

Monthly Market Snapshot

January 2019

Monthly Overview

2018 was not a good time to be invested in stocks. On the year, the S&P/TSX Composite shed 11.6%, while the S&P 500 managed a gain of just 2% in CAD terms (that figure would have been worse had it not been for a weakening loonie). The returns from both benchmarks represented their worst annual showings since 2008.

Reflecting back on early January of last year, we can recall numerous professional money managers telling us that their expectation for 2018 was for elevated levels of volatility. After all, 2017 was a year of abnormal tranquility for markets, so betting on a pickup on the volatility front was not a huge stretch. Turns out those prognostications were correct.

The S&P 500 is a diversified index of large cap U.S. stocks, and the biggest one-day drawdown the benchmark experienced during 2017 was less than 2% and there were only four days where losses exceeded 1%. Contrast that with 2018, where there were 30 trading days with losses of over 1%, and investors suffered through a daily decline of 2% or more 16 times.

Looking at things with a slightly wider lens, the average intra-year decline for the S&P 500 going back to 1980 has been about 14% (we refer to the S&P 500 in this write-up as it is a much more diverse index than the Canadian equivalent). The point is that volatility is a normal thing for markets. What was witnessed in 2018 is not all that out of the ordinary and the calmness of 2017 might have lulled some into a state of complacency, so working with your advisor to ensure your portfolio is constructed properly and offers resilience when times get tough is always important.

Turning to the year's final quarter, the Canadian benchmark finished 10.9% lower. Q4 was marred by red numbers almost entirely across the board from a sector standpoint. The health care space shed 35% in Q4 as weed stocks got crushed, but the ever-important energy sector was hammered 18% lower. All told, six of the 11 major sectors experienced double-digit losses in the fourth quarter. Defensive sectors, including consumer staples and telecom services, showed positive performance during the period, as did the materials sector, thanks to an upswing in gold stocks.

The loonie sank 4% versus the greenback during the final three months of the year, as a drawdown in energy prices

and a general flight to the perceived safety of the U.S. dollar exerted pressure. The weakness did, however, buffer some of the weakness in foreign equity markets from a Canadian investor's standpoint. The S&P 500's 9.4% Q4 decline was driven by challenges out of the energy, technology and industrials sectors. Defensive names south of the border also held their own, with utilities stocks shining brightest. International stocks, as measured by the MSCI EAFE index, shed 8.2% in Q4, while emerging markets were spared to a minor degree and faced losses of only 3%. (All returns in this paragraph in CAD terms.)

Canadian investment grade bonds, as measured by the FTSE Universe index, managed a return of almost 2% during Q4, and that showing helped the index eke out a positive return of 1.2% for 2018. Weak performance for high yield bonds during the quarter was masked by the loonie's even weaker showing, as the Barclay's index we follow posted a minor gain.

The picture for commodities was quite mixed. WTI crude oil suffered a 38% decline for its worst quarter in four years. The final months of 2014 saw oil slip below the US\$30 level. Natural gas was marginally lower in the fourth quarter, but gold and silver managed to rally 7.5% and 5.6%, respectively during the period.

The Bank of Canada raised its policy rate once during Q4, bringing the target up to 1.75% from 1.50%. Canadian core inflation was 1.9% on a YoY basis to the end of November, and national unemployment stood 5.6%.

The U.S. Federal Reserve raised its target rate by 0.25% once during the quarter, bringing the range to 2.25% to 2.50%. The central bank also indicated that its expectation is for two additional rate increases in 2019. The Fed also revised its 2019 GDP growth lower by a fraction to 2.3%. U.S. unemployment to the end of November was 3.7% and annualized consumer inflation was 2.2%.

James Gauthier, CFA
Head of Product Research & Oversight

Edmund Fernandez, CFA, CIM
Senior Product Analyst

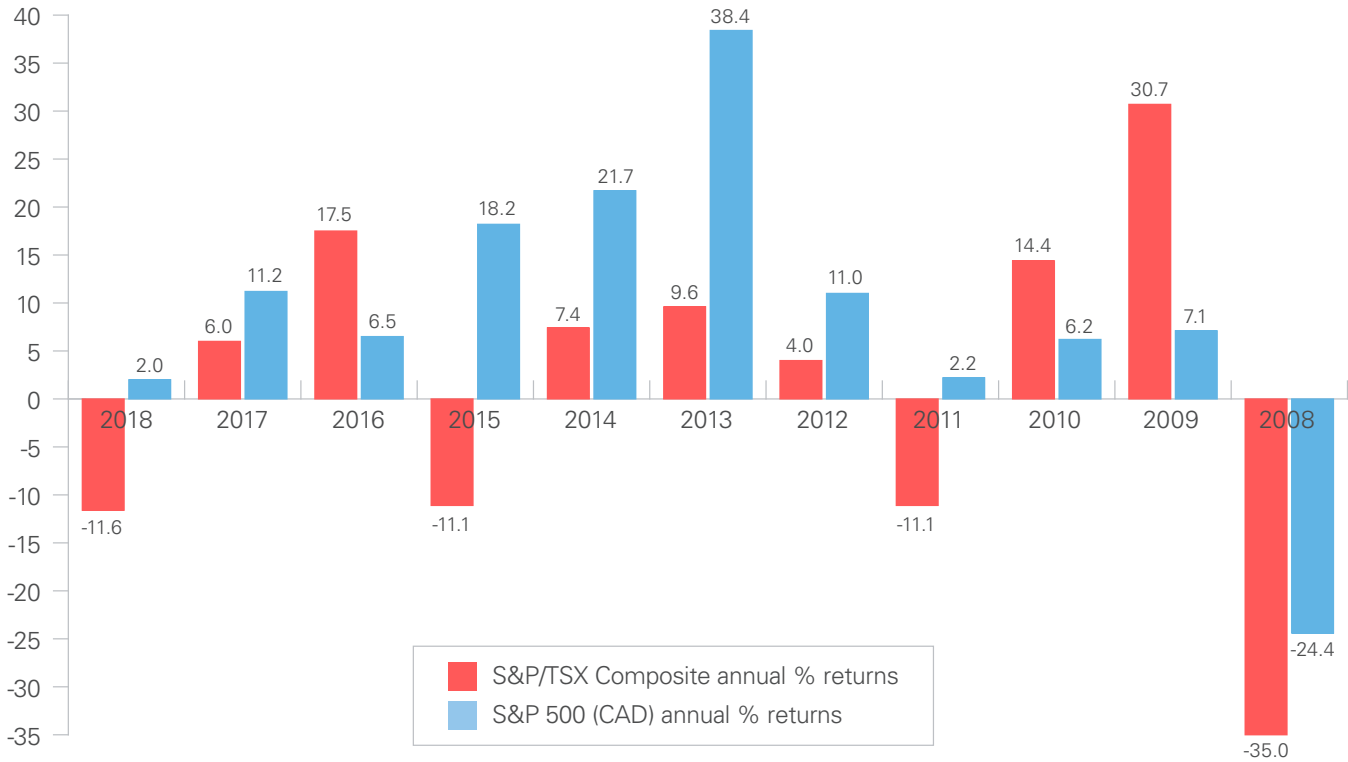
Corey Hurwitz, MBA
Senior Product Analyst

Monthly Market Statistics

Data to December 31, 2018, unless otherwise indicated

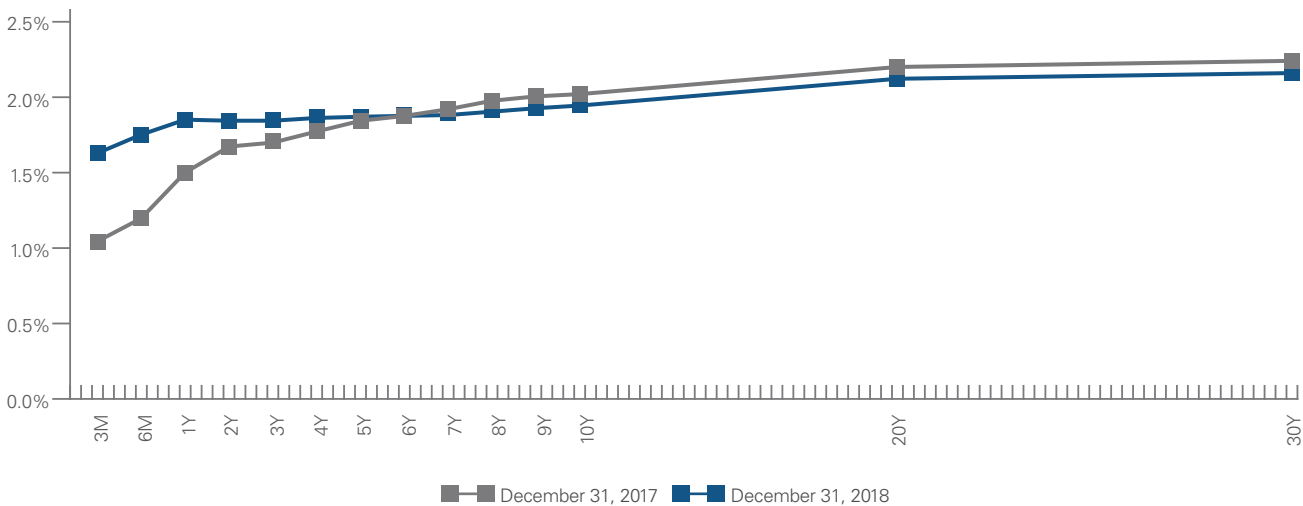
2018 was a rough a year for investors. The U.S. trade war with China, concerns over rising interest rates, and a general fear of a slowdown in global growth all contributed to last year's slump. The S&P/TSX Composite dropped 11.6%, while the S&P 500 (in CAD terms) eked out a gain of 2% for the year, aided by the sliding Canadian dollar. Nevertheless, 2018 ended up being the worst year for stocks since the financial crisis of 2008.

Chart of the Month: Worst Year for Markets Since the Financial Crisis



Source: Bloomberg

Canadian Sovereign Yield Curve



Source: Bloomberg

Monthly Market Statistics

Data to December 31, 2018, unless otherwise indicated

Equity Index Returns (% in CAD)

| Index | 1 Mo | 3 Mo | 6 Mo | YTD | 1Yr | 3Yr | 5Yr | 3Yr Std Dev |
|----------------------|------|-------|-------|-------|-------|------|------|-------------|
| S&P/TSX Composite | -5.8 | -10.9 | -12.0 | -11.6 | -11.6 | 3.3 | 1.0 | 7.9 |
| S&P/TSX Small Cap | -3.9 | -15.0 | -17.9 | -20.1 | -20.1 | 2.7 | -2.9 | 13.4 |
| S&P 500 | -7.0 | -9.4 | -4.4 | 2.0 | 2.0 | 6.5 | 11.7 | 10.9 |
| MSCI EAFE | -2.7 | -8.2 | -9.0 | -8.8 | -8.8 | -0.4 | 2.9 | 11.3 |
| MSCI World | -5.5 | -9.2 | -6.5 | -2.6 | -2.6 | 3.7 | 7.8 | 10.5 |
| MSCI World Small Cap | -7.2 | -13.6 | -13.6 | -7.7 | -7.7 | 3.9 | 7.5 | 12.7 |
| MSCI Europe | -2.2 | -8.3 | -9.4 | -10.0 | -10.0 | -1.2 | 1.6 | 13.9 |
| MSCI EM | -0.6 | -3.0 | -6.4 | -9.3 | -9.3 | 6.2 | 4.3 | 14.7 |
| MSCI AC Asia | -2.2 | -6.6 | -8.4 | -8.2 | -8.2 | 3.1 | 5.9 | 12.3 |

Source: Bloomberg

Fixed Income Returns (% in CAD)

| Index | 1 Mo | 3 Mo | 6 Mo | YTD | 1Yr | 3Yr | 5Yr | 3Yr Std Dev |
|---------------------------------------|------|------|------|-----|-----|-----|-----|-------------|
| FTSE TMX Canada Universe Bond | 1.4 | 1.8 | 0.8 | 1.4 | 1.4 | 1.9 | 3.5 | 4.2 |
| Barclays Global Agg | 4.8 | 6.9 | 4.1 | 7.7 | 7.7 | 2.1 | 6.3 | 7.3 |
| Barclays High Yield Very Liquid Index | 0.0 | 0.3 | 1.2 | 5.9 | 5.9 | 5.9 | 8.1 | 4.7 |

Source: Bloomberg

Commodity Prices (Prices and Returns in USD)

| Commodity | 12/31/2018 Price (\$) | MoM Change (%) | YoY Change (%) |
|-------------------|-----------------------|----------------|----------------|
| WTI Crude Oil/BBL | 45.41 | -10.8 | -24.8 |
| Natural Gas/mmBTU | 2.94 | -36.3 | -0.4 |
| Copper/pound | 2.63 | -5.3 | -20.3 |
| Silver/oz | 15.54 | 10.3 | -9.4 |
| Gold/oz | 1281.30 | 5.0 | -2.1 |

Source: Bloomberg

Economic Data

| Canada | |
|------------------------------------|-----|
| Real GDP - Q3 (q/q ann. % change) | 2.0 |
| Consumer Prices Nov (y/y % change) | 1.7 |
| Unemployment Rate, November '18 | 5.6 |
| United States | |
| Real GDP - Q3 (q/q ann. % change) | 3.4 |
| Consumer Prices Nov (y/y % change) | 2.2 |
| Unemployment Rate, November '18 | 3.7 |

Source: Bloomberg, Stats Canada

One Month Sector Returns (% in CAD)

| Sector | S&P/TSX Composite | S&P 500 |
|------------------------|-------------------|---------|
| Consumer Discretionary | -8.7 | -6.2 |
| Consumer Staples | -1.3 | -7.3 |
| Energy | -7.2 | -10.7 |
| Financials | -7.5 | -9.3 |
| Health Care | -16.7 | -6.5 |
| Industrials | -9.5 | -8.7 |
| Info Tech | -5.2 | -6.3 |
| Materials | 5.4 | -4.9 |
| Real Estate | -4.8 | -5.7 |
| Telecom Services | -3.7 | -5.2 |
| Utilities | -3.5 | -2.0 |

Source: Bloomberg

Exchange Rates

| Cross | 2018-12-31 | 6 Mos Ago | 1Yr Ago |
|---------|------------|-----------|---------|
| USD/CAD | 1.36 | 1.31 | 1.26 |
| EUR/CAD | 1.56 | 1.53 | 1.51 |
| GBP/CAD | 1.74 | 1.73 | 1.70 |
| CAD/JPY | 80.41 | 84.33 | 89.66 |

Source: Bloomberg

Investment Recommendation Rating System

| | |
|-------------------|---|
| Recommended List: | The list presents a selection of funds that we believe are among the best of their peers and offer unique characteristics that can add value when used in a well-diversified investment portfolio tailored to a client's investment objectives. |
| Hold: | The fund remains on the Recommended List, but is not recommended for adding to or selling from client's portfolios. |
| Sell: | The fund is no longer on recommended list. |
| Under review: | The fund's participation on the Recommended List is under review. |

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