



# Di Iorio Family Wealth of RBC Dominion Securities

Think bigger. Act bolder. Invest better.

## Themes and Predictions for 2018

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After a fairly long hiatus between posts, in this edition of the Behind the Numbers blog we will take a look at some of the themes and predictions we are most confident in for 2018.

As is always the case, we have been inundated since the start of 2018 with different market outlooks and predictions from all kinds of sources to read and review. Drawing inspiration from these, here are a couple of the top themes we will be looking to take advantage of this year in our portfolios.

### International Strength

We plan on continuing to build the international exposure in our portfolios, as we have been doing for some time, because we continue to view areas like Europe and Emerging Markets (think India, South Korea, South Africa, etc.) as being more attractively valued, with broadly similar or in some cases better growth potential relative to North America.

**Prediction: Europe & Emerging Markets outperform the US during the calendar year**

### A Fine Setup for Financials

One big area of focus right now, particularly in Canada & the US, is a transition to what seems to be a rising interest rate environment. Both the Bank of Canada and the Fed have started to increase short-term rates in a gradual manner, and this may be a trend that becomes the new normal as (particularly in the US) multiple additional rate hikes are expected during 2018. Combining this with the current US administration's stated goal of cutting red tape and reducing regulations, we think that building up exposure to US financials is a big opportunity in this environment. This is something we have already executed on, and will potentially continue to increase if an opportunity were to present itself.

**Prediction: Financials end the year as one of the top performing sectors in the US**

## Continued Momentum Defies Expectations

One thing we continuously get questions on is whether the extreme outperformance in some now household name stocks will be coming to an end in the near future. Names that we have held as core positions for quite some time which fall in to this category include Facebook, Amazon, Netflix, , and Google (commonly referred to as a group by the acronym FANG). While the performance of these and other stocks, particularly in the tech space, may seem unsustainable to some, we do not count ourselves among them. We view these names as continuing to be positioned to benefit from secular societal trends which are far from over, and believe that the underlying results these businesses are delivering will continue to justify their prices and drive the stocks higher.

Prediction: FANG continues to outperform the S&P 500

## A Major Move in M&A

This is perhaps the most speculative of our themes for 2018, but we believe it is a real possibility. A major trend in the US economy has been the rise of the “Winner Takes All” model. The number of publicly listed companies has shrunk by close to 50% since 1996, which has led to a fewer number of larger players competing in many industries. Nowhere is this truer than in the tech sector, where there is often two or at most three major players in a given industry. These giant companies (think the Apples, Googles, and Amazons of the world), then compete so fiercely with one another to be the innovator and leader across various areas. Given this environment, we think that 2018 will see a major move by one of these tech behemoths acquiring a leading player in an attractive industry. Our personal favourites are: Apple buys Tesla, Amazon buys Netflix, or Google buys Facebook. We can see any of these moves happening, and in many cases mixing and matching the potential acquisition targets with a different acquirer makes sense to us as well.

Prediction: 2018 sees a large-scale acquisition in the tech space take place at some point

Sincerely,  
Di Iorio Family Wealth

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