TD Wealth

June 2018

Market Update

Important Topic: Trade Wars

I have yet to find an economist who thinks trade is bad idea. Trade allows different groups of people with different resources and training to specialize in what they do particularly well and then trade. If one country tried to produce every good it would only able to do so at a higher cost to its citizens.

Trump claims that he is not anti-trade but rather in favour of "fair" trade. In the past "fair" trade was used by politicians who were anti-trade and so some are immediately on alert.

In truth, at its core, most trade is "fair" as each party decides whether or not to trade, whether or not to pay (trade cash) for an item. If one country offers items cheaper than it cost them to produce (many people's definition of "unfair" or "dumping") then their loss is the buyers gain. Such activities will make it very difficult for local companies producing this same item, but while one group suffers, everyone else benefits. Tariffs on steel help protect the US steel industry but every industry that uses steel will pay more and so US citizens will pay more. Similarly, Canada protects its dairy industry from having to compete fully with US dairy products and as a result Canadians buy Canadian dairy products but at higher then otherwise prices. If the US were allowed to compete fully the farmers would suffer but every Canadian would save money and have more choice.

President Trump's manoeuvers, however, are seen as negotiation tactics intended to better the US position. As with almost every other of his actions, Trump appears to be posturing and positioning, but it is unclear if there is any no clear commitment one way or the other. I believe the problem is that he will need to keep escalating to maintain the tension that he believes strengthens his position. Therefore; we need to be prepared for such escalation and understand the risks.

It is quite possible that Trump achieves some small "win" and declares and end to the trade tensions. In this case the markets probably return to 'normal' and the markets rise.

It is also possible that these tactics and maneuvers continue for some time increasing volatility, and uncertainty and potentially driving the market lower.

Our position is neutral. While a prolonged trade war would be detrimental, the ever-present possibility that it suddenly ends means that one should not alter a long-term thought-out plan. Also, very importantly, we do believe that the tax cuts of 2017 are

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significantly more beneficial than the trade war is detrimental and so we remain invested.

Market Update: Two Worlds

June's markets, as well as the entire second quarter of 2018, continued to reflect the concerns and fears related to the trade wars. Countries that depend on trade saw their currencies and their stock markets fall.

Interestingly, the US has only 26% of its economy tied to trade (CIBC Market figure, June 26th 2018), the lowest percentage of the largest 10 countries, and so they are the least effected. While a true trade war would hurt all parties, the US would be hurt less than most and so its currency can strengthen and its markets hold steady.

All of this could reverse if the trade tensions disappear and so we remain invested and continue to review any required rebalancing. Looking forward, we remain optimistic for the long term but cautious for the short and medium term. The focus remains, and must remain, on the long-term. The long-term plan and the reasons for investing as we do remain the same. Each specific investment must be considered to ensure that the reward for risk-taken is tilted clearly in our favour.

For the Quarter:

The bond market was up 0.8%, the Preferred market was flat, the Canadian market was up 6.2%, the US market was up 2.6%, International markets were down 3.6%, the Emerging markets were down 7.6% and the Real Estate market was up 4.0% (TD Reuters, June 30th 2018).

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

Meir