October 9, 2019

I hope you had a great summer and have the opportunity to enjoy some pleasant fall weather as we head into the final few months of the year. I am writing to bring you up to date on some key market developments over the past three months and to provide some context for how your investment portfolio may have performed during that time.

Many of the main themes that have affected global asset markets in 2019 – including U.S.-China trade tensions, political uncertainty due to the Brexit negotiations, and slowing economic activity – continued in the third quarter, resulting in somewhat choppy market performance. Nevertheless, market participants ultimately found reasons for optimism in moderate inflation, generally positive corporate earnings reports and supportive business conditions. As a result, many global bond and equity markets posted gains for the quarter.

After reaching a new high in the prior quarter, the U.S. equity market fell sharply near the end of July and remained volatile over the next several weeks before climbing higher again. The S&P 500 Index, an index of the 500 largest U.S. publicly traded companies, finished the period up 3.0% and with a gain of 16.9% for the year-to-date in Canadian dollar terms. The U.S. market rally has been broad-based in 2019, with particularly strong results for companies in the information technology, utilities and real estate sectors.

In Canada, the S&P/TSX Composite Index also weakened in late July, but bounced back to reach a record high late in the quarter, with a rally that was fuelled by companies in the financials and consumer staples sectors. The Canadian benchmark gained nearly 2.5% for the quarter, and was one of the best-performing equity markets globally with a year-to-date gain of 19.1%.

Performance for the MSCI EAFE Index, which captures performance for large and mid-cap companies in 21 developed markets across Europe and Asia, was more muted. The index rose slightly by 0.3% in Canadian dollars for the third quarter, bringing its year-to-date gain to 9.9%.

With global growth slowing, the expectation of rate cuts by leading central banks led government bond yields lower and prices higher through much of the three-month period. The U.S. Federal Reserve cut its policy rate twice in the third quarter – once in July and again in September – citing risks including trade tensions and slowing growth overseas. The European Central Bank responded to slower economic growth by taking its key lending rate into negative territory and re-starting its bond purchase program to ease credit conditions. The Bank of Canada, however, bucked the trend, pointing to a strong economy for maintaining its overnight lending rate at 1.75%. The FTSE Canada Universe Bond Index, a broad measure of Canadian government and corporate bonds, returned 1.2% for the quarter and 7.8% for the year-to-date.

Looking ahead, global growth is expected to continue, albeit at a slower pace than we have seen recently, while the risks stemming from trade disputes and political upheaval could continue to affect global economies and markets. At these times, it’s worth bearing in mind that markets rarely move forward without temporary corrections or bouts of volatility. I continue to believe that a diversified portfolio that features active management and is suited to your time horizon and tolerance for risk remains the best strategy for helping you achieve your financial goals. Should you have any questions regarding your portfolio, please do not hesitate to contact my office.

Sincerely,

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