain supportive of growth in 2019. Chiefly, low unemployment and higher wages should keep consumer sentiment somewhat buoyant in the face of the fractured US political environment, and uncertainty emanating from the US-China trade war. So, the underlying support that drives consumption, which is the most significant component of US GDP, should have growth somewhere in the 2% range for 2019.

The market volatility of Q4 caught the attention of the Fed. As 2019 began, the Fed signaled that it will pause additional rate hikes, effectively removing the hawkish bias embraced just three months ago. Future rate movements are now dependent on emerging data related to inflation trends and labor market conditions. Thanks in part to the recent drop in many commodity prices, headline inflation rates are likely to be quite subdued until much later this year, when base effects may kick in to boost price indices. The bond market, which has generally lagged the Fed's dot plot on pricing in future rate hikes, began 2019 with no rate hikes priced-in. It serves to keep in mind that the Fed intends to keep reducing its balance sheet throughout 2019 by allowing $50 billion of maturing bonds to roll off. This is effectively a form of policy tightening, just as the purchase of these bonds was a form of easing after the financial crisis.

The Bank of Canada appears likely to follow or lag the Fed on potential monetary policy hikes this year. In general, the Bank of Canada faces a more rate-sensitive economy, given the greater amounts of household leverage in Canada as compared to the US.

Corporate credit spreads widened swiftly in Q4 as the risk-off tone was exacerbated in the low liquidity days typical around year-ends. Valuations remain reasonable for this stage of the credit cycle, which may be prolonged by the Fed pausing its rate hikes for a while. Corporate fundamentals have only weakened modestly, and do not appear threatening, given continued growth in the US. Any truce in the trade war and a complacent Fed will likely ensure that profitability remains high and debts manageable. Nevertheless, we will be approaching this stage of the credit cycle with a degree of cautious optimism, and an expectation that additional market volatility will be a part of the valuation picture we need to discount.

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