Quarterly Commentary

Canadian Equity

2019 ended with most economies in slow growth mode or even near recession amid an unsettling global trade war. Slow growth in many of the worlds' economies was opposite to the performance of their domestic stock markets, many of which were in positive double digits territory: a rare occurrence only seen twice in the past decade. Contrary to some of its counterparts in Europe and Emerging Markets, the Canadian economy has been relatively resilient on the backdrop of strong employment and consumer confidence. The S&P / TSX index returned 3.2% in the final quarter of the year and posted a strong 22.9% over 2019, a sharp reversal from 2018's 8.9% decline. It was enough to make it one of 2019's strongest performers.

The Canadian stock market performance was broad-based with most sectors in positive double digits territory. The leadership baton was passed back and forth between defensive and cyclical stocks and as a result, the TSX tested all-time highs on numerous occasions during 2019 peaking on December 24 at 17,180 points. The best-performing sector in 2019 was Information Technology with an outstanding 60.2%. This represents its second consecutive year of double digit returns. Utilities were also very strong, posting a 31.6% return, followed by Industrials at 24.6% and Materials at 22.1%. On the flip side, only Health Care was negative (-11.2%) in 2019; almost the same decline as in 2018. Energy was relatively weak although it posted a modest 5.9% gain. The energy sector has been under pressure for many years on the backdrop of pipeline issues that continue to cause Canadian crude to be discounted compared to U.S. and International oil.

Despite the S&P / TSX's strong gain in 2019, performance over the last decade has been far less impressive as some heavyweight sectors like Energy and Materials endured protracted price declines. Canadian equity investors gained less than half of what U.S. equity investors gained over the past ten years and only marginally surpassed a composite government bond benchmark during the same time frame. Nonetheless there is some positive news as the last decade saw the index reach all-time highs by adding more than $700 billion in value. For instance, a few individual bets in Health Care, Consumer Discretionary and Industrials saw stratospheric performance in the thousand percentage range, an indication that Canadian markets are still offering great opportunities for investors.

The strong rebound of Canadian equities and its peers across the globe in 2019 should not overshadow the fact that global GDP growth recorded its slowest pace in a decade and most of the market returns stemmed from PE (Price/Earnings) ratio expansion due to lower rates rather than pure corporate growth. In Canada, the economy has been remarkably resilient in 2019 with record job numbers and unemployment at historical lows shrugging off the USMCA trade dispute as well as the U.S. / China protectionist policies.

The loonie was the best performing major currency, having benefited from a resilient and steady Bank of Canada key rate compared to more dovish rate decisions in other major economies. Job numbers were very strong though they slowed in October and November with back-to-back losses totaling 73,000 jobs. As for Canadian markets, a strong reversal from the previous year's decline and frequent all-time highs should not automatically trigger calls for a market peak or a bearish S&P / TSX outlook. The index is still seen as a 'value proposition" with a PE ratio at around 15 versus 18 for the S&P 500: the largest discount since the last great recession. As historically most markets over time revert to their means, Canadian equities still appear to be low hanging fruit for investors.

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