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Quarterly Newsletter

# Q3 2015 Market Summary

Financial markets continued to exhibit a higher degree of volatility than normal throughout the third quarter of 2015, with most equity indexes finishing the period with losses and the results for bond markets being mixed. Equity values declined in late August and remained choppy into the end of September due to a number of factors, including China's decision to devalue its currency and a subsequent sell-off of Chinese stocks, slower global growth and uncertainty surrounding the U.S. Federal Reserve's plans to raise interest rates.

By quarter-end, the S&P 500 Index in the U.S. had rebounded slightly to post a 6.4% loss for the three-month period and a 5.3% decline for the year-to-date, while the MSCI World Index was down 8.3% for the quarter and 5.6% for the first nine months of the year, both in U.S. dollar terms. For Canadian investors, however, the weak global market results were mitigated as the Canadian dollar continued to lose value relative to the U.S. dollar and other major currencies. In Canadian dollar terms, the S&P 500 was up slightly for the quarter and up 9.4% for the year-to-date, while the decline in the MSCI World Index was trimmed to 1.6% for the quarter and it posted a positive 9.0% return for the first nine months of the year.

The benchmark Canadian S&P/TSX Composite Index, meanwhile, continued to underperform other developed markets, with its resource-oriented sectors impacted by softer global demand for commodities. The index dropped 7.9% in the third quarter and was down 7.0% in the first nine months of the year.

Given the equity market uncertainty and in light of weaker economic conditions, central bankers exercised caution throughout the quarter. The U.S. Federal Reserve opted to keep its benchmark interest rate unchanged, in spite of evidence that the American economy continues on a path of modest growth and its stated goal to raise rates in the near future. In Canada, soft commodity prices continued to weigh on the economy, and two consecutive quarters of declining GDP prompted the Bank of Canada to cut its lending rate to 0.5% in July. Yields for developed market government bonds declined slightly through the quarter as investors sought out their perceived safety.

Heightened market volatility can be unsettling, but we know that financial markets cycle through periods of stronger and weaker returns. Market pullbacks often provide opportunities for investors to buy high-quality securities at attractive prices, and can help to build value over time.

Although the underlying global economy still faces challenges, it continues to grow slowly. In the U.S., the economy expanded at an impressive annual rate of 3.9% in the second quarter of this year, corporate earnings are strong and the housing and job markets are stable. Early third quarter data indicate that the Canadian economy has also returned to positive growth. Overseas, the rising U.S. dollar is putting pressure on emerging economies, but China's economy is still expanding – albeit at a slower rate – as are many developed economies including Germany and France.

From a longer-term perspective, it is worthwhile to note that most equity markets have been strongly positive over the last five years. For example, the five-year compound annual return (to September 30, 2015) for the MSCI World Index was nearly 9% in U.S. dollars and 15% in Canadian dollar terms. While we cannot predict how markets will behave in the future, the danger in reacting to the weakness of this most recent period is that you may miss a subsequent rebound. It's important to remember that market volatility was taken into account when we developed your investment portfolio. A sound financial plan that includes a well-diversified investment program tailored to your individual objectives remains the best approach for securing your financial goals.



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

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