# Justwealth 2nd Quarter 2018 Market Commentary

Investors should be pleased with their returns for the second quarter of 2018. North American equities had a very strong quarter while bonds held steady and all 65 Justwealth portfolios experienced a positive return! Canadian equities posted the highest return as the S&P/TSX Composite rose 6.77%, followed by U.S. equities with a 5.54% gain and international equities returned 0.77%. Emerging market equities had a sharp decline of 7.96% fueled by a strengthening U.S. dollar and a collapse of Brazilian equities which fell roughly 25 percent. Yields were relatively stable on fixed income investments and all sub-asset classes that we use in client portfolios had a return in the range of 0.31% to 0.85%.

Canadian equities performed well despite the threat of an escalating trade war with the United States. The uncertainty on trade was also not enough to stop the Bank of Canada from raising interest rates in early July – the fourth raise in about a year. The most recent raise can be blamed on the Bank's shorter-term outlook for inflation drifting above 2%, combined with an economy that is operating close to its capacity. Rising interest rates are usually associated with currency appreciation, but that has certainly not been the case for the Canadian dollar vs. the U.S. dollar as the Loonie has slumped down close to 75 cents against the U.S. dollar.

To understand why the Canadian dollar is not appreciating, one only has to look at what is happening in the United States. As prosperous as things are here economically, they are better in the U.S. Recent labour market statistics show that U.S. unemployment touched an 18-year low last quarter. Combined with an inflation rate that is also nearing its long-term target, this has many speculating that interest rates will be going up in the United States, perhaps aggressively, which has been propelling the U.S. dollar higher against most major currencies, not just the Canadian dollar.

Taking more of a global view, we have witnessed the global economy gradually build for many consecutive years now and overall, things remain quite healthy. Equity prices over the past five years have experienced abnormally strong returns. Central banks have started to raise interest rates, and while that has been negative for bond prices and may even begin to slow some economies, it does provide central banks with the flexibility to cut interest rates if the need arises. Ultimately, the function of central banks is to provide stability to economies, mostly with respect to prices or inflation, but that can be extrapolated to growth and even securities markets. Hopefully, recent actions taken by the central banks have been for the benefit of a smooth ride going forward, whichever direction that might be.

Here is a recap of market performance as of June 30, 2018*

| Asset Class | Market Index | Quarter | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|---|---|
| Fixed Income | FTSE TMX Canada Universe Bond | 0.51% | 0.76% | 1.97% | 3.48% | 4.50% |
| Canadian Equity | S&P/TSX Capped Composite | 6.77 | 10.41 | 6.95 | 9.25 | 4.24 |
| U.S. Equity | S&P 500 ($Cdn) | 5.54 | 15.85 | 13.89 | 18.54 | 13.07 |
| Int'l Equity | MSCI EAFE ($Cdn) | 0.77 | 8.22 | 6.74 | 11.24 | 5.55 |

** Performance annualized for periods greater than 1 year*