MARKET VOLATILITY COMMENTS

ALEX LANE

OCTOBER 2018

Light at the end of the tunnel

October 22, 2018

October tends to be one of the most volatile months of the year and often starts with some bone-chilling volatility. Historically, October has ended strongly with an upward trajectory and the overall month's returns tend to be much better than the lows of the month. We believe that is the case again this year and that another great buying opportunity for equities is available right now. In other words, we do not buy into the consensus view that the light at the end of the tunnel is a train.

Case in point is China which is up almost 7% over the last 2 trading sessions after reversing off of a key long-term support level. As China's growth has been one of the major worries this year, we believe this is significant. The VIX is currently below 19 after briefly peaking just below 29 on October 11th and looks to be headed below 15 in coming days. Upside is likely to be led by risk assets, cyclicals and smaller cap names which have been the hardest hit. US earnings results thus far have been decent with 72% of companies beating estimates, although top line beats have been a little weaker at 58% which bears watching and stocks in some of the caution areas mentioned earlier have been hit hard. Long-term US Treasury yields, which were another major source of concern, have stabilized in the 3.15-3.25% area and may fall in the near term which should give comfort to equity investors. The Bank of Canada is likely to raise rates a quarter point this month (95.7% probability) but forward guidance will be key for Canadian equity investors.

We certainly acknowledge that it is a more treacherous market environment and more cracks are appearing in the global growth story. It is increasingly important to choose the right sectors and stocks but this is not unusual late in the cycle where leadership tends to narrow. Economic growth is moving at different speeds in different parts of the world but we do believe that North America still represents the strongest region, especially with the successful USMCA agreement. Decelerating global growth has largely been priced in over the course of 2018 and the market is forward-looking where some economies, like China, may see improvement.

We believe we are in the late stages of a secular equity bull market which tends to be one of the most rewarding times for investors. Taking advantage of this market volatility makes sense, in our view, as near-term recession risks remain low, global economic growth is decent, earnings are still growing at a healthy rate and valuations are not stretched. More selectivity is required at this point in the cycle, both in sectors and names, but we believe growth leads into the end of the cycle and high quality growth names with strong balance sheets will do even better.

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