



iA Wealth Monthly Market Snapshot

Monthly Overview

August certainly left its mark on investors, as trade tensions and an inverted yield curve led to a tumultuous month. All of the key equity market gauges we follow ended up in the red, with the exception of Canadian stocks, which were able to eke out a small gain for the month.

Stock markets around the world got off to a rough start in August on news that President Trump would impose a 10% tariff on a further US\$300 billion in Chinese imports. Not long after that, the U.S. ruffled more feathers, labelling China a currency manipulator. Before the first week of the month was over, global equity markets were off by 3–5%. Stocks took another hit mid-month when the yield on the benchmark 10-year U.S. Treasury note fell below the 2-year rate. This phenomenon is known as a yield curve inversion and is often viewed as a harbinger of recession. In response, investors flocked to safe haven assets such as gold and long-term bonds. Stock markets rebounded towards the end of the month, as U.S.-China trade hostilities eased with Trump expressing optimism about a future deal.

Canada's benchmark S&P/TSX Composite Index increased 0.2% during August. Information technology, materials and consumer staples were the top-performing sectors, with gains of 7.7%, 5.7% and 4.3%, respectively. This was offset by weakness from the index's two largest sectors, energy and financials, which declined 0.9% and 2.7%, respectively. The health care sector saw the biggest drop for the period, falling 13.0%, as cannabis stocks continued to wane.

The S&P 500 Index was off 0.7% in Canadian dollar terms during August, as weakness in energy and financials weighed on the U.S. market. These sectors posted declines of 7.7% and 4.0%, respectively. Utilities and real estate garnered the largest gains, up 5.9% and 5.8%, respectively. International stocks performed slightly worse than the U.S., with the MSCI EAFE Index posting a 1.8% loss, in CAD terms. Emerging market stocks, as measured by the MSCI EM Index, fell 4.0% for the month.

A more risk averse positioning on the part of investors resulted in higher bond prices and lower yields. The Canadian investment grade bond index returned 1.9% in August. Canadian 10-year bond yields ended the month trading at 1.16%, down from 1.47% at the end of July. High-yield bonds posted a 0.5% gain for the month, while global bonds were up 2.0%, in CAD terms.

Crude oil prices dipped 5.9% in August, while natural gas prices rose 2.3%. Silver and gold saw gains of 10.9% and 6.8%, respectively, as investors sought refuge in these safe havens during a volatile month for stock markets.

The Canadian economy expanded at an annualized pace of 3.7% in the second quarter of 2019, up from a 0.5% increase in the first quarter. Growth was driven by a strong gain in exports; however, weak household consumption and business investment resulted in domestic demand contracting in Q2. Canada's inflation rate was 2% in July, matching the previous month's pace. The nation's jobless rate was 5.7% in July, up from 5.5% in June, but still near historic lows reached earlier this year.

Meanwhile, U.S. economic growth slowed to a 2% annualized rate in the second quarter, down from 3.1% in the first quarter. Consumer spending saw its biggest gain since 2014, rising 4.7% in Q2. The U.S. Conference Board Consumer Confidence Index fell slightly in August to 135.1, from 135.8 in July. The U.S. labour market continued to show strength, with the jobless rate holding at 3.7%, and nonfarm payrolls rising by 164,000 in July. Despite the upbeat employment numbers, escalation in trade tensions points to the Federal Reserve cutting interest rates again in September, as Fed Chair Jerome Powell said the central bank will act as appropriate to keep the economic expansion on track.

September 2019

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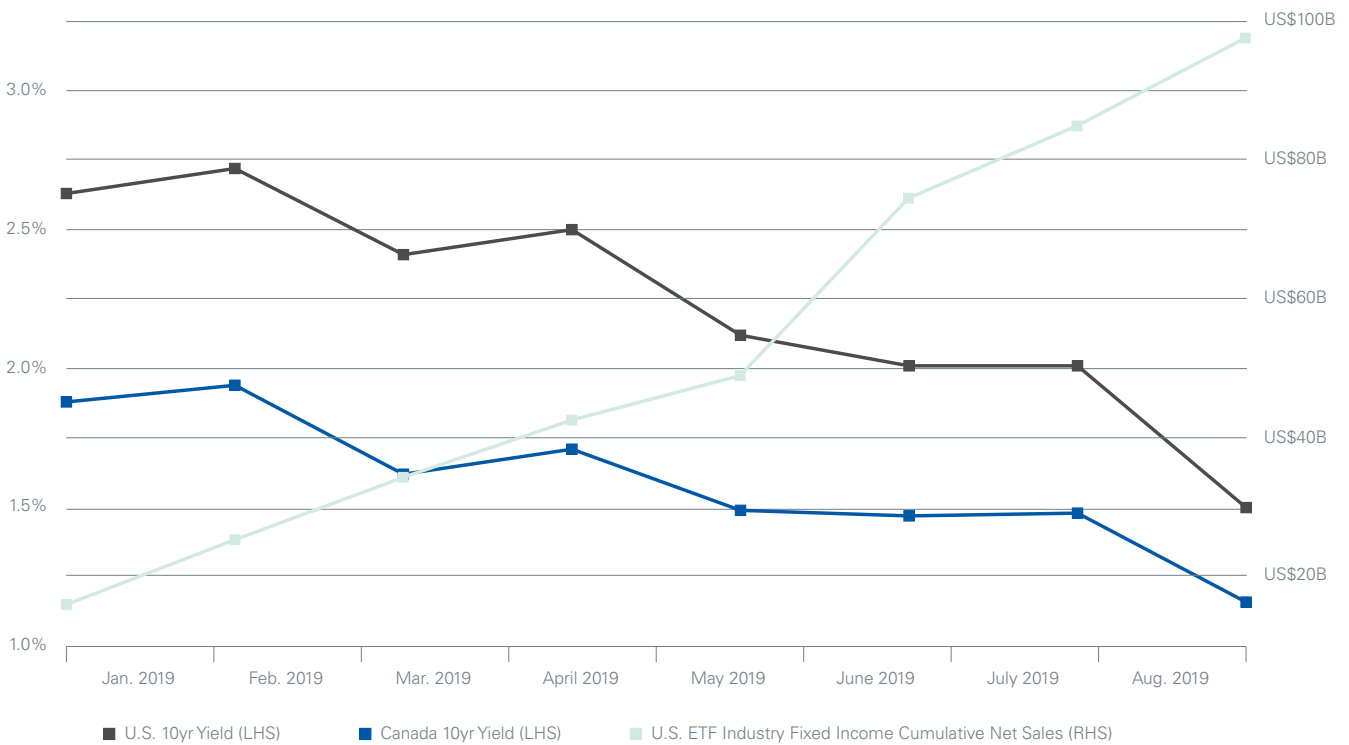
Monthly Market Statistics

Data to August 30, 2019, unless otherwise indicated

Investors have been pouring money into fixed-income products in 2019. Since the start of the year, close to US\$100 billion has been pumped into the U.S. domiciled fixed-income ETF space. This has happened in an environment in which bond yields have declined rapidly, meaning that bond prices have been on fire. The yield on the U.S. 10-year government bond has slid to 1.5% from 2.7% at the start of the year, and Canadian 10-year

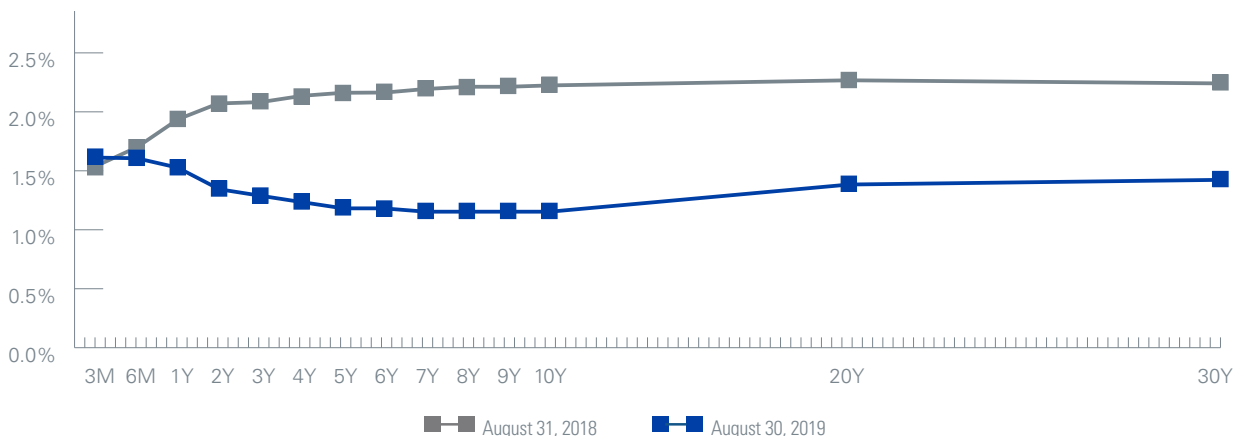
yields have plummeted from close to 2% on January 1 to 1.2% by the end of August. Global trade uncertainty and concerns over slowing economic growth have investors seeking the shelter of fixed income, but given the massive flows we've seen into bond funds, we can't help but think that there might be a wee bit of performance chasing going on.

Chart 1: As Bond Yields Tumble, Fixed-Income Fund Flows Flourish



Source: Bloomberg, Morningstar.

Chart 2: Canadian Sovereign Yield Curve



Source: Bloomberg.



Monthly Market Statistics

Data to August 30, 2019, unless otherwise indicated

Table 1: Equity Index Returns (% in CAD)

| Index | 1 Mo | 3 Mo | 6 Mo | YTD | 1Yr | 3Yr | 5Yr | 3Yr Std Dev |
|----------------------|------|------|------|------|------|------|------|-------------|
| S&P/TSX Composite | 0.2 | 2.5 | 2.8 | 14.8 | 1.1 | 4.0 | 1.0 | 8.9 |
| S&P/TSX Small Cap | -1.7 | 5.3 | -1.2 | 10.3 | -7.8 | -2.4 | -3.8 | 10.7 |
| S&P 500 | -0.7 | 4.6 | 6.2 | 14.0 | 2.7 | 11.0 | 12.3 | 12.2 |
| MSCI EAFE | -1.8 | -0.3 | -0.6 | 4.6 | -4.4 | 3.5 | 3.2 | 11.1 |
| MSCI World | -1.1 | 2.8 | 3.6 | 10.8 | 0.1 | 8.0 | 8.4 | 11.3 |
| MSCI World Small Cap | -2.4 | 0.7 | -1.5 | 8.7 | -8.5 | 6.3 | 8.0 | 13.3 |
| MSCI Europe | -1.9 | -0.6 | -0.9 | 4.8 | -4.1 | 3.2 | 2.3 | 14.5 |
| MSCI EM | -4.0 | -3.0 | -5.3 | -0.5 | -5.1 | 3.7 | 2.1 | 14.0 |
| MSCI AC Asia | -2.2 | -1.2 | -2.5 | 1.9 | -5.8 | 4.0 | 4.9 | 11.6 |

Source: Bloomberg.

Table 2: Fixed-Income Returns (% in CAD)

| Index | 1 Mo | 3 Mo | 6 Mo | YTD | 1Yr | 3Yr | 5Yr | 3Yr Std Dev |
|---------------------------------------|------|------|------|------|-----|-----|-----|-------------|
| FTSE TMX Canada Universe Bond | 1.9 | 3.0 | 7.1 | 8.7 | 9.6 | 3.0 | 3.9 | 3.8 |
| Barclays Global Agg | 2.0 | 4.0 | 6.4 | 7.4 | 7.8 | 2.1 | 1.6 | 4.6 |
| Barclays High Yield Very Liquid Index | 0.5 | 3.6 | 4.6 | 11.9 | 7.1 | 5.8 | 4.1 | 4.5 |

Source: Bloomberg.

Table 3: Commodity Prices (Prices and Returns in USD)

| Commodity | 08/30/2019 Price (\$) | MoM Change (%) | YoY Change (%) |
|-------------------|-----------------------|----------------|----------------|
| WTI Crude Oil/BBL | 55.10 | -5.9 | -21.1 |
| Natural Gas/mmBTU | 2.29 | 2.3 | -21.6 |
| Copper/pound | 2.53 | -5.0 | -4.4 |
| Silver/oz | 18.19 | 10.9 | 26.0 |
| Gold/oz | 1523.00 | 6.8 | 26.7 |

Source: Bloomberg.

Table 4: Economic Data

| Canada | |
|-------------------------------------|-----|
| Real GDP - Q2 (q/q ann. % change) | 3.7 |
| Consumer Prices July (y/y % change) | 2.0 |
| Unemployment Rate, July 2019 | 5.7 |
| United States | |
| Real GDP - Q2 (q/q ann. % change) | 2.0 |
| Consumer Prices July (y/y % change) | 1.8 |
| Unemployment Rate, July 2019 | 3.7 |

Source: Bloomberg, Stats Canada.

Table 5: One-Month Sector Returns (% in CAD)

| Sector | S&P/TSX Composite returns | S&P 500 returns |
|------------------------|---------------------------|-----------------|
| Consumer Discretionary | 0.1 | -0.3 |
| Consumer Staples | 4.3 | 2.8 |
| Energy | -0.9 | -7.7 |
| Financials | -2.7 | -4.0 |
| Health Care | -13.0 | 0.5 |
| Industrials | -1.2 | -1.8 |
| Info Tech | 7.7 | -0.6 |
| Materials | 5.7 | -2.0 |
| Real Estate | 2.6 | 5.8 |
| Telecom Services | 1.9 | -0.4 |
| Utilities | 4.2 | 5.9 |

Source: Bloomberg.

Table 6: Exchange Rates

| Cross | 08/30/2019 | 6 Mos Ago | 1 Yr Ago |
|---------|------------|-----------|----------|
| USD/CAD | 1.33 | 1.32 | 1.30 |
| EUR/CAD | 1.46 | 1.50 | 1.51 |
| GBP/CAD | 1.62 | 1.75 | 1.69 |
| CAD/JPY | 79.84 | 84.58 | 85.18 |

Source: Bloomberg.

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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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