

The Market in Review

Paul Siluch, Lisa Hill, Peter Mazzone, and Sharon Mitchell
Financial Advisors
Raymond James Ltd. – Victoria BC

May 4th, 2018

This week's articles and insights

1. *Soup to Nuts*
2. *What Keeps You Up at Night?*
3. *The Second Year*
4. *No Colour – More Work!*

The new church of consumerism: More households subscribe to Amazon Prime (80 million) than attend church regularly (66 million).

Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	24,263	-0.20%	- 1.85%
S&P 500	2,663	-0.24%	- 0.38% (+ 1.85% in \$CDN)
TSX	15,729	+0.39%	- 2.96%

Soup to Nuts

Weeks ago, we wrote about disruptions happening everywhere in the corporate world. At first, this creates chaos. Opportunity eventually follows.

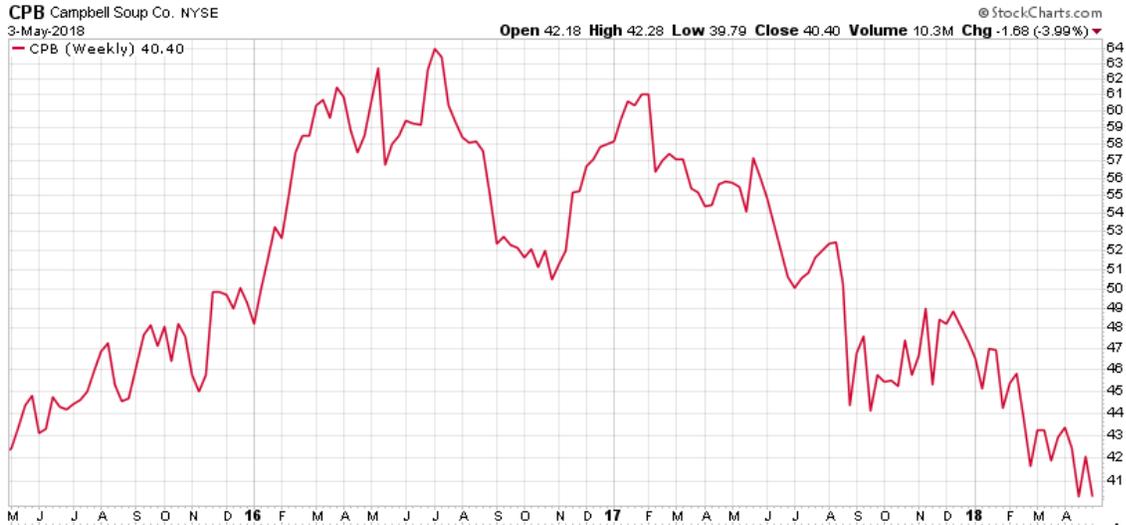
One of the biggest sources of modern disruption occurred when companies that once worked together in a partnership suddenly start competing. Take the movie and TV business, for example.

Not that long ago, you had TV and movie studios creating shows that distribution companies – TV stations and movie theatres – displayed to the world. It was a model that worked for close to a century with movies. Then, cable companies muscled in. They competed with both traditional TV stations and movie theatres, muddying the waters. The biggest changes came when the distributors – cable channels such as HBO and then an upstart called Netflix (**NASDAQ NFLX**) began creating their own unique series.

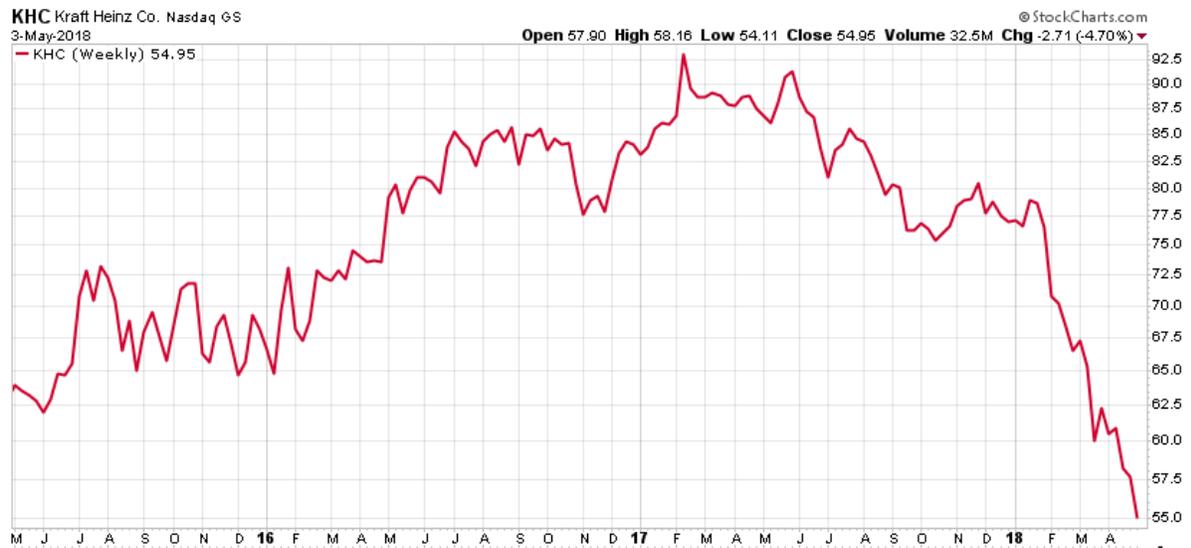
It was like a grocery store growing its own apples. Everyone in the entertainment supply chain had a reserved place at the table, and suddenly the chairs were mixed up and some removed. TV giants such as CBS and ABC are now dinosaurs whose cords are being cut by eager Netflix customers. Walt Disney (**NYSE DIS**) has so much original content, it is set to launch its own streaming service to rival Netflix sometime in the next year. Caught in the middle are the movie theatres. What happens when Disney launches a new Avengers movie on TV through their streaming service? Why even go to the theatre to see it?

A similar disruption is happening in the packaged food world. Brands that were once dominant and found in every cupboard are suddenly struggling to maintain flat sales.

Everything from soup (Campbell Soup Co.):



To nuts (Planters Peanuts and Kraft Peanut Butter):



...have been crushed this year.

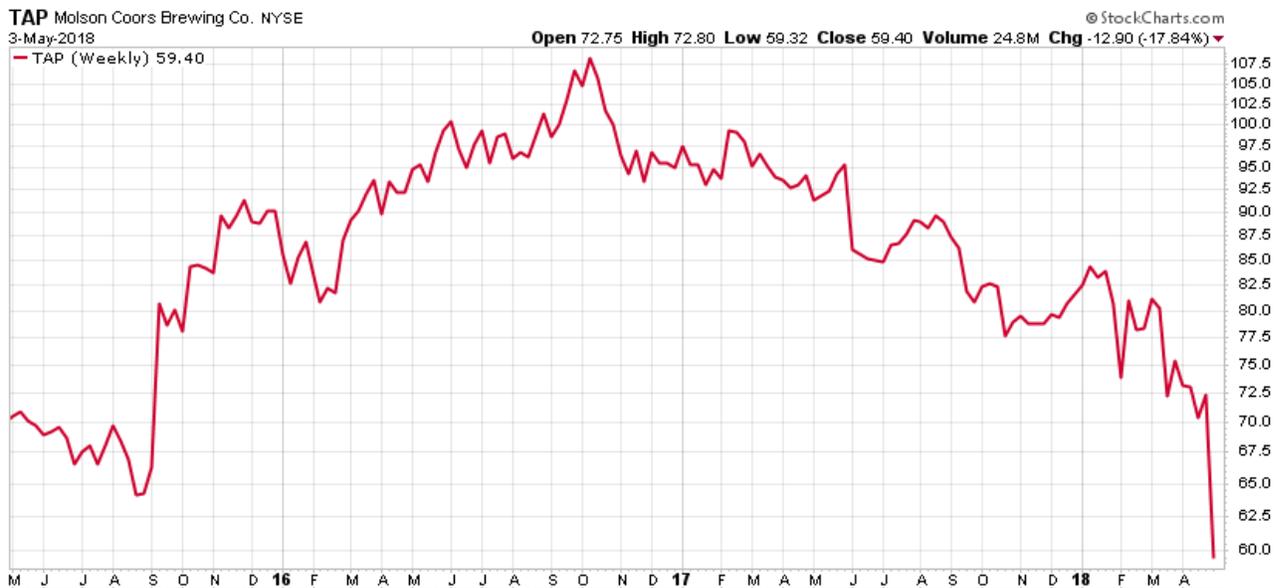
Breakfast cereal is another category that has struggled for several years. What used to be a quick breakfast isn't quick enough for modern eaters!



Even candy:



and beer are not immune:



There are several tidal forces at work.

The first is rising costs. Everything from cocoa to coffee to wages have risen, pushing up manufacturing costs. Gasoline and diesel prices have also surged, thanks to rising oil and tax hikes. Inflation has pushed an average meal at McDonald's (**NYSE MCD**) to nearly \$10 today.

The second is rising generic competition. Go to any store today and you will find more and more in-store brands. Some of the fastest-growing chains, like Trader Joe's in the US, offer almost only generic brands, many of which are their own.

President's Choice from Loblaw's (**TSX L**) is now viewed as a high quality brand and so competes head-to-head with anything from the consumer giants. Kraft-Heinz (**NYSE KHC**) was the result of a merger between ketchup and cheese, but even with its 13 giant brands, it is seeing sales stagnate.

The third reason for the decline in these stocks is Amazon (**NASDAQ AMZN**). Known as the "Death Star" in retailing circles because nothing can stop it, Amazon demands huge discounts to sell your products. And then, they may launch their own generic brand to compete with yours. Amazon Essentials is just one of many clothing brands made for Amazon. Amazon Basics sells everything from luggage to batteries. And the on-line giant even announced its own pet food this week called Wag. This is targeting a slice of the US \$72 billion Americans spend on their pets every year. Wag will compete with existing pet food brands like Kibbles (part of Smucker **NYSE SJM**) and Purina (part of Nestle).



At what point do all these negative threats (the yin) push values low enough to become opportunities (the yang)?

Warren Buffett's Berkshire Hathaway (**NYSE BRK**) invested a substantial amount into Kraft-Heinz because it believed brands like Heinz Ketchup would always be around. They very likely will remain in our households, but will we be as loyal as we have been in the past?

We are closely watching the consumer giants Kraft-Heinz and Molson-Coors (**NYSE TAP**). These were steady growth companies for years and now, much of that halo has vanished. As long as sales don't completely disappear (unlikely), they are starting to look inexpensive.

The second opportunity will likely be these larger food companies buying smaller ones. Blue Buffalo Pet Foods was just bought by General Mills (**NYSE GIS**) for \$8 billion. Don't be surprised to see mid-sized corporations such as Campbell Soup (**NYSE CPB**) gobbled up in the next few years.

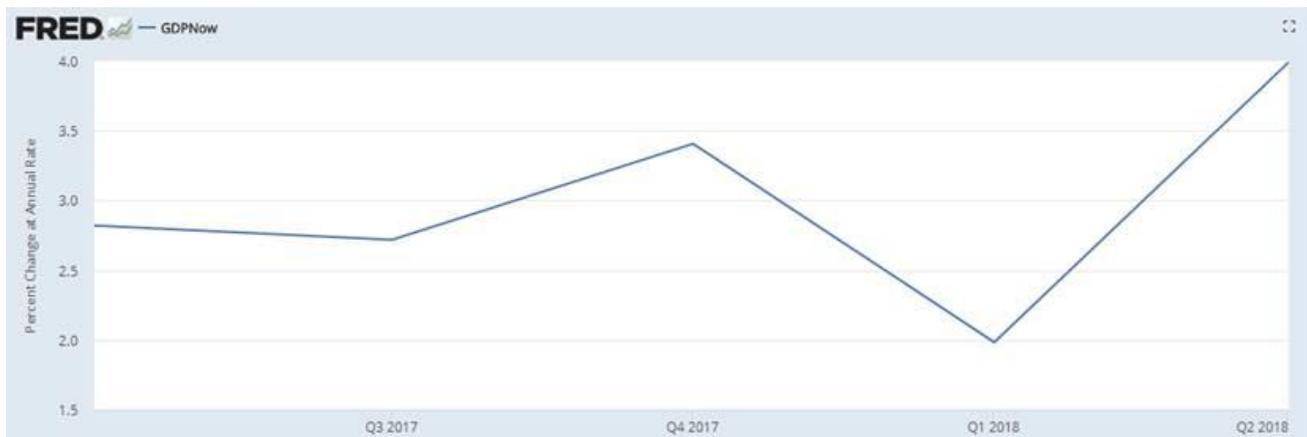
For many of these giants, however, the next twenty years will be much harder than the last twenty years.

What Keeps You Up at Night?

Clients often ask what keeps us up at night. These days, it seems like everything.

- The potential for an Iran-Israel conflict in the Middle East.
- US-China trade talks breaking down.
- Home sales in Vancouver hit a 17-year low for April. Governments want house prices lower and may be getting their wish.
- Interest rates continuing to climb. Next year, the US will run a deficit close to US \$1 trillion that will have to be funded by new bonds. Those bonds will compete with money that could have gone into investments like the stock market.
- Earnings are great, but are we at a peak? 80% of S&P 500 companies have exceeded what was expected, the highest "beat" rate in 20 years.

- The US economy is also strong (see below). Is this as good as it gets?



Source: Federal Reserve Bank of Atlanta

For now, this sideways churning has made no one we know any money. It has, however, pushed stocks back to the levels they were at late last year. Earnings are sharply higher than they were in 2017, which means stocks are cheaper today than they were.

Meanwhile, the nerve-wracking moves have made investors very nervous. People are as negative on stocks today as they were in the decline of early 2016. Back then, oil was at \$27, earnings were falling and the world had hit a pothole in terms of growth.

The Second Year

The second year of a US presidential cycle is the weakest of the four years. This one has started off right on cue.

But look at the volatility in the chart below. If it feels like we have been yanked around more than normal, it is because we have – a lot more.

Copyright 2018 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at www.ndr.com/copyright.html. For data vendor disclaimers refer to www.ndr.com/vendorinfo/.

Our conclusion is that almost all of our indicators (earnings, economic strength, employment, number of stocks hitting new highs versus new lows) continue to be bullish for stocks worldwide.

The clouds of trade, tariffs and Trump could linger on for a while, however, which means most of 2018's gains could come in the last quarter.

That seems like a long time away.

Thank you for your referrals this month! They are always handled with great care and discretion.

No Colour – More Work!

My wife, Sue, has worked at an inner-city elementary school breakfast program for the past 25 years. She has seen waves of different immigrants come through over the decades, from Vietnamese to Russian and more recently, Syrian children fleeing the chaos in the Middle East. Canada has been more welcoming than most countries towards these desperate refugees. Our country plans to take in approximately 25,000 Syrians in 2018 of various faiths. This is in addition to the 275,000 other immigrants Canada will absorb.

Some say it is too much, and they have valid points. Others say Canada should take in twice the number, and they have valid points as well. Today's story is simply an interesting window into one family of two boys.

They come to school with their mother every day, and visit the breakfast window where fruit, smoothies, and toast are made available to every child who asks. Some kids are happy and noisy; others are quiet. These two boys smile when they receive their food, only to be reminded by their mother to say thank you. They do, and she does repeatedly, as well. Her English is limited, but her thanks for everything that goes into this free breakfast program – donated food, volunteers, teachers who arrive early outside of their working hours, a safe school, a safe country – is deeply heartfelt.

The teacher says the boys' English is improving every week. One day, she told them they could colour pictures once they finished their lesson. They looked at her with widened eyes.

"No colour. More work!" the older boy said. Their teacher gave them as much as they could take.

As Sue told me this, it reminded me of my own father, who arrived from Poland at the age of six. His English was also limited and heavy with a Slavic accent. His clothes were threadbare and his shoes already worn out by two children ahead of him. Like the Syrian kids, he outworked other students in elementary school, and all the way through university.

When I asked him why he studied so hard, he replied "I was sick and tired of being poor."

These two Syrian boys eagerly accept extra spelling and reading lessons. Why? Their ambition is likely no different than that of the Poles, the Italians, the Greeks, and the Vietnamese who came to Canada before them. To fit in. To get ahead. To buy stuff poverty denies you.

Immigrants take time to integrate, and it is not an easy path. Canada has long benefitted from the "No colour, more work!" attitude of its newest citizens. It is good to see they are still arriving.

<http://www.raymondjames.ca/siluchhill/>

We thank you for your business and your referrals and we hope you find our site user friendly and informative. We would welcome your comments.

How to contact us:

paul.siluch@raymondjames.ca

lisa.hill@raymondjames.ca

peter.mazzoni@raymondjames.ca

(250) 405-2417

Disclaimers

The information contained in this newsletter was obtained from sources believed to be reliable, however, we cannot represent that it is accurate or complete. It is provided as a general source of information and should not be considered personal investment advice or solicitation to buy or sell securities. The views expressed are those of the authors, Paul Siluch and Lisa Hill, and not necessarily those of Raymond James Ltd. Commissions, trailing commissions, management fees and expenses all may be associated with mutual funds. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. This newsletter is intended for distribution only in those jurisdictions where Raymond James Ltd. is registered as a dealer in securities. Any distribution or dissemination of this newsletter in any other jurisdiction is strictly prohibited. This

newsletter is not intended for nor should it be distributed to any person in the USA. Raymond James Ltd. is a member of the Canadian Investor Protection Fund.

Raymond James does not accept orders and/or instructions regarding your account by e-mail, voice mail, fax or any alternate method. Transactional details do not supersede normal trade confirmations or statements. E-mail sent through the Internet is not secure or confidential. We reserve the right to monitor all e-mail.

Any information provided in this e-mail has been prepared from sources believed to be reliable, but is not guaranteed by Raymond James and is not a complete summary or statement of all available data necessary for making an investment decision. Any information provided is for informational purposes only and does not constitute a recommendation. Raymond James and its employees may own options, rights or warrants to purchase any of the securities mentioned in e-mail. This e-mail is intended only for the person or entity to which it is addressed and may contain confidential and/or privileged material. Any review, retransmission, dissemination or other use of, or taking of any action in reliance upon, this information by persons or entities other than the intended recipient is prohibited.

This email newsletter may provide links to other Internet sites for the convenience of users. Raymond James Ltd. is not responsible for the availability or content of these external sites, nor does Raymond James Ltd endorse, warrant or guarantee the products, services or information described or offered at these other Internet sites. Users cannot assume that the external sites will abide by the same Privacy Policy which Raymond James Ltd adheres to.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. There can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Mutual funds and other securities are not insured nor guaranteed, their values change frequently and past performance may not be repeated.

*McDonald's Corporation - Raymond James & Associates makes a market in shares of MCD. Raymond James & Associates received non-investment banking securities-related compensation from MCD within the past 12 months.
Amazon.com, Inc. - Raymond James & Associates makes a market in shares of AMZN.
Loblaw Companies Limited - The analyst and/or associate has viewed the material operations of L.
Netflix, Inc. - Raymond James & Associates makes a market in shares of NFLX.*

Prices shown are as of close May 4th, 2018.

You are receiving this message because our records indicate that you have requested this information. If you no longer wish to receive research from Raymond James, please reply to this message with unsubscribe in the subject line and include your name and/or company name in the message. Additional Risk and Disclosure information, as well as more information on the Raymond James rating system and suitability categories, is available at www.rjcapitalmarkets.com/Disclosures/Index.

This email, and any files transmitted, is confidential and may contain privileged information. Any unauthorized dissemination or copying is strictly prohibited. If you have received this email in error, please delete it and notify the sender immediately. We may monitor and review the content of all email communications. Trade instructions by email or voicemail will not be accepted or acted upon. Please contact us directly by telephone to place trades. Unless otherwise stated, opinions expressed in this email are those of the author and are not endorsed by Raymond James. Raymond James accepts no liability for any errors, omissions, loss or damage arising from the content, transmission or receipt of this email. Raymond James Ltd. is a member of the Canadian Investor Protection Fund.

Le présent courriel, de même que tout fichier transmis en pièce jointe, est de nature confidentielle et peut contenir des renseignements privilégiés. Toute diffusion ou reproduction en est strictement interdite. Si vous avez reçu ce courriel par erreur, veuillez le supprimer et en informer immédiatement l'expéditeur. Nous pouvons surveiller et examiner le contenu de toutes les communications électroniques. Les instructions portant sur des opérations, données par courriel ou dans une boîte vocale, ne seront pas acceptées ni exécutées. Veuillez communiquer avec nous directement par téléphone pour donner des ordres en bourse. Sauf indication contraire, les avis exprimés dans le présent courriel sont ceux de l'auteur et ne sont pas avalisés par Raymond James. Raymond James décline toute responsabilité en cas d'erreurs, d'omissions, de pertes ou de dommages découlant du contenu, de la transmission ou

de la réception du présent courriel. Raymond James Ltd. est membre du Fonds canadien de protection des épargnants.

To unsubscribe and no longer receive any email communications from this sender, including information about your account, please either click [here](#) or send a reply email to the sender with [UNSUBSCRIBE] in the subject line.

Pour vous désabonner de cet expéditeur soit cliquer [ici](#) ou envoyer un e-mail de réponse à l'expéditeur avec [UNSUBSCRIBE] dans la ligne d'objet.