June 2019

## Global markets continue to march higher

After a near bear market in the final three months of 2018, we have experienced a sharp reversal during the first half of 2019, with two recent material market-shaping events. First, the U.S. Federal Reserve met to discuss interest rate policy–specifically the potential for interest rate cuts, which proved positive for equity and bond performance. Second, President Trump and Chinese President Xi Jinping met at the G20 to discuss the trade dispute between the two countries. Afterward, both sides agreed to delay any further tariffs. Market sentiment often moves like a pendulum and after swinging toward very negative sentiment near the end of 2018, markets have swung quickly back toward positive sentiment.

## Canada

The S&P/TSX took a bit of a breather in the second quarter of 2019, rising 1.7 percent—resulting in a 14.3 percent return for the first half of the year. Oil, as measured by West Texas Intermediate (WTI) was nearly flat for the quarter; Rising tensions between the U.S. and Iran in the Strait of Hormuz, which accounts for one-third of the world's sea-traded oil, proved to be positive for oil prices, whereas a softening in the global economy had negative effects on oil prices. Moving forward, markets will pay close attention to what type of policies relating to oil will come out from the upcoming federal election.

## The United States

Despite a continuing trade dispute and a bit of weakness in the U.S. economy, the S&P 500, Dow Jones and Nasdaq were up 3.8, 2.6 and 3.6 percent respectively during the quarter which resulted in a 17.3, 14.0 and 20.7 percent return for the 2019 calendar year. The U.S. Federal Reserve meeting on June 19 helped boost both the stock and bond markets by raising hopes of multiple interest rate cuts –a positive for markets. U.S. company earnings for the second quarter will be important for determining whether rising wages, interest costs and tariffs resulting from the dispute with China will affect record profit margins.

### Overseas

International equities rose 2.5 percent in U.S. dollars during the quarter, resulting in an 11.8 percent return for the first six months of the year as measured by the MSCI EAFE index (Europe, Asia & Far East). After threatening to impose potentially devastating tariffs, President Trump pulled back after discussions with Chinese President Xi Jinping at the G20 summit. While markets have reacted positively to the initial news, the details are sparse and don't provide a clear plan for rolling back tariffs. It's a temporary time-out and we're stuck with 25 percent tariffs on $250 billion of goods in the meantime. This uncertainty will continue to cloud the global trade story until a concrete resolution is reached.

### Central bank policy

The narrative has changed remarkably since 2018. Central banks were increasing rates and now they're discussing cutting interest rates multiple times while providing additional monetary stimulus. In the U.S., the markets are pricing in nearly three interest rate cuts of 25 basis points each this year to drive the target for the Federal Funds rate to 1.50-1.75 percent. Central Banks in Europe, Canada, and Japan are following suit.

### Looking forward

Despite the market rally, when you look at the big picture it would be wise to manage expectations going forward. The odds of a recession are still low, but the global economy is slowing, which will weigh on company profits. Mark Twain said, "History doesn't repeat itself, but it does rhyme." We are beginning to see economical patterns similar to those that developed in previous periods where returns were lower than average. It may serve investors to be less optimistic and play a bit more defense at this point in the cycle.

As always, if you have any questions about the markets or your investments, I'm here to talk.

Regards,

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