Justwealth 1st Quarter 2018 Market Commentary

As we close out the first quarter of 2018, one fact has become increasingly clear: when President Trump tweets, markets listen. The unconventional tact of the U.S. leader may seem a bit theatrical to some, distasteful to others, but there is no denying that markets around the world react swiftly and strongly in response to his comments. The latest rhetoric involves international trade, most notably within North America (NAFTA) and with China. The U.S. has historically run trade deficits, meaning that they import more than they export. While the economic interpretation of running trade deficits can be taken in many directions, the President has chosen to declare that it is “bad” for the U.S.

Putting politics aside, any effort to impose trade barriers, such as tariffs or quotas, is detrimental for aggregate economic growth in general. Reducing trade can lead to increasing prices, which in turn could lead to reduced consumption and a lower overall standard of living by limiting the supply of goods. As it pertains to investments, reduced trade could lead to lower equity prices by lowering the earnings outlook and could have a negative short-term impact on bond prices. Currency exchange rates are also likely to experience shifts in favour of the trading partner who runs trade deficits.

All of this economic theory goes a long way in explaining the performance of the market over the past quarter. More than 75% of Canada’s exports go to the U.S. with whom we consistently run a trade surplus. Not surprisingly then, the Canadian equity market dropped sharply on trade worries as did the Canadian dollar. U.S. and international equity markets also sold off, producing negative returns, but when translated into Canadian currency terms, these returns turned slightly positive. Lastly, Canadian bond prices also fell, but coupon (interest) payments were high enough to offset the decline, resulting in a slight gain for the quarter.

So where do we go from here? Well of course that is impossible to predict, but it does seem that an amicable resolution may be reached relatively soon for NAFTA. If nothing else, this may remove some of the uncertainty that has been priced into the markets and possibly provide a small boost to North American equity prices; but any perceived imbalances in a new agreement may result in specific countries (and their currencies) or economic sectors being punished or rewarded. By diversifying your portfolio globally, across all sectors, you help to reduce the impact of a severe potential loss by lessening your concentration in any particular variable – something that we try to achieve in every single Justwealth portfolio!

Here is a recap of market performance as of March 31, 2018*

Asset Class	Market Index	Quarter	1 Year	3 Years	5 Years	10 Years
Fixed Income	FTSE TMX Canada Universe Bond	0.10%	1.36%	1.21%	2.89%	4.37%
Canadian Equity	S&P/TSX Capped Composite	-4.52	1.71	4.07	6.93	4.47
U.S. Equity	S&P 500 ($Cdn)	2.12	10.20	11.44	18.84	12.02
Int’l Equity	MSCI EAFE ($Cdn)	1.32	10.98	6.18	11.69	5.11

** Performance annualized for periods greater than 1 year*