Quarterly Commentary

Global Equity

In the U.S., the Standard & Poor's 500 index skyrocketed 9.1% in U.S. dollar terms over the fourth quarter. In Canadian dollar terms the index was up a healthy 7.0%. For 2019 as a whole the U.S. equity benchmark climbed 31.5% in U.S. dollar terms and was up 26.5% in Canadian dollars. The stellar 2019 performance is partly explained by a relatively low starting point as one year earlier the index lost 13.5% in U.S. dollar terms over the final quarter of 2018. We may be on the cusp of a recovery through the first half of this year thanks to central bank easing, the de-escalation in the trade war and tentative green shoots in global manufacturing. 2019 has seen the largest amount of central bank easing since the 2008 financial crisis and the central bank easing of 2019 may prolong the aged cycle. The main reason for the longevity of this cycle has been the persistence of economic slack. This has allowed the U.S. and other developed economies to grow without generating significant inflation pressure and has deterred central banks from lifting interest rates. The trade war has been a cycle extending global deflationary shock, in that it forced central banks to reverse previous tightening before monetary policy became restrictive.

International stocks underperformed their North American peers last year, although the overall results were not too shabby. International stocks gained 22.7% in 2019 and a whopping 8.2% in the fourth quarter (all figures in U.S. dollar terms). European stocks climbed 20.0% on the year and 8.5% in the last quarter. Asian stocks lagged, increasing only 12.0% in the year and 6.7% for the quarter.

While European equity performance has been very good, the economic backdrop remains difficult. Export-oriented countries have been particularly hard hit by a slump in orders from China. On a more positive note, the service sector has held up relatively well. Unemployment remains at its the lowest level since 2008, as the labour market continues its slow recovery from the European debt crisis. In order to boost the Eurozone, the European Central Bank launched a stimulus package of bond purchases and interest rate cuts and also revamped measures designed to shield banks from some of the adverse impacts of negative interest rates. Of course, the uncertainty over when and how Britain will leave the EU weighs heavily in the minds of most investors.

Greater Brexit clarity emerged after the recent election which saw the Conservatives win a large majority. This means they have the numbers to drive through Prime Minister Johnson's Brexit withdrawal deal with the European Union. This will likely lead to a negotiated exit which will provide some degree of comfort for investors as Brexit will be behind us hopefully soon. However, due to weak global growth and moderating inflation the Bank of England has shifted to a more wait-and-see approach on the economic front. Despite these hurdles the U.K. economy has the potential to pick up this year, especially as U.K. equities have dramatically underperformed their peers last year amid an overhang of uncertainty.

Japan has recently struggled as a frail global economy and the trade war has taken the air out of the country's recovery. Forecasts by manufacturers do not suggest output is likely to rebound soon, due to a worsening toll from trade tensions. Japan's exports have also suffered from an ongoing dispute with South Korea and a relatively strong yen. Concern remains over the increase in the consumption tax, which increased from 8% to 10% in October. Japan is also spending significant funds to stimulate the economy as a result of the worst typhoon to hit the country in 50 years.

The early part of 2020 will be agonizingly uncertain. Reasons for optimism have been repeatedly built up and dashed as the world's major economic powers engage in a destructive trade war. If they can arrive at a truce, then other nations can get out of from under their shadow and move forward. A U.S. / China deal by the first quarter would likely lead to a re-acceleration in economic growth around the world.

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