

Justwealth 3rd Quarter 2019 Market Commentary

Written by James Gauthier, Chief Investment Officer at Justwealth

Third quarter market performance exhibited low single-digit growth, despite encountering a mid-quarter equity market downturn. While U.S. trade-related news continues to fuel volatility in the markets, global economic data is receiving increased attention and should be of much greater concern than trade policies. Central banks often cite that their monetary policies are “data dependent”, so a pronounced change in data could result in intervening action one way or the other. Over the past few quarters, central bank actions have generally been stimulative (with Canada being a notable exception), keeping interest rates low.

In the United States, the yield curve inverted last quarter and was a contributing factor in the equity market decline. Yield curve inversion occurs when short-term rates are higher than long-term rates and there is reasonable evidence to suggest that it is a valid leading indicator for a recession. Since short-term rates can be influenced by the central bank, this has prompted U.S. President Trump to persistently criticize the U.S. central bank for “not doing enough” to help the economy. Many market observers, however, would point out that the longer-term interest rates are being influenced by the global bond market and are currently artificially low, implying that recessionary fears are possibly exaggerated. It would also seem hard to believe that a recession is on the near-term horizon with unemployment in the U.S. at a 50-year low!

A federal election is slated for Monday October 21, 2019 in Canada. Recent polling results show the Liberals and PCs in a tight race for the lead followed by the NDP, Green Party and Bloc Québécois. Elections can cause some turbulence in the domestic equity market, both leading up to, and following the event, but any impact may be overshadowed by external geo-political or macroeconomic events this time around. It is also important to keep in mind that regardless of which party is elected, not all campaign promises are kept, and any government policy changes can be reversed in the future by subsequent governments. In case you didn't know, Personal income tax, introduced under the Income War Tax Act of 1917, was conceived -- like the other wartime taxes -- as a temporary measure...

International equity markets do not play a large role in our portfolios based on our long-term outlook but are used in selected portfolios for diversification purposes as they represent a significant portion of the world's investment opportunities. Developed markets (represented by MSCI EAFE) constitute the larger portion of international equities and are heavily weighted in Japan, the United Kingdom and Germany, all of which have challenges to address, helping to explain the poor recent performance. Emerging markets represent more of a growth opportunity for the long term, but roughly one-third of the index is allocated to China, which has suffered from the ongoing trade spat with the United States, negatively impacting performance.

As year-end approaches, we will be busy revisiting our long-term market expectations, reviewing our ETF best-in-class selections and potentially making changes where we feel that we can make material improvements to any portfolios. For clients with non-registered accounts, we will be looking for tax-loss harvesting opportunities but we acknowledge that it may be challenging for 2019 as most asset classes have experienced positive returns thus far. If there are any specific account requests before year end, please reach out directly to your Personal Portfolio Manager or Justwealth Support.

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

Asset Class	Market Index	Quarter	1 Year	3 Years	5 Years	10 Years
Fixed Income	FTSE TMX Canada Universe Bond	1.19%	9.69%	2.67%	3.91%	4.38%
Canadian Equity	S&P/TSX Capped Composite	2.48	7.06	7.37	5.31	6.97
U.S. Equity	S&P 500 (\$Cdn)	3.04	6.79	13.68	14.66	15.64
Int'l Equity	MSCI EAFE (\$Cdn)	0.23	1.06	6.75	6.83	7.13

* Performance annualized for periods greater than 1 year

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