

TS Model portfolios

Bull market continues

Overview: Resilient

Regardless of the seemingly endless turmoil in Washington, the impeachment procedures with Donald Trump, the weakening global economy or the trade war battle between the world's two biggest economies (U.S. & China), the stock market continues to downplay and ignore the impact of these issues and remains resilient and largely unaffected.

For example, the NYSE, NASDAQ and the Dow Jones Industrial Average are currently retesting their all-time highs set in July 2019. The S&P 500 has moved past the mid-year high of 3027.98 and already posted a new all-time high in late October. Not bad for markets that are 10 years old.

Within the "Big 6", it is important to note that heavily deflationary-weighted indexes (NYSE, S&P 500, Dow, NASDAQ and Russell 2000) are outperforming the TSX, which is 1/3 weighted to inflationary assets (**Chart 1**).

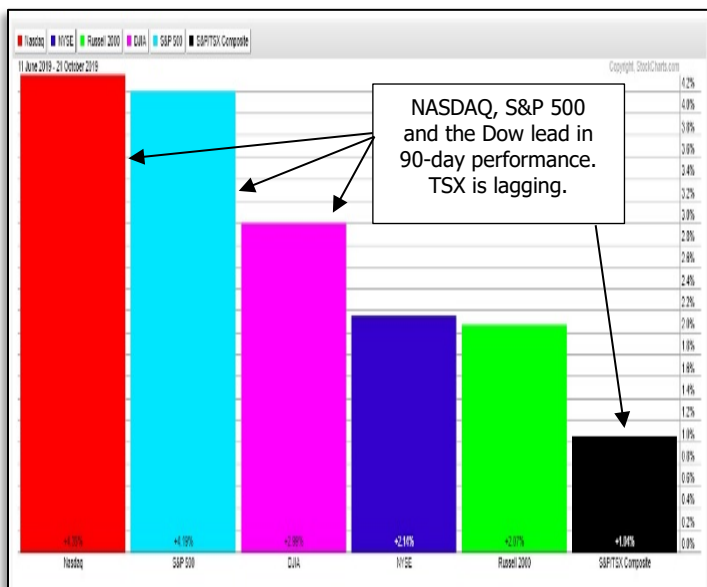


Chart 1

Strength in deflationary assets over inflationary assets is one of the major signs of a secular bull market. The average duration for a secular bull is about 18 years. When the reverse occurs with inflationary assets outperforming over deflationary, market cycles are much shorter, typically about 4 to 5 years. That is certainly not the case at present. In Chart 2, deflationary assets are continuing to outperform their counterparts since 2012 (**Chart 2**).



Chart 2

Though this indicator often lags the market by a few months, it does provide a clear picture of which sector(s) are dominant.

The U.S. Yield Curve is another key leading indicator that we keep a very close eye on for it gives a remarkably accurate outlook of the markets over the next 6 to 9 months. No other economic indicator provides the same level of predictable ability (**Chart 3**).

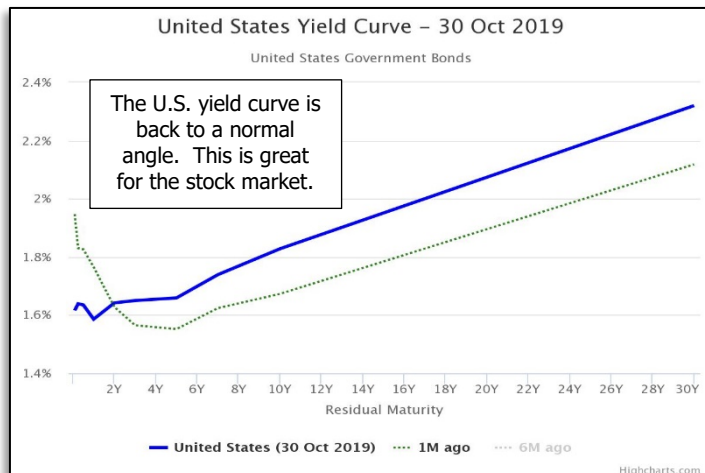


Chart 3

With 10 year to 30 year rates well above short-term three and six month yields, the yield curve is now back in a normal position and the market is saying that all is well and that we should expect to see higher stock market levels in 2020.