Justwealth

Justwealth 2nd Quarter 2019 Market Commentary

Recent headlines in the media have focused on the major equity indices reaching or surpassing all-time highs. While the statements are not inaccurate, a bigger story may be the super-low yields of bonds globally. Equity prices are supposed to continually go up over time: inflation, productivity increases, global growth, etc. all contribute to higher equity prices over time. Yields tend to be cyclical however (they go up, they go down, then repeat) so if they hit an extreme high or low, it is likely a pretty big deal.

Central banks are very influential in determining bond yields through interest rate-setting policy, but ultimately bond prices and yields are established on market-based principles (supply and demand). A little over ten years ago, bond yields plummeted as central banks took drastic actions to stimulate economies that were severely impacted by a vulnerable financial system. Stock markets also tumbled, but they have long since recovered…and then some. Although there were some countries/economies that were on a return path to normalization of central bank policy (and thus higher resulting bond yields), there has been a pretty clear trend reversal which has accelerated in recent quarters.

Canada represents a great example where the media headlines do not accurately reflect reality. The S&P/TSX Composite Index is indeed near an all-time high, but the return over the past year is only 3.87%, well below the FTSE/TMX Canada Bond Universe return over the same time period of 7.37%. Bond returns in the U.S. have been slightly better than in Canada, but the U.S. stock market as measured by the S&P 500 seemingly continues to outperform everything in the rest of the world, even though it moderated somewhat over the past quarter.

A discussion of bond yields would not be complete without assessing the state of overseas bonds. Twenty or so years ago, the Japanese central bank went ZIRP (Zero Interest Rate Policy). This was an unprecedented move and an eventual consequence of the bursting of massive real estate and stock market bubbles. In the twenty years since, there has been virtually no change to policy. The Eurozone via the European Central Bank has also entered into the ZIRP zone and shows no signs of emerging. Further, it was recently stated that more than 50% of European government bonds have negative yields. So, if you bought one of these bonds and held it to maturity, you would guarantee that you have less money than what you initially invested. Hmmmm…….

Our approach to managing fixed income investments in the current environment is to ensure that we are diversified across a number of different asset classes that can enhance yield, while limiting interest rate and currency risk. FYI, we do not own European or Japanese bonds in any client accounts!

Here is a recap of market performance as of June 30, 2019*

Asset Class	Market Index	Quarter	1 Year	3 Years	5 Years	10 Years
Fixed Income	FTSE TMX Canada Universe Bond	2.51%	7.37%	2.66%	3.88%	4.54%
Canadian Equity	S&P/TSX Capped Composite	2.58	3.87	8.40	4.67	7.79
U.S. Equity	S&P 500 ($Cdn)	2.02	9.69	14.43	15.33	16.06
Int'l Equity	MSCI EAFE ($Cdn)	1.41	0.41	9.34	6.52	8.17

** Performance annualized for periods greater than 1 year*