

GLC Insights

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2019 Mid-Year Market Review

The bull market in everything.

Equities, bonds, commodities and the Canadian dollar – all flashed green for the first half of 2019.

The first half of 2019 saw equity markets around the world bounce back following a challenging final quarter of 2018. Double-digit gains allowed North American equity markets to regain new highs. Bond yields plummeted, resulting in very healthy returns for fixed-income investors.

Trade tensions dominated the year's first-half narrative, but a dovish policy shift from various central banks, most notably the U.S. Federal Reserve, provided welcome support for equity markets. With inflation remaining contained, the Fed pivoted toward a rate-cutting bias in an effort to prolong the current economic expansion.

Global growth showed signs of deceleration in the first half of the year, particularly in forward-looking survey data, such as Purchasing Manager Indices. Along with softer economic data, a rapid decline in bond yields flashed a warning to economic momentum. **Canadian and U.S. 10-year bond yields fell below 3-month yields resulting in a portion of the yield curve becoming inverted** (for more see [GLC Insights – The inverted yield curve](#)). North American bond yields continue to be weighed down by negative interest rate policies on the part of central banks in Europe and Japan. German 10-year government bond yields fell as low as -0.33% in June and bear a lower negative yield than their Japanese counterparts. **The pile of negative-yielding global bonds now stands at a massive US\$12.92 trillion.**

2019 Market Summary

Year-to-Date

Canadian Fixed Income			CAD
FTSE TMX Canada Universe Bond Index	1,120	▲	6.5%
FTSE TMX Canada All Corporate Bond Index	1,270	▲	6.8%

Canadian Equities

S&P/TSX Composite	16,382	▲	14.4%
S&P/TSX Small Cap	575	▲	9.0%

Currency

Canadian Dollar (CADUSD)	\$0.76	▲	4.2%
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Global Equities			Local ¹	CAD
S&P 500	2,942	▲	17.3%	12.8%
NASDAQ	8,006	▲	20.7%	16.0%
EURO STOXX 50	3,474	▲	15.7%	10.3%
FTSE 100	7,426	▲	10.4%	5.6%
Nikkei 225	21,276	▲	6.3%	4.5%
Shanghai Composite	2,979	▲	19.4%	14.9%
MSCI Emerging Markets (USD)	1,055	▲	9.2%	5.0%

Price only equity returns | ¹Local currency unless otherwise specified
| Source: Bloomberg | June 28, 2019

Trade uncertainty resulted in increased equity market volatility. The trade battle between the U.S. and China ebbed and flowed. Early year optimism over a potential deal initially supported equity market growth. Then tensions ratcheted up after talks broke down in early May, resulting in increased U.S. tariffs on Chinese imports and imposed sanctions against Chinese tech giant, Huawei. The trade battle is being waged on two fronts: trade in goods, excluding technology; and, a separate battle for technology with its attendant national security concerns. Investors weighed the probability of an escalating trade war – and the resulting hit to corporate earnings – versus the possibility that some sort of deal could be struck at any point. Trade developments remain hard to predict; particularly so in an era where a ‘tweet’ can instantly change the narrative.

Oil prices bounced back as U.S. WTI crude prices rallied over 50% from their late-2018 lows, peaking in April at US\$66/bbl, then sinking back to the low \$50s on fears of slowing demand growth and high inventory levels, before finishing June with another run at \$US60/bbl. Gold prices rallied above \$1,400 on a more dovish Fed, falling bond yields, and a weaker U.S. dollar.

Canadian Equities

Canadian equities enjoyed a robust first half of 2019. The S&P/TSX Composite was up double digits, as all eleven GICs sectors finished in the green. Information Technology led gains, helped by spectacular returns from high flying e-commerce firm Shopify (up 108%). The small but growing Health Care sector also saw big price gains, pushed higher by continued flows into cannabis stocks. The heavyweight Financials and Energy sectors were big contributors, benefitting from an improved macro backdrop relative to late 2018. The large Canadian banks reported mixed financial results, but are generally continuing to benefit from a robust Canadian economy and limited signs of credit stress. The Energy sector benefitted from higher oil prices, while falling interest rates also provided a tailwind for the higher-yielding pipeline stocks. Canadian heavy oil differentials narrowed sharply on the back of government mandated production cuts. Other interest-rate sensitive

sectors such as Utilities and Real Estate were boosted by the sharp drop in bond yields. The Materials sector lagged for much of the period before a sharp June rally in gold prices brought on strong performance. Base metal prices saw more muted gains due to the trade concerns that weighed on the outlook for global growth and the demand picture from emerging market economies. On a style basis, growth equities outperformed, while Canadian small caps significantly underperformed largely due to weaker energy sector returns – cautious energy investors have gravitated to more defensive, larger market cap energy names.

U.S. Equities

The S&P 500 rebounded strongly following sharp losses in Q4 2018, hitting a new record high in April and again in June to extend the current record long bull market run. Now into its eleventh year, the S&P 500 is up a cumulative 334.8% or 15.4% CAGR from the March 9, 2009 low of 676 (see [GLC Insights – Riding the backside of the U.S. bull market](#)). The policy pivot from the Fed was a key factor in flipping investor sentiment. Investors appeared to largely look through the trade-related noise, hoping and expecting a truce in the trade war. A stellar 13.6% price-only return in Q1 (U.S. dollar terms) marked the best quarterly return for the S&P 500 Index since Q3 2009, while a June rally allowed Q2 to finish in positive territory.

All eleven sectors finished up on a YTD basis, with only Health Care failing to reach double-digit returns. Information technology led gains, helped by strong returns from mega-cap names such as Microsoft, Apple, Mastercard and Visa. Continued strong gains from e-commerce giant Amazon lifted the Consumer Discretionary sector. The stabilized macro environment contributed to robust gains for the U.S. banks within the Financials sector. The Communication Services sector lagged the broader market as headline noise regarding increased regulatory headwinds weighed on select names such as Alphabet. Falling interest rates provided support for interest-rate sensitive sectors, such as Real Estate and Utilities.

Surge in IPOs

IPO activity surged in the U.S. during the first six months of the year, with the market rally providing founders and owners of private companies a window of opportunity to go public. Notable IPOs included ride-sharing giants Uber and Lyft, as well as the popular workplace communications company, Slack. These companies saw share price weakness following their public listings, but one big IPO winner was Beyond Meat, who saw its share price gain over 6x on huge hype around its plant-based protein alternatives.

outperformed relative to their shorter maturity counterparts. On a sector basis, provincial bonds were the clear winners while high-yield bonds lagged.

The fall in bond yields coincided with a policy shift from various central banks, most notably the U.S. Federal Reserve, which abruptly shifted to a rate-cutting bias after most recently hiking rates a quarter point last December. The Bank of Canada (BoC) left rates unchanged during the period as our bank rate sits 0.75% below that of the U.S. The BoC continues to monitor developments, both domestically and abroad – most notably an unratified USMCA and a reticence to encourage further borrowing amongst already indebted Canadian businesses and households.

International Equities

International equities produced positive gains but trailed their North American peers. European equities moved in tandem with their global peers despite continued political uncertainties. Brexit deadlines were pushed out to the fall as both sides were unable to come to a deal, prompting U.K. Prime Minister Theresa May to resign. Populist pressures remained front and centre in Europe: Italy and the E.U. battled over fiscal targets and street protests continued in France. Japanese and emerging market equities both underperformed, largely due to trade and Chinese growth concerns. Europe and Asia are both severely impacted by whatever moves China makes. **The uncertain trade outlook was somewhat offset by Chinese policymakers embarking on a substantial set of economic stimulus policies**, spurred on by trade and growth concerns (for more see [GLC Insights – China](#)).

GLC's 2019 Mid-Year Capital Market Outlook

The Bull Market in Everything: Investment positioning for times that can't last forever.

We believe the global economy has enough positive momentum to exit the current global slowdown within the next two to four quarters. However, at this juncture, equities are pricing in some of the more positive outcomes, despite great uncertainty remaining with the outcome of the U.S. trade agenda and the magnitude and timing of central bank easing interventions. What's causing us concern are the sharp advances in equities, commodities and bonds. **The 'bull market in everything' scenario is not one that can last forever.**

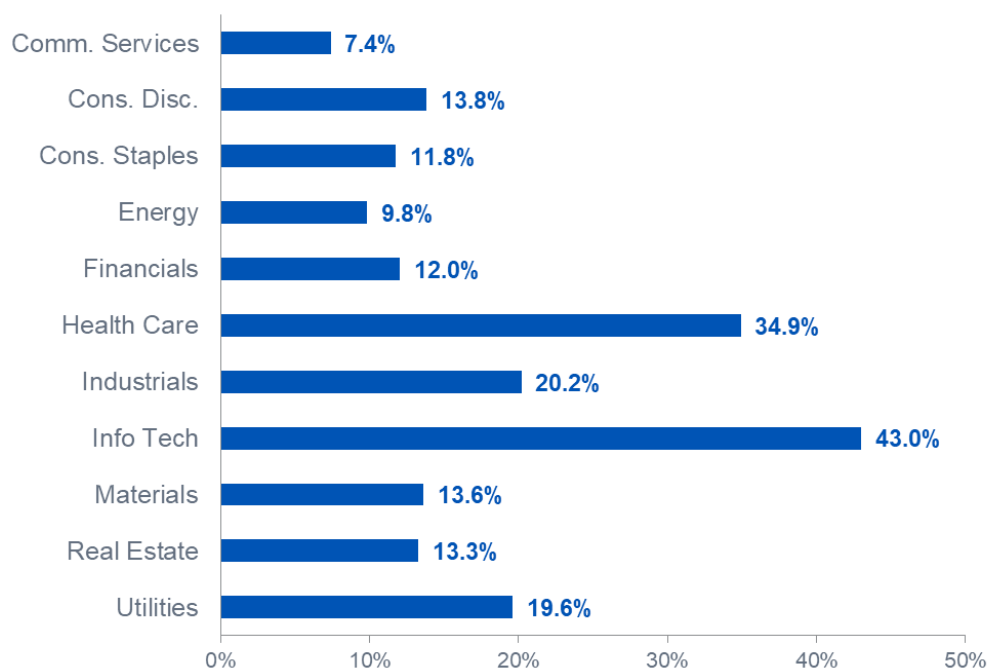
Our 2019 Mid-Year Capital Market Outlook calls for single-digit equity price gains between now and the end of the year. Bouts of trade-, political- and geopolitical-related volatility may be severe enough to present buying opportunities for those comfortable with a pro-risk stance. This expected environment lends itself to active portfolio management with its tactical slants and individual security selections that seek out superior growth, quality and/or yield opportunities within markets. **We are maintaining our asset allocation at neutral, aligned with one's own risk tolerance – a balance between exposure to participate in equity market growth without over-reaching for risk.**

Fixed Income

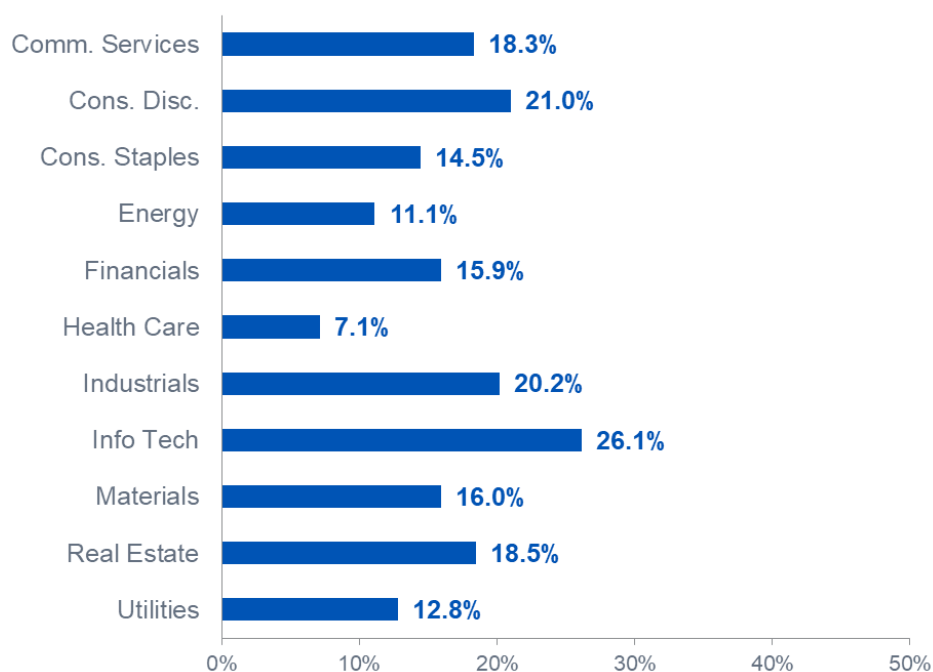
The FTSE Canada Universe Bond Index produced strong returns in the first half of 2019, with the 6.5% total return exceeding the full calendar year return in each of the previous four years. North American bond yields fell sharply during the period, continuing a trend that began early in the fourth quarter of 2018. **Canadian 10-year bond yields are now more than a full percentage point below their early October 2018 levels** (which had marked a four-year high). Long-term bonds

2019 YTD Sector Returns

S&P/TSX Composite (CAD)

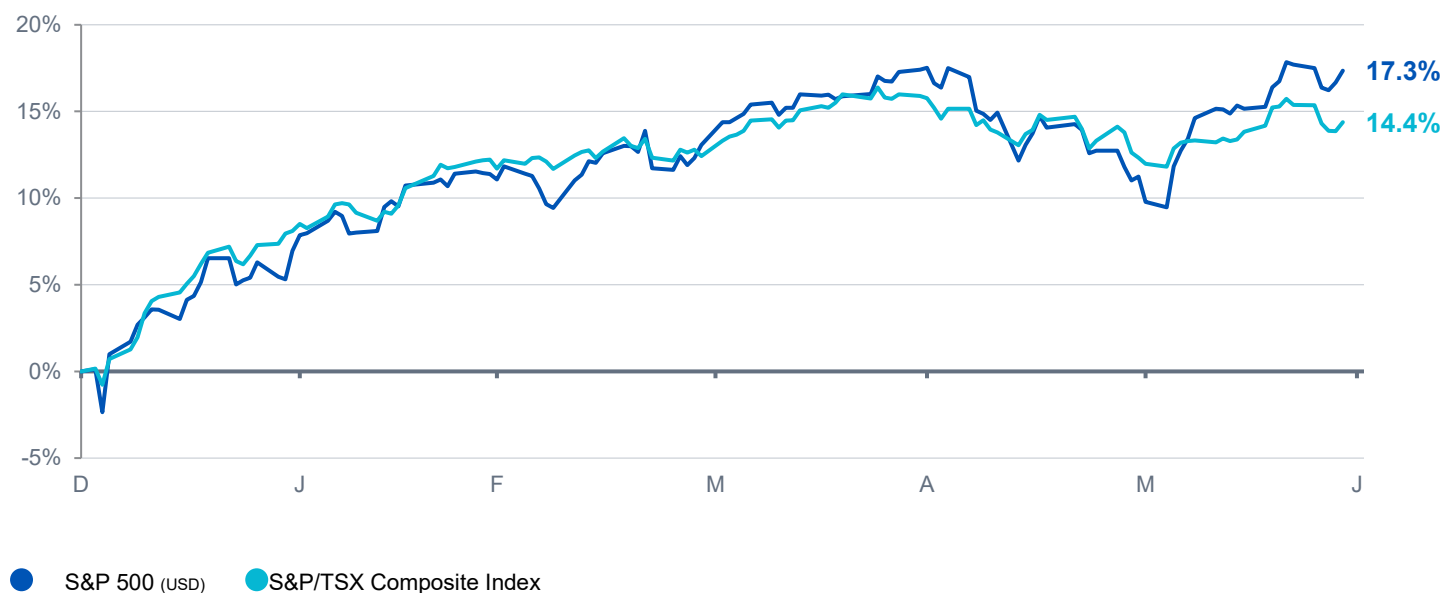


S&P 500 (USD)



Source: Bloomberg | Price only return, local currency | June 28, 2019.

2019 YTD Canadian and U.S. Equity Performance



Source: Bloomberg | Price only return, local currency returns | June 28, 2019.

2019 YTD Canadian Bond Market Performance



Source: Bloomberg, FTSE TMX Canada | June 28, 2019 | Total return
| ¹Change in basis points from Dec. 31, 2018 to June 28, 2019.

Canadian Interest Rates

Treasury Bills		YTD Change ¹	
3-month	1.66%	▲	2 bps
Government of Canada Bonds			
2-year	1.47%	▼	(39 bps)
10-year	1.46%	▼	(50 bps)
30-year	1.68%	▼	(50 bps)

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