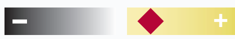
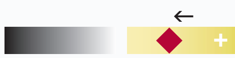
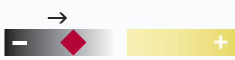
Q2 Produces Uneven Results

By Scott Guitard

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		We reduced our core bond allocation, which reduced overall interest rate exposure and provided funds to establish a tactical cash position. We see this as a shorter-term hold as funds will be put back to work at more attractive entry points for bonds and/or stocks.
	Fixed Income		Our conservative asset allocation—modestly overweight fixed income and underweight equities, negatively affected Q2 relative returns. Although the fixed income component experienced slightly positive absolute returns, global equities outperformed, aided by stronger foreign currencies.
	Equities		In Q2, regional equity market performance trends reversed as Canadian equities played catch-up. Being tactically underweight in North American equities and overweight in International equities weighed on relative returns. Canadian equities traded higher in keeping with crude oil prices, while the US component was boosted by the greenback's rise. Facing a perfect storm involving factors such as higher borrowing costs and weaker local currencies, Emerging Market equities declined. Their weakness significantly influenced International equities performance.
FIXED INCOME SECTORS	Canadian Investment Grade Corporate Bonds		In Q2, investment grade corporate bonds outperformed federal bonds, but underperformed provincials. Though we've reduced the magnitude of our long-standing overweight to investment grade corporate bonds, we believe current holdings will continue to add value at this stage of the investment cycle.
	Government Bonds		We remain significantly underweight in federally issued bonds as they're highly sensitive to interest rate increases. We prefer provincial and investment grade corporate bonds.
	Global Bonds		In Q2, we added global bonds to the mix, drawing on the Templeton Global Bond Fund. This move adds strategic benefits, including low correlation to Canadian fixed income and to the overall portfolio, and a broader opportunity set. It also adds tactical benefits, such as higher yields and less interest rate sensitivity.
EQUITY MARKETS	Canadian Equities		In absolute terms, Canadian equities were the best performing group among equity components as the Energy sector rebounded meaningfully in Q2. However, our Canadian equity holdings lagged the S&P/TSX Composite Index due to Energy sector security selection. Despite recent strength, we believe risks remain high in Canada and International markets offer better value.
	US Equities		Our "value" stock bias hurt relative performance in Q2 as "growth" stocks dominated in the United States. South of the border, equities ground higher as strong economic and corporate earnings data outweighed inflation fears and trade wars. Barring surprises, we'll continue taking profits on US equity strength and allocate proceeds to more attractive areas of the portfolio.
	International Equities		The International equities component was the worst Q2 performer in absolute and relative terms. Weaker economic data and uncertainty about Italy's new government dampened European equities. In addition, Emerging Market equities experienced a difficult quarter as potential trade war threats escalated. We're holding steady on our overweight to International equities, as we believe valuations remain more attractive than those in North America.

Asset Allocation Process

Our asset allocation decisions are the result of ongoing discussions within our Private Client Investment Strategy Committee. We begin this process by making strategic investment decisions against an internal benchmark—for example, the Balanced Growth Benchmark Portfolio—that is 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.