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Quarterly Newsletter

Q2 2013 Market Summary

After more than four years of trying to boost its economy through extremely low interest rates and other measures, the U.S. Federal Reserve declared a tentative victory in the second quarter of 2013. Cheered by strong jobs and housing data, Fed Governor Ben Bernanke suggested that it may begin to scale back its massive bond-buying program, known as quantitative easing, later this year and allow interest rates to rise in 2014.

However, global capital markets reacted to the Fed's move with a sharp drop in prices as the second quarter drew to a close. Concerns about a credit crunch and slowing growth in China contributed to the pullback. Government bond yields rose sharply, with the yield for the 10-year U.S. Treasury bond climbing to its highest level in more than a year. Prices for high-yield and investment-grade corporate bonds and real estate investment trusts also moved lower as investors became more concerned about valuations. Prices for many commodities, including oil, copper and other base metals, were weighed down by the outlook for Chinese growth. And gold, which many investors held as a hedge against inflation or market volatility, lost more than 20% of its value during the quarter.

For many stock markets, the drop in June was not enough to offset earlier gains. U.S. equities as measured by the S&P 500 Index finished the second quarter with a rise of 6.5% and most European bourses also managed modest increases in Canadian dollar terms. Japan's stock market continued to benefit from central bank efforts to inflate the country's economy and boost exports, finishing the three months 8.4% higher. Emerging market equities, however, were dragged down by the prospect of higher U.S. interest rates, China concerns and weaker commodity prices. The resource-heavy Canadian market, as measured by the S&P/TSX Composite Index, shed 4.1% and Australia's market lost 10.8%.

For the first six months of the year, the S&P 500 in the U.S. was up an impressive 20.3%, while the MSCI World Index, representing global stocks, was up 14.9%. (As these returns are in Canadian dollars, they also reflect a decline of more than 5% in our currency relative to the U.S. dollar over that time.) Meanwhile, the Canadian market continued to lag, returning -0.9% over the six months.

Bond markets did not fare as well as stocks in the first half of the year. Thanks to rising yields, the DEX Universe Bond Index declined 2.4% during the quarter and 1.7% for the year-to-date.

The reaction to Bernanke's comments seemed counter-intuitive, as market moves often are. He was acknowledging that the U.S. economy has made great strides since the financial crisis of 2008, making monetary stimulus less necessary. The positive trends in the economy, including low inflation, healthy corporate earnings, improving employment and the surprising strength in housing, are factors that should support U.S. capital markets.

We continue to believe the best strategy for investors is to take a long-term view, investing with care in a portfolio that is well diversified by asset class, geography and industry sector and which suits your tolerance for risk.

Want more information? Call us at 1.888.824.4351 today to schedule your one-on-one consultation.

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