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Market Matters

Summary for February 2019

Highlights

- Global equity markets continue their recovery from December's lows, albeit at more modest pace.
- Global oil prices rose strongly, and Canadian prices benefitted further from government curtailments.
- Strong earnings, easing trade-tensions and a slowdown in interest rate hikes help stabilize stock market growth.
- U.S. Federal Reserve strikes a patient tone to future interest rate increases, contributing to yields remaining low.

Strong earnings, easing trade-tensions and a slowdown in interest rate hikes help stabilize runaway stock market growth

Global equities have been on a tear in 2019. The MSCI All-Country World Index (including both developed and emerging market equities) is up 10.5% year-to-date and up 15.5% since Christmas. February's steady market climb was a continuation of January's recovery, but at a pace that was far less frenetic – suggesting that equity investors have moved beyond a reactionary bounce to a mindset that's more pragmatic (but still hopeful) about equity market growth prospects. Certainly, the steady rising momentum has created more optimism than the recession concerns that dominated headlines a mere two or three months ago.

Central banks take a 'wait-and-see' approach to interest rate changes

Better-than-feared global corporate earnings results are at the root of these positive equity moves. However, investor concerns were also soothed by hopes of easing trade tensions between China and the U.S., better-than-expected Chinese economic growth prospects and central bank policy makers signaling a more patient and measured approach to the timing of future rate hikes.

With little to no appreciation in bond values, the income that Canadian bonds kicked off in February was just enough to help continue their positive return trajectory in 2019. As equity markets celebrated the hesitation from central bankers to pursue their monetary tightening strategies, bond market investors likewise paused to reflect and absorb what this wait means for future rates. Bond yield movements were limited, with only slight positive and negative changes, varying across terms and sectors, in February. In the end, a small 0.2% return for the FTSE Canada Universe Bond Index was a win, all things considered.

Market Summary

Canadian Fixed Income[1]	Month	YTD
FTSE Canada Universe Bond Index	0.2%	1.5%
FTSE Canada All Corporate Bond Index	0.3%	2.0%

Canadian Equities[2]	Month	YTD
S&P/TSX Composite	2.9%	11.7%

	Month		YTD	
Global Equities[2]	**Local**	**CAD**	**Local**	**CAD**
S&P 500	3.0%	3.1%	11.1%	7.3%
MSCI EAFE	3.3%	2.4%	8.8%	5.2%
MSCI Emerging Markets	1.0%	0.2%	8.2%	5.1%

Currencies and Commodities (in USD)	Level	Month	YTD
CDN $	0.759	-0.4%	3.5%
Oil (West Texas)	57.22	6.4%	26.0%
Gold	1,315.25	-0.5%	2.6%
Reuters/Jeffries CRB Index	182.75	1.7%	7.6%

Canadian Sector Performance[2]	Month	YTD
Energy	4.4%	15.4%
Materials	-0.7%	5.9%
Industrials	3.5%	11.1%
Cons. Disc.	0.2%	10.9%
Info Tech	8.4%	19.2%
Health Care	2.1%	46.1%
Financials	2.8%	11.0%
Cons. Staples	3.4%	6.9%
Comm. Services	2.6%	7.2%
Utilities	3.7%	10.1%
Real Estate	4.4%	12.4%

Local currency unless otherwise stated.
[1]Total return [2]Price only return
Source: Bloomberg

Oil prices keep rising in February

Oil prices continue to make strong moves, affecting price change swings seen down to the consumer level. Oil prices were deeply punished late in 2018 due in part to a combination of trade fears and production issues within Canada and other big international oil producers. While all is not resolved, these factors have since eased. The Chinese economy's influence on global growth can't be understated – expectations for global oil demand have grown in lock-step with optimism over China's push to re-ignite growth and recent hopes for a resolution to the U.S.- China trade disputes. Higher oil prices were also supported in February by news that Saudi Arabia and Russia cut supply, as well as supply challenges out of other oil-producing nations, such as Venezuela. Canadian oil prices (trading at huge discounts in 2018) further benefitted by the Alberta government managing to reduce their production curtailments without any meaningful drop in oil prices.

Canada leads the way with strong returns from energy and financial sectors

Despite recent disappointing economic data coming out of Canada (such as a lower than anticipated GDP growth of 0.4% annualized for the last quarter of 2018), it's important to remember that the Canadian stock market is not the economy and Canada's economy is not its stock market. In common currency terms, the S&P/TSX composite has outperformed most developed-nation global markets so far in 2019 on the back of Energy and Financial sectors that account for roughly half of the index returns. Canada's modest domestic growth pace is still in-line with expectations, though notably weaker than that of our U.S. neighbours. Yet, while the S&P500 has been on a consistent bull market ride since 2019, Canadian equities have experienced more fits and starts, with distinct bouts of broad underperformance followed by strong periods of outperformance.

While Canada's Information Technology sector offered the highest return, at only 4% of the S&P/TSX Composite weight, it wasn't the key driver of returns in February. The S&P/TSX Composite was primarily helped along by the much larger Canadian Energy sector and positive price action from interest-rate sensitive sectors, like Real Estate and Utilities, and the more cyclical Financials and Industrials sectors. As noted earlier, Canada's Energy sector is finally catching a tail-wind from strengthening global oil prices.

Within the Financials sector, dividend hikes were welcomed by investors of four Canadian big banks (TD, RBC, CIBC and Bank of Nova Scotia). The banks weren't the only big players to announce a dividend increase; Suncor (Energy sector) rewarded investors with a dividend increase of its own.

Some things to watch

Staying with commodities, potential merger and acquisition activity within the gold sector influenced markets steadily higher. Barrick's attempted $18 billion hostile takeover of Newmont is an example of Materials sector companies striving to stay relevant by reaching scale and maintaining their standing as a dominant international player.

The Brexit negotiations continued on, as they entered their final month (unless U.K.'s Prime Minister May manages to delay the March 29, 2019 deadline). The effect on North American markets has been minimal, but that could change with Europe and the U.K. entering unchartered territory in their relationship together.

Moderation remains a good guide to follow: investors can take a sobered perspective with the realization that the incredibly dramatic growth of January will not continue. With a hearty "Sláinte" (a Gaelic salutation translating as "good health"), investors can celebrate March remembering that good times may not last forever and are best enjoyed with restraint.

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VP Marketing and Communications, has more than 15 years of investment industry experience and has been writing the monthly Market Matters for over 10 years.