

February 2019

Monthly Overview

Stock markets around the globe were in rally mode during the first month of 2019 after falling flat on their faces during last year's final quarter. Investors took comfort in a more dovish tone from the U.S. Federal Reserve as well as the Bank of Canada, where the heads of the respective banks indicated interest rates would stand pat for potentially longer than had been anticipated.

Canadian stocks reversed all of December's losses and then some thanks to an 8.5% surge in the S&P/TSX Composite index. All eleven of the index's underlying sector benchmarks managed gains during the period. A massive rally in weed stocks pushed the health-care sector index up by an astounding 43.2% in January. Despite the success there, health-care stocks make up under 2% of the value of the broader benchmark, so the gains in companies like Canopy Growth and Cronos Group had limited impact on the overall index. The ever-important financial services and energy sectors rocketed higher by 8% and 10.6%, respectively, while defensive areas of the market, such as consumer staples and telecom, showed the smallest gains.

Renewed confidence in risk assets, along with an 18.5% surge in crude oil prices helped to buoy the loonie in January. The Canadian dollar was 4% higher versus the U.S. greenback during the period, and due to the strength there, returns out of foreign markets translated back into CAD were dampened somewhat. Case in point – the S&P 500 showed a 4.1% gain in CAD terms. This is nothing to snicker at, but it was a fair bit lower than the benchmark's 7.6% local currency return. The top performing sectors within the U.S. benchmark were industrials, energy and real estate.

International stocks were higher too, but by an even lesser amount than the U.S. in CAD terms, with the MSCI EAFE index pulling out a 2.7% gain. Emerging markets stocks, as measured by the MSCI EM index, jumped 4.9% in January

and showed an impressive 9.7% gain for the three months ended January 31.

Things were relatively calm for bond investors during the month as investment grade and high yield benchmarks posted minor gains. Natural gas did not share in the success of crude oil in January, as prices there slipped 4.3%. Precious metals, on the other hand saw respective gains of 3.4% and 3% for silver and gold.

At its regular policy meeting late last month, the U.S. Fed increased rates as expected to 2.5% as Chairman Jerome Powell said during a news conference that, "The case for raising rates has weakened somewhat."

Powell noted that inflationary signals and geopolitical issues such as the slowdown in China and ongoing Brexit negotiations would be key considerations in future rate decisions.

Bank of Canada Governor Stephen Poloz said at a conference in Davos last month that he would monitor housing markets, global trade tensions and oil prices as he gauges the timing of his next hike. Canada's central bank also elected to keep its benchmark interest unchanged in January. The policy rate currently stands at 1.75%.

According to iA Financial Group's economics team, the tightening of economic conditions in the United States, the Trump administration's many trade tariffs and the pervasiveness of geopolitical risks across Europe have created a more uncertain economic environment than in the last few years. However, the team believes that the risks of recession are quite low for the next 12 months and that it is normal to see the economy slow down at this point in the cycle. In 2019, the team will be closely monitoring China's economic momentum while several fiscal and monetary stimuli were implemented in 2018 and have already begun to be reflected in the OECD's advanced economic indicators.

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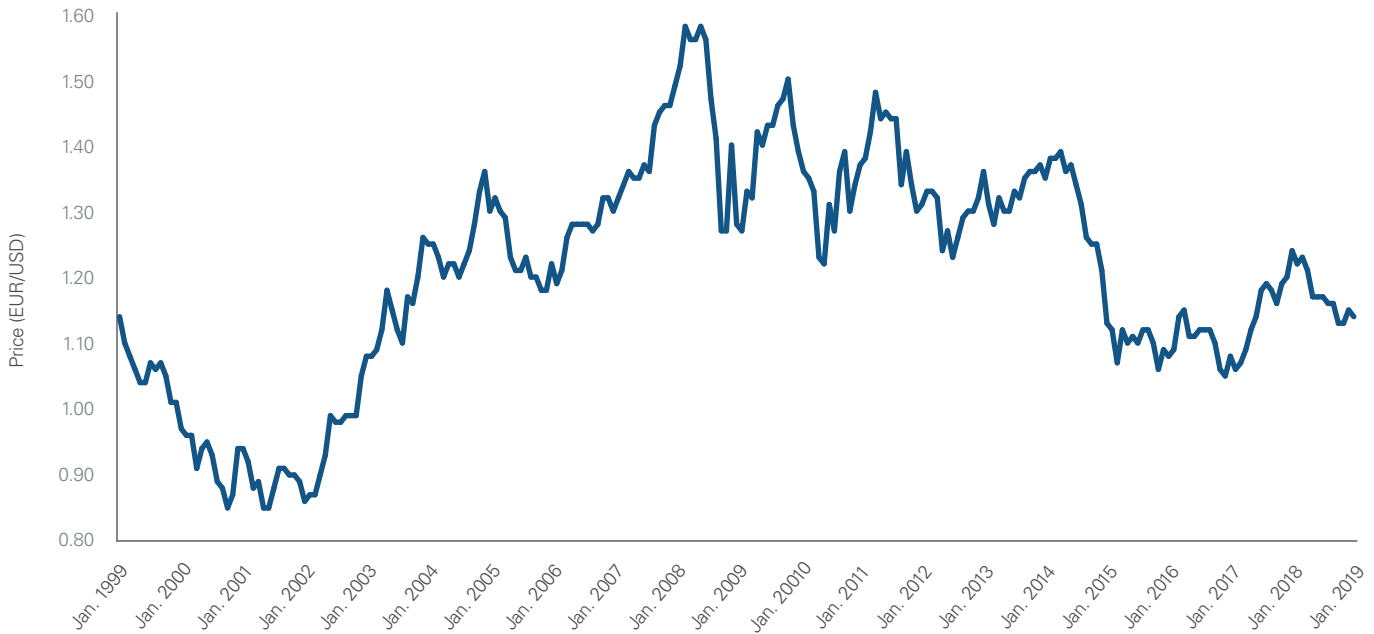
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Monthly Market Statistics

Data to January 31, 2018, unless otherwise indicated

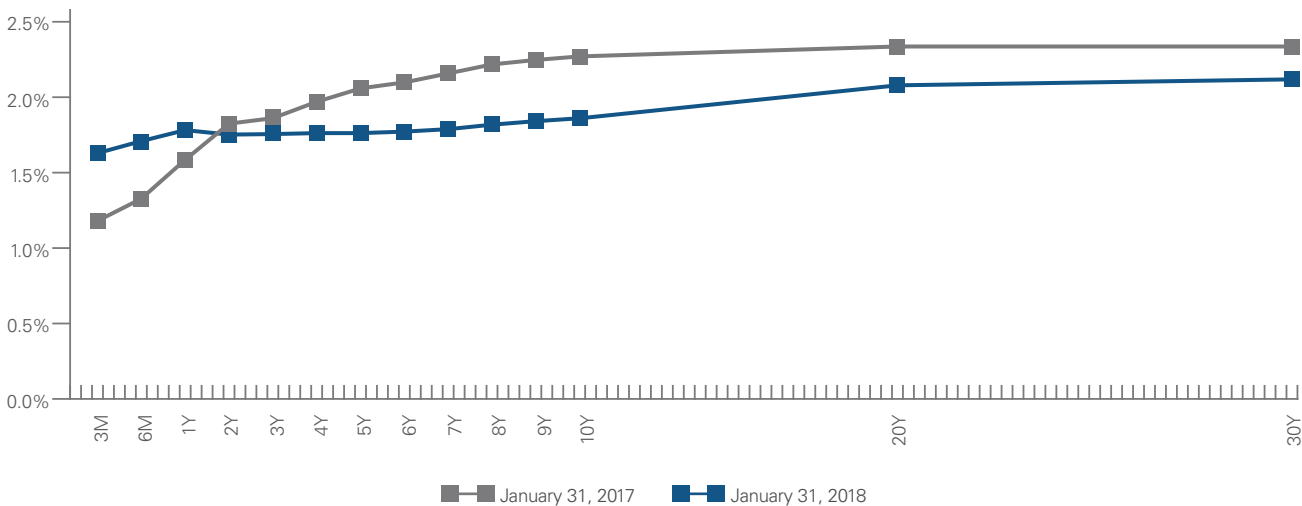
On January 1st, 1999, the European Union created the single currency known as the euro. Eleven countries within the EU fixed their exchange rates to it so they could all be valued in a common unit, while continuing to use their own currencies. Euro notes and coins went into circulation three years after its launch. It has been a turbulent 20 years for the currency, which climbed to a peak of US\$1.58 against the U.S. dollar in 2008. Today the euro is trading at roughly where it started two decades ago and the currency is now used by 19 of the 28 member states of the European Union.

Chart of the Month: Happy 20th Anniversary to the Euro



Source: Bloomberg

Canadian Sovereign Yield Curve



Source: Bloomberg

Monthly Market Statistics

Data to January 31, 2018, unless otherwise indicated

Equity Index Returns (% in CAD)

| Index | 1 Mo | 3 Mo | 6 Mo | YTD | 1Yr | 3Yr | 5Yr | 3Yr Std Dev |
|----------------------|------|------|-------|-----|-------|-----|------|-------------|
| S&P/TSX Composite | 8.5 | 3.4 | -5.4 | 8.5 | -2.6 | 6.6 | 2.6 | 9.1 |
| S&P/TSX Small Cap | 7.5 | -1.0 | -10.7 | 7.5 | -12.1 | 6.7 | -1.8 | 13.8 |
| S&P 500 | 4.1 | -0.4 | -3.0 | 4.1 | 2.2 | 9.3 | 12.4 | 11.1 |
| MSCI EAFE | 2.7 | 0.8 | -7.8 | 2.7 | -9.2 | 2.5 | 3.3 | 11.0 |
| MSCI World | 3.9 | 0.2 | -4.8 | 3.9 | -2.2 | 6.7 | 8.5 | 10.6 |
| MSCI World Small Cap | 6.4 | 0.3 | -8.2 | 6.4 | -3.6 | 8.4 | 8.3 | 13.0 |
| MSCI Europe | 2.3 | 0.2 | -9.3 | 2.3 | -10.7 | 1.3 | 2.0 | 13.7 |
| MSCI EM | 4.9 | 9.7 | -2.4 | 4.9 | -10.7 | 9.8 | 5.8 | 14.8 |
| MSCI AC Asia | 3.0 | 4.7 | -5.2 | 3.0 | -9.1 | 6.5 | 6.6 | 11.8 |

Source: Bloomberg

Fixed Income Returns (% in CAD)

| Index | 1 Mo | 3 Mo | 6 Mo | YTD | 1Yr | 3Yr | 5Yr | 3Yr Std Dev |
|---------------------------------------|------|------|------|-----|------|-----|-----|-------------|
| FTSE TMX Canada Universe Bond | 1.3 | 3.8 | 2.9 | 1.3 | 3.6 | 2.2 | 3.3 | 3.5 |
| Barclays Global Agg | 1.5 | 3.9 | 2.0 | 1.5 | -0.9 | 2.9 | 1.2 | 5.0 |
| Barclays High Yield Very Liquid Index | 1.5 | 1.9 | 2.5 | 1.5 | 8.9 | 6.4 | 7.4 | 5.2 |

Source: Bloomberg

Commodity Prices (Prices and Returns in USD)

| Commodity | 01/31/2019 Price (\$) | MoM Change (%) | YoY Change (%) |
|-------------------|-----------------------|----------------|----------------|
| WTI Crude Oil/BBL | 53.79 | 18.5 | -16.9 |
| Natural Gas/mmBTU | 2.81 | -4.3 | -6.0 |
| Copper/pound | 2.78 | 5.8 | -12.9 |
| Silver/oz | 16.07 | 3.4 | -6.8 |
| Gold/oz | 1319.70 | 3.0 | -1.4 |

Source: Bloomberg

Economic Data

| Canada | |
|------------------------------------|-----|
| Real GDP - Q3 (q/q ann. % change) | 2.0 |
| Consumer Prices Dec (y/y % change) | 2.0 |
| Unemployment Rate, Dec '18 | 5.6 |
| United States | |
| Real GDP - Q3 (q/q ann. % change) | 3.4 |
| Consumer Prices Dec (y/y % change) | 1.9 |
| Unemployment Rate, Jan '19 | 4.0 |

Source: Bloomberg, Stats Canada

One Month Sector Returns (% in CAD)

| Sector | S&P/TSX Composite | S&P 500 |
|------------------------|-------------------|---------|
| Consumer Discretionary | 10.6 | 6.4 |
| Consumer Staples | 3.4 | 1.3 |
| Energy | 10.6 | 7.1 |
| Financials | 8.0 | 4.8 |
| Health Care | 43.2 | 1.0 |
| Industrials | 7.4 | 7.5 |
| Info Tech | 10.0 | 3.1 |
| Materials | 6.7 | 1.8 |
| Real Estate | 7.7 | 6.8 |
| Telecom Services | 4.5 | 6.2 |
| Utilities | 6.1 | -0.3 |

Source: Bloomberg

Exchange Rates

| Cross | 2019-01-31 | 6 Mos Ago | 1Yr Ago |
|---------|------------|-----------|---------|
| USD/CAD | 1.31 | 1.30 | 1.23 |
| EUR/CAD | 1.50 | 1.52 | 1.53 |
| GBP/CAD | 1.72 | 1.71 | 1.75 |
| CAD/JPY | 82.97 | 86.00 | 88.67 |

Source: Bloomberg

Investment Recommendation Rating System

| | |
|-------------------|---|
| Recommended List: | The list presents a selection of funds that we believe are among the best of their peers and offer unique characteristics that can add value when used in a well-diversified investment portfolio tailored to a client's investment objectives. |
| Hold: | The fund remains on the Recommended List, but is not recommended for adding to or selling from client's portfolios. |
| Sell: | The fund is no longer on recommended list. |
| Under review: | The fund's participation on the Recommended List is under review. |

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