Quarterly Commentary

International Equity

2019 was a very good year for what most interests investors; the bottom line. Performance was remarkably strong given some of the fundamentals that the world's major economies were dealing with. Principally, the U.S. / China trade dispute continues taking its toll on economies far and wide, although there are some signs of a truce on the horizon. However, the longer this trade war goes on, the greater the possibility it could prevent or delay a re-energization of the global economy. For now, the markets are already pricing in the prospect of such an event. But even if an agreement is forged, it is unknown if it will be enough to undo the damage already done.

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.

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.

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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