Provisus Wealth Management

Q2 2019

Quarterly Commentary

Canadian Equity

The second half of the year saw a fragile world economy amid the exacerbating trade war between the U.S. and China. The International Monetary Fund acknowledged that in its April report and cut global growth for 2019 from 3.5% to 3.3%. The agency also downgraded the growth outlook of the Canadian economy in 2019 to 1.5%; down four-tenths of a percentage point from its previous level. That appears consistent with Statistics Canada's findings of an anemic 0.4% annualized Canadian GDP growth mainly due to falling exports. In spite of that prognosis, the second quarter started with strong GDP numbers against a backdrop of surging oil output and seemed to signal a rebound after sluggish growth in the previous two quarters. The job market continues to defy economists as April added more than 106,000 jobs; the biggest one month job gain in more than 40 years.

Ironically, despite elevated risks on the economic front and in financial markets, stock markets around the world posted arguably the best first half ever with most in double-digit return territory. Canadian markets in particular had a strong first half with a 16.2% total return, out of sync with a sluggish economy but in line with improving corporate earnings and higher energy prices. Strong domestic demand driven by government and business spending has counterbalanced the trade drag in terms of affecting Canadian growth. Additionally, the housing market no longer appears to be highly vulnerable after months of decline.

Halfway through the year most of the TSX sectors continue to impress by posting double-digit returns; a rare occurrence after last year's beating. Technology was the clear leader gaining 43.8% followed by Health Care at 35.5% and Industrials at 20.3%. In particular, Technology and Health Care have been posting strong gains for some time. The latter due to the legalization of cannabis last year, which significantly boosted cannabis related stocks. Investors' interest in rotating into Information Technology seems to indicate that that bull run is far from over. On the downside Energy has lagged over the first half of 2019. Though prices improved considerably since the first quarter due to mandatory production cuts by Alberta's government, the trajectory has been very noisy. Investors wary of trade tensions between the U.S. and China embarked on a technical selloff of the commodity. The sector fell into bear territory in the second quarter after peaking in April and as result it returned an anemic 1.1% for the first six months. One notable development in recent years is that the sector has been out of favour with International players who have been selling their Canadian energy assets. Canadian players jumped on the opportunity and it is estimated that they spent about $37.4 billion consolidating assets in the oil sands in an effort to become more efficient.

The first half of the year saw Canada's yield curve invert the most in a decade and that fueled speculation of an imminent recession. Also the GDP slowdown during the period has added to investors' anxiety. On a positive note, consumer spending is strong and fears of a housing market collapse appear increasingly unlikely. The first GDP reading of the second quarter signaled some turnaround in the economy although overall 2019 growth has been revised down. The Bank of Canada, in its latest update on the economy, made it clear that it will move to a more dovish tone should economic growth continue to fall behind its outlook. Thus there still appears to be opportunity for the economy to maintain its resilience and propel the Canadian market even higher.

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