

Monthly Market Snapshot

March 2019

Monthly Overview

Equity markets around the globe continued to lick their wounds in February and had a decent showing across the board. The fourth quarter of last year proved to be a challenging one for investors, although things took a turn for the better immediately after Christmas and the pace of improvement only escalated in January. While the gains in February were not as pronounced as those of the previous month, the 2.9% improvement for the S&P/TSX Composite index along with the S&P 500's 3.1% jump (in CAD) helped to soothe nerves further. Rising equity markets coincided with an additional reduction in the VIX, which is a popular measure of the market's level of implied volatility. The so called "fear gauge" has been declining steadily since December 26 and ended February at a level not seen since the beginning of October.

Leading the way for the Canadian stock market in February was the information technology sector, which leapt 8.4%. Much of the gain there was driven by the 14% improvement in Constellation Software's share price. Energy and industrials stocks showed strength as well. The only sector not higher during the month was materials. The 0.7% decline there was mostly driven by a mixed showing for gold stocks. The loonie was virtually unchanged versus the greenback in February.

Technology and industrials stocks led the way for the S&P 500 last month. Gains there were a respective 6.7% and 6.2% in CAD terms. Elsewhere, European stocks were 3.4% higher (in CAD), while Asian and emerging market stocks were also higher, but by lesser amounts. The relative weakness there, however, masked the substantial strength of the Chinese stock market. The Shanghai Composite index rocketed higher by 14% in local currency terms in February and was up 18% on a YTD basis through month end. The index was hammered 24% lower during 2018 on trade/tariff-related fears, and enthusiasm around a potential trade agreement with the U.S. has been propelling the Chinese market so far this year.

Crude oil prices surged 6.4% in February. That followed January's 18.5% increase. Despite those gains however, the price of oil was still lower than where it was at the same time last year. Natural gas prices were unchanged during the month, while precious metals prices drifted slightly lower.

The investment grade fixed income indices we follow were flat on the month, while high yield bonds showed a gain of nearly 2%. We've been paying close attention to the state of interest rates in both the U.S. and Canada. Canadian 10-year bond yields topped out at about 2.6% late last year and they ended February at 1.94%. U.S. long bonds have experienced a similar shift in yields since. Declining long bond yields have been coupled with higher short-term rates, as both the Bank of Canada and the U.S. Federal Reserve work to normalize the rates markets. This has resulted in a flatter yield curve on both sides of the border. While higher short-term rates mean savers are able to earn higher yields, a flattening curve can occur in anticipation of slower economic growth. That is not an inevitable outcome, but market participants will be watching the situation closely.

U.S. consumer confidence rebounded during the first part of the year and annualized GDP growth for the fourth quarter came in at 2.6%. This figure came in nicely above expectations and perhaps flies in the face of what the yield curve might be telling us. Unfortunately, the story for Canada was much bleaker. Q4 annualized GDP was reported on March 1 and came in at an anemic 0.4%, with overall growth for 2018 registering at 1.8%. Both figures were below the Bank of Canada's forecasts from the January Monetary Policy Report. Q4's GDP figure was the weakest growth report since 2016Q2. That said, iA Economics is looking for better things from the Canadian economy later this year and does not view the Q4 reading as the start of a trend.

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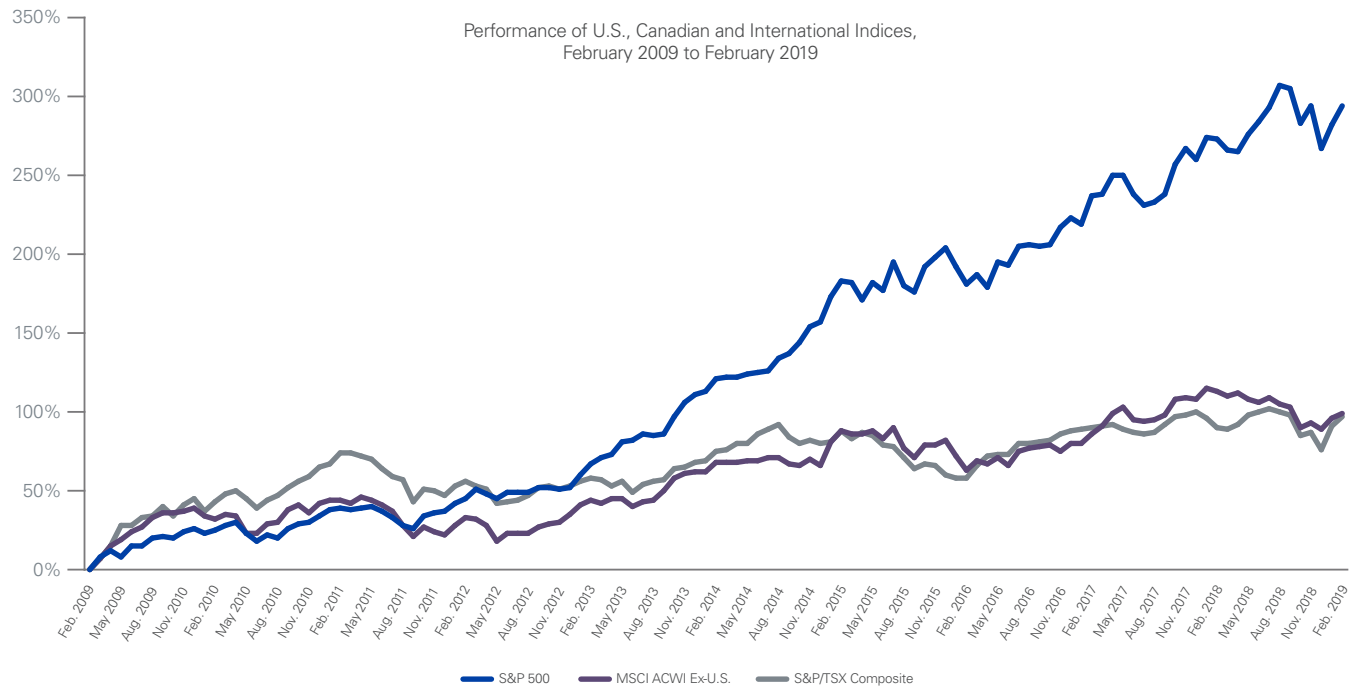
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Monthly Market Statistics

Data to February 28, 2019, unless otherwise indicated

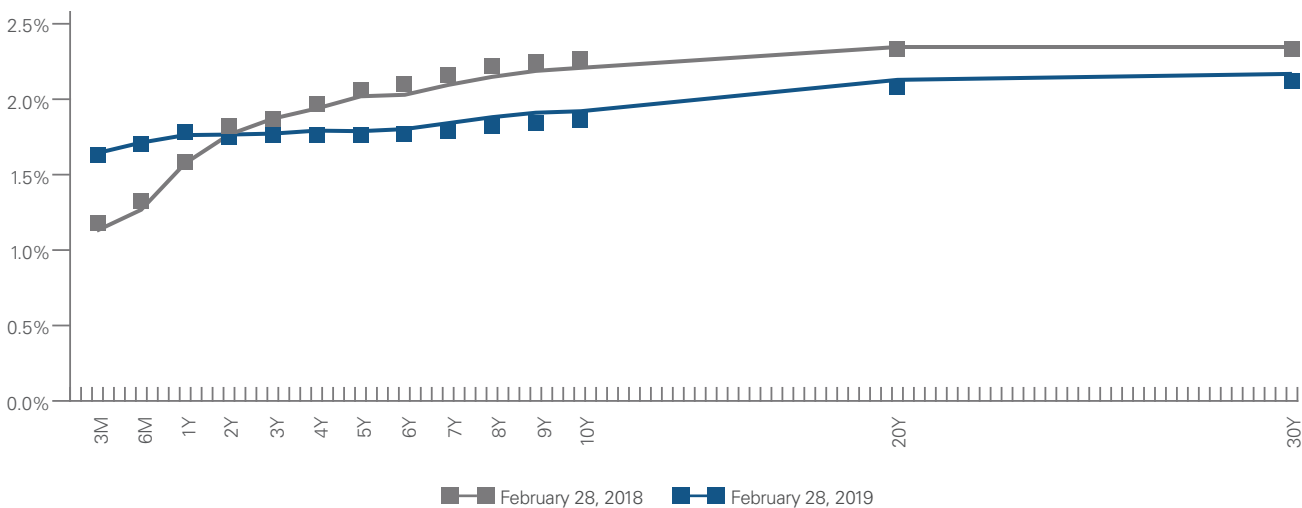
The stock market's bottom during the financial crisis of a decade ago occurred in early 2009, and since the end of February 2009, U.S. stocks, (as measured by the S&P 500) have gained approximately 294% (in Canadian dollar terms). Meanwhile, Canadian and international stock markets, as measured by the S&P/TSX Composite and the MSCI ACWI Ex-U.S., returned just over one third of what U.S. stocks did during the same time frame. While regions outside the U.S. were held back by slowing growth and falling commodity prices, the U.S. had a strong economic and earnings recovery coming out of the financial crisis. The strength for the U.S. market now means that overall valuations are now more attractive in Canada and abroad. We will see if that factor is enough to see the performance gap close over the coming years.

Chart of the Month: U.S. equities shining



Source: Bloomberg

Canadian Sovereign Yield Curve



Source: Bloomberg

Monthly Market Statistics

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Equity Index Returns (% in CAD)

Index	1 Mo	3 Mo	6 Mo	YTD	1Yr	3Yr	5Yr	3Yr Std Dev
S&P/TSX Composite	2.9	5.3	-1.6	11.7	3.6	7.7	2.4	9.2
S&P/TSX Small Cap	3.8	7.3	-6.7	11.6	-4.3	6.8	-2.1	13.6
S&P 500	3.1	-0.2	-3.3	7.3	5.4	11.6	12.3	11.2
MSCI EAFE	2.4	2.4	-3.8	5.2	-6.2	5.4	2.9	11.0
MSCI World	2.9	1.1	-3.4	6.9	1.2	9.3	8.2	10.6
MSCI World Small Cap	3.8	2.4	-7.1	10.4	0.3	10.9	8.2	13.1
MSCI Europe	3.4	3.5	-3.3	5.8	-5.9	4.5	1.4	13.7
MSCI EM	0.2	4.5	0.3	5.1	-9.7	11.4	5.3	14.8
MSCI AC Asia	1.4	2.2	-3.4	4.5	-8.1	8.9	6.5	11.7

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	0.2	2.9	2.3	1.5	3.6	2.2	3.3	3.5
Barclays Global Agg	-0.6	3.0	1.3	0.9	-0.6	2.1	0.8	4.9
Barclays High Yield Very Liquid Index	1.8	3.3	3.2	3.3	7.6	8.3	7.4	5.3

Source: Bloomberg

Commodity Prices (Prices and Returns in USD)

Commodity	02/28/2019 Price (\$)	MoM Change (%)	YoY Change (%)
WTI Crude Oil/BBL	57.22	6.4	-7.2
Natural Gas/mmBTU	2.81	-0.1	5.4
Copper/pound	2.95	5.9	-5.1
Silver/oz	15.54	-3.3	-4.8
Gold/oz	1316.10	-0.3	-0.1

Source: Bloomberg

Economic Data

Canada	
Real GDP - Q4 (q/q ann. % change)	0.4
Consumer Prices Jan (y/y % change)	1.4
Unemployment Rate, Jan '19	5.8
United States	
Real GDP - Q4 (q/q ann. % change)	2.6
Consumer Prices Jan (y/y % change)	1.6
Unemployment Rate, Jan '19	4.0

Source: Bloomberg, Stats Canada

One Month Sector Returns (% in CAD)

Sector	S&P/TSX Composite	S&P 500
Consumer Discretionary	0.2	0.8
Consumer Staples	3.4	2.2
Energy	4.4	2.0
Financials	2.8	2.3
Health Care	2.1	1.1
Industrials	3.5	6.2
Info Tech	8.4	6.7
Materials	-0.7	3.1
Real Estate	4.4	0.9
Telecom Services	2.6	0.9
Utilities	3.7	3.7

Source: Bloomberg

Exchange Rates

Cross	2019-02-28	6 Mos Ago	1Yr Ago
USD/CAD	1.32	1.30	1.28
EUR/CAD	1.50	1.51	1.56
GBP/CAD	1.75	1.69	1.77
CAD/JPY	84.58	85.18	83.14

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.
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