Q3 2019

QUARTERLY MACRO OVERVIEW

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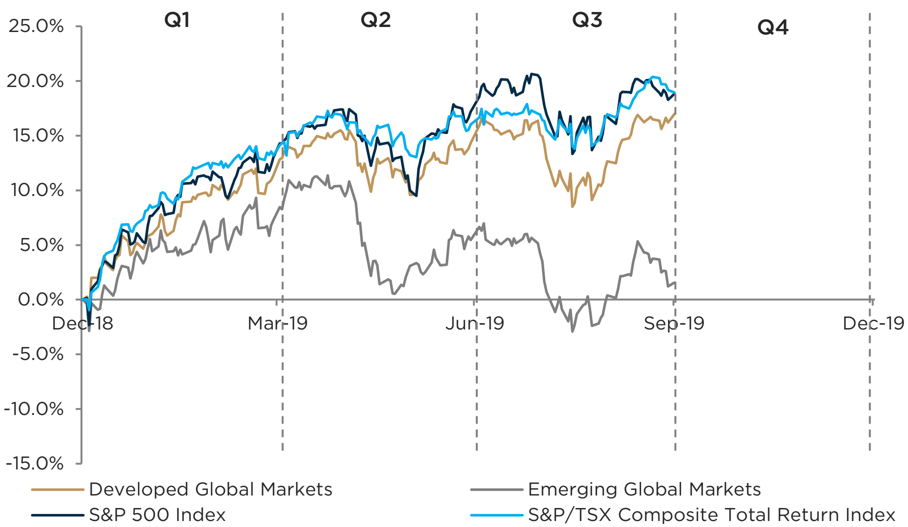
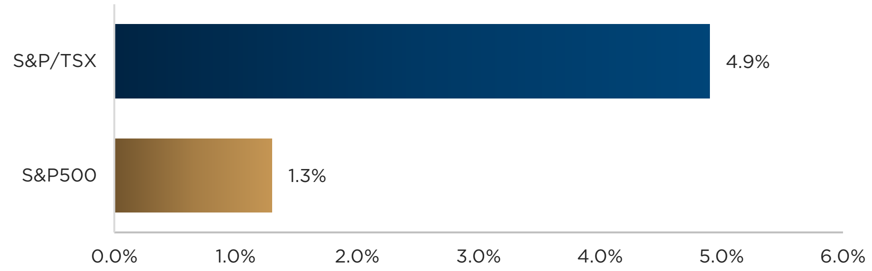
In past years, investors often enjoyed a relatively quiet summer with less frequent economic and political headlines. Those times appear to be a thing of the past, as the laundry list of developments continues to grow as we progress through 2019. This begs the question, where does one begin the discussion. Let's begin overseas with Europe. At the end of the second quarter, Theresa May resigned, with Boris Johnson being elected as the new Prime Minister. Although Boris Johnson is equally pro-Brexit as Theresa May, he continues to face similar challenges. The current Brexit deadline is set for October 31st. The outlook suggests a second EU referendum and a hard Brexit will be avoided, with some form of a deal being reached before the end of 2019. The path to this conclusion is seemingly difficult to arrive at, so we would not be surprised to see the deadline extended yet again. Another notable development in Europe was the appointment of Christine Lagarde, current chair of the International Monetary Fund, as the next president of the European Central Bank. She will be replacing Mario Draghi, who is departing in dramatic fashion with his most recent monetary policy action. The recent package includes pushing European interest rates further into negative territory, while re-engaging a quantitative easing package of EUR$20 billion per month. Quantitative easing, in its most simplistic form, involves printing money or injecting further liquidity into the financial system. Suffice it to say, although European leaders are doing everything they can to calm the waters, the doppler radar looks unnerving at best.

Global Equity Markets - 2019



Source: Bloomberg

Earnings Growth - Most Recent Quarter



Source: Bloomberg

Shifting our focus to the U.S., there was also plenty for investors to digest. Beginning with fundamentals, the Q2 earnings session in the U.S. observed most companies reporting positive earnings surprise. However, earnings growth, on a year over year basis, remained in the low single digits. Earnings and economic data have both been pointing to a slower growth rate in the U.S. economy. The Federal Reserve had taken note in the first half of the year and began preparing investors for the possibility of cutting the Federal Funds rate. On July 31st and September 18th, the Federal Reserve followed through by cutting interest rates twice for a total of 0.50%. The cut in July represented the first cut in nearly eleven years. These rate cuts are intended to stimulate the economy and help offset the uncertain outlook being propagated by the U.S.-China trade war. On the trade front, although the U.S. had agreed to a ceasefire with China at the G20 meeting in May, President Trump reversed this tone by tweeting that a 10% tariff will be imposed on the remaining USD$300 Billion of Chinese imports that were not yet subject to tariffs. China retaliated three weeks later by increasing tariffs on USD$75 billion of U.S. imports, which led President Trump to announce that tariff rates will rise by 5%. If this is beginning to sound like a playground dust-up, we share your assessment. Here in Canada, Bank of Canada governor Stephen Poloz continues to balance the outlook of a strong job market with slowing broader economic data. Thus far, he has remained on the sidelines, leaving the Bank of Canada overnight rate unchanged. However, further U.S.-China trade developments and global monetary policy easing could influence a reduction of the overnight rate at some point in the next twelve months. Reflecting on the developments year to date, capital markets have performed remarkably well, with both bond and equity markets producing positive single-digit and double-digit returns, respectively. All things considered, our economic compass suggests that a disciplined investment process and a certain level of prudence are as important as ever given the current landscape.