Fall 2019

After a strong start to 2019, equity markets have spent the spring, summer, and early fall in a range-bound consolidation phase. A combination of trade tensions and concerns of slowing global economic growth have provided the overhanging barrier for the upper end of the recent range. At the same time, equities have found support when the concerns seemed to be boiling over. This has left the S&P/TSX Composite and S&P 500 trading within 5%, in either direction, of their respective March 31st closes. An easing of U.S.-Sino trade relations and a slightly better than expected third quarter earnings season to-date, have equities currently trading towards the upper end of said range: S&P/TSX Composite Index 19.11%, S&P 500 17.02%, U.K. London FTSE 7%, German DAX 8.81%, MSCI Japan 8.26%, China Shanghai Comp 9.17%, MSCI EAFE 10.03%, MSCI Emerging Markets 3.12%, and MSCI World Index ex-USA 8.78%. These returns are converted to the Canadian dollar which has gained 3% relative to the U.S. dollar so far in 2019. Over the summer, it was the bond-proxy sectors, utilities and real estate, that performed best with the decline in interest rates. The weakest Canadian sector was healthcare, though the decline was driven by its cannabis company constituents. It was a similar scene for the gainers in the U.S. for utilities and real estate, though it was energy that was the largest drag on the S&P 500.

The U.S. Federal Reserve's Federal Open Market Committee's (FOMC) fall meetings have played out as expected with cuts in September and October. Their benchmark Fed Funds rate now sits at 1.50-1.75%. Beyond the Fed Funds rate cuts, the U.S. Federal Reserve has been pulled in to provide liquidity to the U.S. Repo market. Meanwhile Chairman Jay Powell went out of his way to state that this is expected to be a temporary requirement and they don't consider it to be Quantitative Easing. With only one FOMC meeting left on the 2019 calendar (December 10-11) and the post-meeting statement and press conference indicating a pause, markets are looking out into 2020 for potential additional reductions. Such cuts would likely occur in the first half of the year, as we believe the U.S. Federal Reserve would prefer to not be active as the U.S. Presidential election campaigns ramp up.

The most recent cut by the FOMC brings the upper-band of their range in line with the Bank of Canada's over-night rate at 1.75%. The governing board's most recent meeting, which happened to be on the same day as the FOMC's, did not result in a change of policy. Modestly stronger than expected economic data has given the BoC the leeway to maintain policy while many of their colleagues around the globe have been increasingly accommodative. While the Federal political parties had plans for modest economic stimulation, the election of a minority government puts execution of such plans into question. The Bank of Canada's messaging continues to indicate a wait and see approach while the geopolitical landscape remains uncertain.

While interest rates are quite close to their mid-2019 levels, the third quarter saw rates trade lower on increasing global economic growth concerns. As trade tensions eased, rates have moved higher in recent weeks. At their lowest for the year, the Canadian and U.S. 10-year treasury bonds were trading with yields of 1.07% and 1.51%, respectively in August. Despite the move of late of higher rates, there remains trillions of dollars in debt around the world trading with negative yields. In such an environment, North America's

Ottawa Wealth Advisory Group
TD Wealth Private Investment Advice
360 Albert St., Suite 1600, Ottawa ON K1R 7X7
T: 613 783 4000 | Toll-Free: 1 877 275 5953 | F: 613 783 4075

modestly positive rates look attractive by comparison. Though our opinion is that this makes meaningfully higher rates unlikely in the coming year, the lack of yield incentive to take on term with a flat yield curve doesn't provide an attractive risk/reward ratio.

The Canadian dollar mirrored the movement of interest rates. This was a classic risk-on/off trade that had the U.S. dollar gaining ground relative to most currencies as trade tensions peaked and waned. Following a couple years of expansion, the spread between the Canadian and U.S. treasury rates has narrowed just a few basis points. This has contributed to the Canadian dollar trading towards the upper bound of its $0.735-0.769 range for the last twelve months. With the Canadian Federal election in the books and the interest rate gap narrowed to near-zero, a different catalyst would be required to move the Loonie beyond its recent trading pattern. Meaningfully stronger relative economic growth doesn't look likely, though an easing of global trade concerns could boost commodity prices and provide a potential catalyst. Beyond our Canadian focused perspective, the U.S. dollar has lost ground to the Pound and Euro of late. A development the U.S. Treasury and Presidential Administration would likely desire to continue.

As we review economic and Q3 earnings results in context of current sentiment, it seems that market sentiment and surveys are more negative than the data. Given that the U.S. is heading into an election cycle with an incumbent President, we expect an effort for re-election to result in equity market and economic encouragement from the current administration. That said, equity valuations are higher in the U.S. than the rest of the world and we believe a narrowing of that gap provides a relative opportunity for non-U.S. equity market gains. We are encouraged by the recent, admittedly mild, steepening of the yield curve and its impact on the lately lagging financial sector, along with Q3 earnings results seen from information technology and industrials while the bond-proxy sectors lag.

Ottawa Little Theatre - November 23rd @ 1:30pm

We hope you'll join us for a viewing of *Miss Bennett: Christmas at Pemberley* at our annual client appreciation event. Please RSVP to 613-783-4000.

Sources:
Bloomberg Finance L.P. as at Sept 30, 2019. Total Index returns. Index returns calculated in C$.
bankofcanada.ca/rates/exchange/currency-converter/

Interest Rates as of Nov 1, 2019							
Fixed Income Securities	**1 year**	**2 years**	**3 years**	**5 years**	**10 years**	**20 Years**	**30 Years**
GICs**	2.18%	2.27%	2.28%	2.38%			
Canadian Treasury Bonds*	1.68%	1.55%	1.52%	1.47%	1.49%	1.64%	1.62%
U.S. Treasury Bonds*	1.52%	1.53%	1.55%	1.55%	1.69%	2.03%	2.18%

* Rates provided by TD Securities

Chris Martin
Vice President &
Investment Advisor

Dan Soublière
Vice President &
Investment Advisor

Alex Anderson, CFA
Vice President &
Portfolio Manager

Dawn Cameron
Associate Investment
Advisor

Carol Williams
Associate Investment
Advisor

Lesley Gover
Client Service
Associate

Gloria Stewart
Client Service
Associate

Ottawa Wealth Advisory Group

TD Wealth Private Investment Advice
360 Albert St., Suite 1600, Ottawa ON K1R 7X7
T: 613 783 4000 | Toll-Free: 1 877 275 5953 | F: 613 783 4075