Quarterly Commentary

Total Equity

The Canadian market 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. 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. 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%. 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. 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.

U.S. equities advanced strongly in the quarter, despite heightened geopolitical tensions, as the Standard & Poor's 500 index climbed 4.3% in U.S. dollar terms over the second quarter. Year to date the index is up a stellar 18.5%. In the U.S., the political system appears to be dysfunctional and the government will face challenges as a new fiscal year begins in the fall with the pressing need to fund ongoing operations. Paying for all these services will require that the government debt ceiling be raised once Treasury Secretary Mnuchin has run out of tricks to keep the government funded. Despite all the negative tidings, there is the potential for deals to get done and in particular the global economy may arrive at a net improvement in trading relationships, with better protection of intellectual property rights and increased openness of Chinese markets.

Despite a host of supportive steps since last year, China's economy is still fighting to get back on firmer ground as investors fear a longer and costlier trade war with the U.S. China's industrial output growth unexpectedly slowed to its weakest level since early 2002 and investment cooled, which should trigger additional monetary easing in the coming months. China has weathered the latest downturn so far by injecting further stimulus including hundreds of billions of dollars in infrastructure spending on road, rail and port projects, as well as tax cuts for companies.

Globally, stocks advanced by 4.0% (in U.S. dollar terms), apparently unperturbed by the worldwide turmoil over trade. European stocks led the charge gaining 4.9%, propelled by Germany's 7.8% surge; while the U.K. essentially brought up the rear by eking out a 0.9% gain. Asian stock as a whole were up 1.3%; which was led by Australia's scintillating 7.4% climb but constrained by Japan's weak 1.1% uptick and Hong Kong's small 1.0% increase.

The further maturity of the global business cycle is likely to increase uncertainty. As the cycle matures, tighter labour conditions tend to put upward pressure on wages and generate headwinds for corporate profit margins. On the other hand, consumers seem healthy as strong job markets and rising wages have led to decent spending rates. Global growth will remain in expansion mode, but the outlook is deteriorating and may have passed its peak. Looking forward, the world will continue to muddle through especially if all major economies once again prioritize supportive monetary policies.

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