

2019 Fourth Quarter – Economic & Market Commentary

January 11, 2020

Welcome to a new year and a new decade. In this letter, I would like to provide you with a brief overview of some key investment market developments over the past quarter and for 2019 as a whole, as well as some insight into the factors that may affect markets in the coming months.

Overall, the resilience shown by the global capital markets in 2019 was remarkable, rebounding from the severe decline that occurred in late 2018. Despite starting the year on a tentative note, they ultimately shrugged off a stream of negative headlines and uneasy sentiment to stage a robust recovery, with the fourth quarter capping off a year of broad-based gains across most equity and income asset classes.

Supported by low interest rates, slow global economic progress and healthy corporate fundamentals, global equity markets advanced in the fourth quarter and registered solid results for 2019, with many finishing the year just off their all-time highs. The MSCI World Index rose 6.5% in Canadian dollar terms during the last three months of 2019, bringing its gain for the year to 21.9%. And despite ongoing trade uncertainty and the developing impeachment drama, the S&P 500 Index, a broad measure of the U.S. equity market, was up 6.8% for the quarter and finished 2019 with an increase of 24.8%, including dividends.

Canadian equities also advanced in 2019, with supportive business conditions and strong commodity prices boosting results for most sectors. The benchmark S&P/TSX Composite Index climbed 3.2% in the fourth quarter, capping off an impressive 22.9% gain for the year. Overseas, markets showed a similar trajectory, with European developed market equities advancing amid an environment of easy monetary policy and Brexit uncertainty, and many markets in Asia posting positive results for the fourth quarter and the year as well.

After moving to raise interest rates to a more “neutral” level from their record lows in 2018, the U.S. Federal Reserve reacted to weaker global economic growth and tepid inflation in 2019 by easing monetary policy. The central bank made three 25 basis-point cuts to its target rate through the course of the year, while many other international peers also lowered rates based on global economic concerns. The Bank of Canada, however, charted a divergent course, keeping its policy interest rate steady at 1.75% throughout the year. In this environment, 10-year U.S. and Canada government bond yields drifted higher in the fourth quarter, rebounding from their yearly lows in the third quarter. The FTSE TMX Universe Bond Index, which broadly reflects results for the Canadian government and corporate bond market, registered slightly negative returns for the fourth quarter but a gain of 6.9% for the year.

What's the outlook for 2020?

Looking forward, many economists and market watchers forecast slow but positive global economic growth over the coming months, while interest rates are also expected to remain low by historical standards. While this type of environment tends to be generally supportive for businesses and asset markets, experienced investors are also preparing for a lower-return environment consistent with a mature business cycle, as well as periods of increased volatility. With valuations for many assets near record highs, history has proven that a well-diversified, professionally managed investment portfolio will help over time to maximize returns and mitigate risks as they occur.

In closing, I would like to extend my sincere wishes for a happy new year to you and your family. I would also like to thank to you for your continued trust in me and for the opportunity to assist you in working toward your financial goals. Should you have any questions about your investments or the market outlook for the coming year, please remember that the office door is always open and / or I am just a phone call away.

Sincerely,

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The information in this letter is derived from various sources, including CI Investments, Signature Global Asset Management, Cambridge Global Asset Management, Globe and Mail, National Post, Bloomberg, Yahoo Canada Finance, and Trading Economics. Index information was provided by TD Newcrest and PC Bond, and all quoted equity index returns are on a total return basis (including dividends). This material is provided for general information and is subject to change without notice. Although every effort has been made to compile this material from reliable sources; no warranty can be made as to its accuracy or completeness, and we assume no responsibility for any reliance upon it. Before acting on any of the above, please contact me for individual financial advice based on your personal circumstances.