Provisus Wealth Management

Q4 2018

QUARTERLY COMMENTARY

GLOBAL EQUITY

The Standard & Poor's 500 index lost 13.5% in U.S. dollar terms over the fourth quarter and in Canadian dollar terms the index has fallen 8.1%. For 2018 as a whole the U.S. equity benchmark dropped 4.4% in U.S. dollar terms but was up 4.4% in Canadian dollars as the loonie came under pressure. The S&P 500 share index hit a rough patch which was not all that surprising given that we were in the tenth year of a bull market and economic expansion.

Global financial market volatility picked up in 2018 and is pointing to an expectation among some investors that deterioration in global macro conditions is increasingly likely. That suggests the outlook analysis for 2019 should be more about assessing whether underlying economic conditions allow for an extension of the global business cycle. The U.S. may well enter a cyclical slowdown in 2019 and, if so, a key question is whether the Federal Reserve can successfully engineer a soft landing for the U.S. economy. Back in September most Fed officials had predicted at least three rate increases over the course of 2019 but following the December rate announcement they are now predicting the central bank would raise rates no more than twice this year. The mention of any rate increase at all sent markets into a tailspin as many investors hoped that the the Federal Reserve was closer to the end of its hiking cycle.

A stronger economy tends to push up interest rates, which in turn puts downward pressure on stock prices. In late December the U.S. Bureau of Economic Analysis confirmed that real gross domestic product (GDP) increased at an annual rate of 3.4% in the third quarter of 2018 according to its third estimate. The very healthy real GDP number in the third quarter reflected positive contributions from personal consumption expenditures, private inventory investment and non-residential fixed investment. However headwinds, including restrictive trade policies and tighter financial conditions, are gathering. This should lead to a classic cyclical slowdown in 2019. For 2020, the current consensus forecast, as well as the Federal Open Market Committee's, suggests a soft landing.

Last year was not kind to international stocks as they declined 12.5% in the fourth quarter and 13.4% for the year (all returns are in U.S. dollar terms). Europe, by a very small margin, was the worst culprit falling 13.0% in the quarter and 17.3% for the year. Not to be outdone, Asian stocks as a group declined by 11.5% during the last three months and 15.0% for the year. Surprisingly, Emerging Market stocks appear to have suffered most of their declines earlier in the year, as they were only down 7.4% in the quarter, but had a big annual decline of 14.2%.

The European economy enjoyed its strongest performance for a decade in 2017 but cooled off in 2018. Quite simply, Europe's economy disappointed and lingering concerns remain. At first sight, alarm bells should be ringing, however the slowdown in Europe can be explained in large part by the disruption to the auto sector caused by the rollout of new emissions tests. Growth in much of Central and Eastern Europe has chugged along at a decent pace. Of course, there are issues: the winding down of the central bank's asset purchase program and the potential for rising interest rates; the U.K. stumbling toward agreement with the European Union over Brexit; trade tensions and the challenges posed by Italy's acute fiscal difficulties. Europe is fundamentally solid and while growth is moderate, it is not close to a recession.

On paper, the Chinese economy looks fine. Officially its economy grew 6.5% for 2018. But beneath the surface, China's economy has slowed in recent months and gauging the magnitude of the slowdown is difficult. Consumers and businesses are losing confidence. Car sales have plunged. The housing market is stumbling. However, China could successfully withstand the negative impact of U.S. tariffs and stimulate the private sector by ramping up an assortment of government led spending initiatives to bail out its economy as it has done in the past.

PROVISUS™
WEALTH MANAGEMENT

www.provisus.ca

18 King Street East, Suite 303
Toronto, ON M5C 1C4

Phone: 416-933-1111
Toll Free: 1-877-768-4787

This report may contain forward looking statements. Forward looking statements are not guarantees of future performance as actual events and results could differ materially from those expressed or implied. The information in this publication does not constitute investment advice by Provisus Wealth Management Limited and is provided for informational purposes only and therefore is not an offer to buy or sell securities. Past performance may not be indicative of future results. While every effort has been made to ensure the correctness of the numbers and data presented, Provisus Wealth Management does not warrant the accuracy of the data in this publication. This publication is for informational purposes only.