Justwealth 3rd Quarter 2018 Market Commentary

Less than a month away from Halloween, the markets may have become spooked a bit early! Coming off what could be categorized as a "weak-ish" third quarter, selling pressure has persisted early into October. Recapping performance for the third quarter, bonds turned in the weakest performance with the FTSE TMX Canada Universe Bond Index dropping nearly -1%, while the S&P/TSX Composite returned -0.57% and the MSCI EAFE Index fell by -0.41%. U.S. equities were a bit of an exception…again…with the S&P 500 rising by 5.84% in Canadian dollar terms.

U.S. equities have not escaped the early October selloff however, declining in line with global peers. While there might be a few factors that pose risk to the equity markets, including U.S./China trade problems and increasing interest rates, the recent slide might be more appropriately attributed to natural corrective forces (a.k.a. profit taking). A quick glance at the performance table below illustrates the remarkable outperformance of U.S. equities over the other equity asset classes in each time period. It may seem long overdue to some for a period of U.S. underperformance.

Much of the recent success of the U.S. equity market can be attributed to the FAANG stocks (Facebook, Apple, Amazon, Netflix and Google). Depending on which report you read, or how you cherry pick the data, U.S. equities would look a lot like the rest of the world (in terms of market performance) without these 5 stocks. When you take the FAANG stocks into consideration, U.S. equity market performance data makes a bit more sense and appear to be more realistic within longer-term performance expectations.

As has been communicated in past quarterly market updates, economic data, particularly in the United States, is fundamentally sound – perhaps even "really, really good". Comparing historically with growth rates, inflation, corporate profitability and the level of interest rates, we may be in a period where the environment for equity prices is the best it has ever been. The story in Canada is not much different, and Europe and Japan have also shown steady improvement.

The build up of this commentary is to hopefully provide some support that the equity market prices are not "crazy" but rather are somewhat justified by economic data and, in the case of the U.S., by some exceptional individual performers. We do not believe that a widespread market collapse is inevitable, but we should acknowledge that markets can act irrationally in the short term.

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

Asset Class	Market Index	Quarter	1 Year	3 Years	5 Years	10 Years
Fixed Income	FTSE TMX Canada Universe Bond	-0.96%	1.66%	1.60%	3.26%	4.44%
Canadian Equity	S&P/TSX Capped Composite	-0.57	5.87	9.70	7.81	6.30
U.S. Equity	S&P 500 ($Cdn)	5.84	21.87	15.88	19.29	14.18
Int'l Equity	MSCI EAFE ($Cdn)	-0.41	6.18	7.91	9.31	7.46

** Performance annualized for periods greater than 1 year*

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