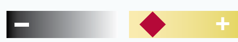
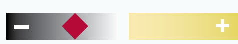
# Minding Long-Term Priorities

By Scott Guitard

US equity markets were the main story for Q3. Global equities, driven primarily by US "growth" stocks, ended the period slightly higher, shrugging off international trade tensions and higher borrowing costs. The US Federal Reserve and Bank of Canada raised policy rates by 0.25%. These steps pushed short-term bond yields higher; however, long-term bonds rose less due to subdued inflation expectations. In general, portfolios performed in line with their benchmarks as security selection-driven gains were offset by our underweight in US equities. Given ongoing themes such as high valuations and geopolitical uncertainty, as well as our focus on preserving capital, we currently expect the asset allocation to remain consistent for the final months of 2018.

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 |  | Investment markets pulled back in most asset classes and regions. However, valuations did not reach levels worthy of reallocating capital currently held in money market/cash equivalents. |
| | Fixed Income |  | At this stage in the investment cycle, we're maintaining our conservative asset allocation—neutral weight in fixed income and underweight in equities. The fixed income component experienced slightly negative absolute returns, underperforming global equities. |
| | Equities |  | Despite US dollar weakness (vs. the loonie), US equities outperformed the Canadian and International equity components on the back of robust economic and corporate earnings data. Facing significant headwinds, Emerging Market equities declined, adding more downward pressure on International equities. Being underweight North American equities and overweight International equities negatively influenced relative returns. |
| FIXED INCOME SECTORS | Canadian Investment Grade Corporate Bonds |  | Investment grade corporate bonds outperformed government issued bonds. Canadian investment grade corporate bond spreads narrowed marginally due to strong investor demand. We're focusing on high-quality corporate bonds, as we believe those introduced by lower-quality issuers could be vulnerable at this stage in the investment cycle. |
| | Government Bonds |  | Government bond prices weakened with the announced US/Canada/Mexico trade agreement. With easing uncertainty, bond investors expect the Bank of Canada to raise rates at least once more in 2018. Since federally issued bonds are highly interest-rate sensitive, we remain significantly underweight this asset, preferring provincial and investment grade corporate bonds. |
| | Global Bonds |  | Timing proved challenging for the recent introduction of the Templeton Global Bond Fund to portfolios. The Fund experienced a difficult quarter due to weakness in several Emerging Market positions, Argentine bonds in particular. |
| EQUITY MARKETS | Canadian Equities |  | In terms of absolute returns, Canadian equities were the worst performing segment among equity components. However, our Canadian equity holdings outperformed the S&P/TSX Composite Index due to strong security selection and an underweight to the Materials sector. |
| | US Equities |  | US equity holdings performed in line with the S&P 500 Index. Strong security selection in the Industrials and Communications Services sectors was offset by weaker selection in Information Technology. Approaching the later stages of this investment cycle, we remain committed to our "value" stock bias. |
| | International Equities |  | Escalating trade tensions between the United States and China, rising US policy rates and a strong US dollar (vs. Emerging Market currencies) spooked Emerging Market investors. This helped extend the 2018 trend of Emerging Markets underperforming developed International equity markets. Nonetheless, we believe Emerging Market equities should add value over a full investment cycle. Feeling the weight of potential US tariffs, European equities closed the quarter flat. |

## 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.