Results: Up, Down And In Between

By Scott Guitard

Despite increased volatility, global equities ended Q3 higher. The launch of an impeachment inquiry against President Trump added to an already large stack of geopolitical issues creating uncertainty for investors. In addition, global economic indicators showed a slowing pace at a time when central banks have few available stimulus options. For such reasons, we expect Q4 to be a bumpy ride.

No arrow = No change from the previous quarter.
→/← Represents quarter-over-quarter change.

	Asset Class	(-) N (+)	Our Viewpoint
MAJOR ASSET CLASSES	Money Market/ Cash Equivalents		The Bank of Canada held on cutting the policy interest rate, citing contained inflation levels. This stance differed from Q3 easing measures introduced by the US Federal Reserve and other central banks. The portfolio's cash overweight tempered performance, as equity and bond prices achieved modest gains. Given extremely low bond yields and anticipated choppy equity markets, we're happy to have extra cash on hand as we pilot the remainder of 2019.
MAJOR ASSET CLASSES	Fixed Income		Global bond yields moved lower yet again. Investors are predicting central banks will ease rates to fend off a more significant global slowdown. This has pushed long-term bond yields lower and inverted yield curves in Canada, the United States and other countries worldwide. Our allocation to shorter-term and International bonds detracted from Q3 relative performance; however, this was mostly offset by Canadian investment grade bonds' solid performance.
MAJOR ASSET CLASSES	Equities	←	Our overweight in International stocks versus Canadian and US stocks detracted from performance. Once again, North American markets dominated International equities (in CDN$). For the first time this year, "value" stocks outperformed "growth" stocks, providing a bright spot in relative returns. We expect the value stock bias to continue and portfolios are well positioned to benefit from this theme. Due to disappointing economic developments in the eurozone and ongoing uncertainty around Brexit, we reduced exposure to this region in favour of the United States.
FIXED INCOME SECTORS	Canadian Investment Grade Corporate Bonds		Our bias to Canadian investment grade bonds has added value in all three consecutive quarters. Energy and Industrial sector bonds were the best performing in Q3. We continue to believe high-quality, corporate issued bonds will be well sought after in this low-yield and uncertain environment.
FIXED INCOME SECTORS	Government Bonds		Long-term government bond yields moved lower in Q3. We believe bond yields will trade in a tighter range for the remainder of 2019, as we don't see the Bank of Canada adjusting the policy rate in the near term.
FIXED INCOME SECTORS	Global Bonds		Surprising results from Argentina's primary vote weighed heavily on assets from this region and, in turn, Templeton Global Bond Fund performance. Despite recent weakness, we remain committed to the strategy and believe it will improve risk-adjusted portfolio returns, given its low correlation with other holdings and absolute return focus.
EQUITY MARKETS	Canadian Equities		Canadian equity holdings outpaced the S&P/TSX Composite Index in Q3. Not owning Health Care stocks—specifically cannabis companies—was the biggest reason for relative outperformance. Strong security selection in the Financial and Materials sectors also helped results. The jump in energy stock prices (in reaction to attacks on Saudi Arabia's oil supply) was short-lived. We remain concerned about growth prospects for Canada's economy and stock market.
EQUITY MARKETS	US Equities	→	In absolute terms, US equities were the best Q3 performers, boosted by a strong US dollar. Our US holdings also generated robust relative returns. We credit strong security selection in the Consumer Discretionary and Health Care sectors for beating the benchmark. From a valuations standpoint, US equities appear pricey versus other regions; however, we think it's warranted, given the low interest rate environment and low probability of a near-term recession in the United States.
EQUITY MARKETS	International Equities	←	Germany's poor GDP results roiled European developed equity markets, while Emerging markets were plagued by global trade tensions. Security selection and tactical exposure to Emerging markets led to underperformance in this component. We anticipate International equities will experience ongoing turbulence for the rest of 2019, but expect the downside to be contained due to reasonable valuations.

Asset Allocation Process

Asset allocation decisions result from ongoing discussions within our Private Client Investment Strategy Committee. We begin by making strategic investment decisions against an internal benchmark—for example, the Balanced Growth Benchmark Portfolio—that's based on a neutral asset mix and stable market conditions.[1] The difference between our investment strategy and the benchmark portfolio reflects our active commitment to effectively managing risk and generating superior long-term returns. In updating our investment strategy, we review our investment portfolio and benchmark and complete any required trades.

1. The Balanced Growth Benchmark Portfolio is comprised of 40% fixed income assets and 60% equity assets.