

# Monthly Market Snapshot

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.

James Gauthier, CFA  
Head of Funds Research

Edmund Fernandez, CFA, CIM  
Senior Product Analyst

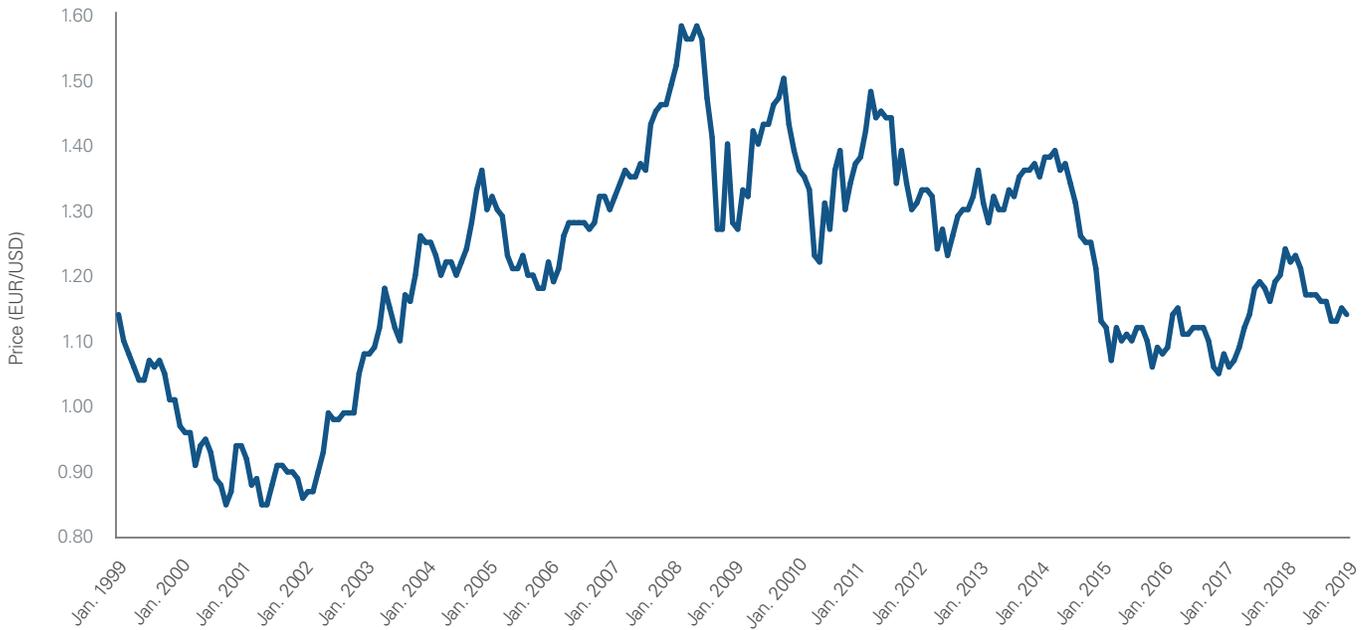
Corey Hurwitz, MBA  
Senior Product Analyst

# Monthly Market Statistics

Data to January 31, 2018, unless otherwise indicated

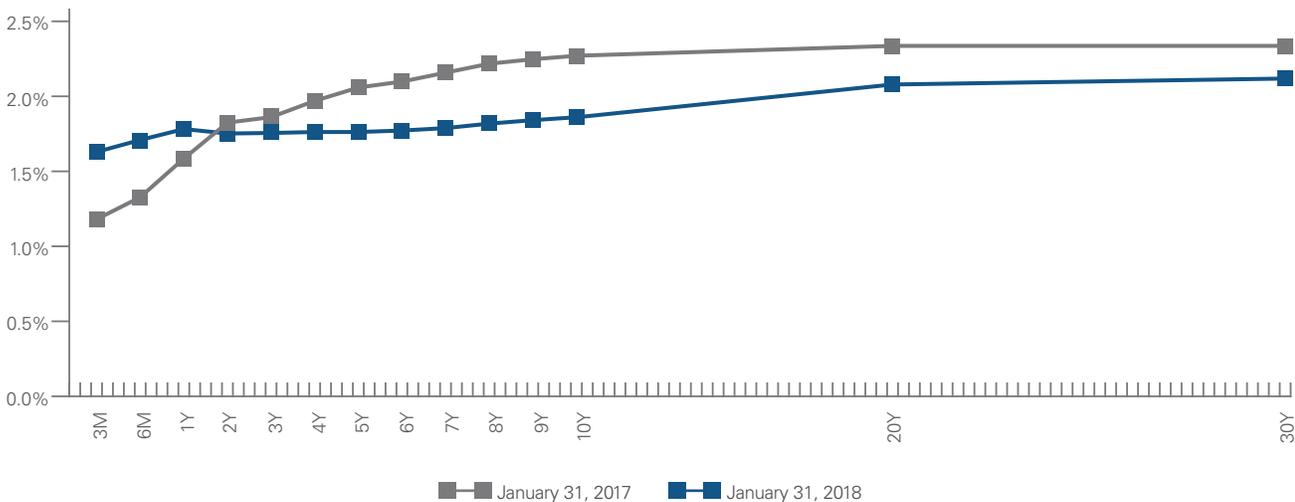
On January 1st, 1999, the European Union created the single currency known as the euro. Eleven countries within the EU fixed their exchange rates to it so they could all be valued in a common unit, while continuing to use their own currencies. Euro notes and coins went into circulation three years after 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.   |

## General Disclosures

The information and opinions contained in this report were prepared by Industrial Alliance Securities Inc. ('iA Securities'). iA Securities is owned by Industrial Alliance Insurance & Financial Services Inc. ('iA Financial'). iA Financial is a TSX Exchange listed company and as such, iA Securities is related to iA Financial. The opinions, estimates and projections contained in this report are those of iA Securities as of the date of this report and are subject to change without notice. iA Securities endeavours to ensure that the contents have been compiled or derived from sources that we believe to be reliable and contain information and opinions that are accurate and complete. However, iA Securities makes no representations or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to iA Securities that is not reflected in this report.

Nothing contained in this report is or should be relied upon as a promise or representation as to the future. The pro forma and estimated financial information contained in this report, if any, is based on certain assumptions and management's analysis of information available at the time that this information was prepared, which assumptions and analysis may or may not be correct. There is no representation, warranty or other assurance that any projections contained in this report will be realized.

Opinions, estimates and projections contained in this report are our own as of the date hereof and are subject to change without notice. This report is not to be construed as an offer or solicitation to buy or sell any security. The reader should not rely solely on this report in evaluating whether or not to buy or sell securities of the subject company. The reader should consider whether it is suitable for your particular circumstances and talk to your investment advisor.

## Definitions

"The author" means any partner, director, officer, employee or agent of iA Securities who is held out to the public as a publisher of Investment Fund Research or whose responsibilities to iA Securities include the preparation of any written investment fund research report for distribution to clients or prospective clients of iA Securities.

"Investment Fund Research" means any written or electronic communication that iA Securities has distributed or will distribute to its clients or the public, which contain author's comments concerning current Investment Fund indicators.

## Conflicts of Interest

The author and or associates who prepared this report are compensated based upon (among other factors) the overall profitability of iA Securities, which may include the profitability of investment banking and related services. In the normal course of its business, iA Securities may provide financial advisory services for issuers. iA Securities will include any further issuer related disclosures as needed.

iA Securities permits the authors to own and trade in the securities discussed herein. In that case, specific holdings disclosures will be made.

## The Authors' Certification

The author whose name appears on the front page of this Investment Fund Research report hereby certifies that (i) the opinions expressed in the investment fund research report accurately reflect the author's personal views about the marketplace and are the subject of this report and all strategies mentioned in this report that are covered by such the author and (ii) no part of the author's compensation was, is, or will be directly or indirectly, related to the specific views expressed by such technical strategies in this report.

The author(s) of this report own(s) the following securities of the issuer(s): None.

## Dissemination of Reports

iA Securities uses its best efforts to disseminate its investment fund research reports to all clients who are entitled to receive the firm's investment fund research reports, contemporaneously on a timely and effective basis in electronic form, via fax or mail.

**For Canadian Residents:** This report has been approved by iA Securities, which accepts responsibility for this report and its dissemination in Canada. Canadian clients wishing to effect transactions should do so through a qualified salesperson of iA Securities in their particular jurisdiction where their iA is licensed.

**For U.S. Residents:** This report is not intended for distribution in the United States.

**For E.U. Residents:** This report is not intended for distribution in the European Union.

**For U.K. Residents:** This report is not intended for distribution in the United Kingdom.

## Intellectual Property Notice

The materials contained herein are protected by copyright, trademark and other forms of proprietary rights and are owned or controlled by iA Securities or the party credited as the provider of the information.

## Regulatory

iA Securities is a member of the Canadian Investor Protection Fund ('CIPF') and the Investment Industry Regulatory Organization of Canada ('IIROC').

## Copyright

All rights reserved. All material presented in this document may not be reproduced in whole or in part, or further published or distributed or referred to in any manner whatsoever, nor may the information, opinions or conclusions contained in it be referred to without in each case the prior express written consent of iA Securities.



**INVESTED IN YOU.**