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Quarterly Newsletter

Q1 2018 Market Summary

Global capital markets experienced marked turbulence for the first time in more than a year in the first quarter of 2018. What follows is a brief summary of how some of the major markets and asset classes performed during the period:

Global equities

Global equity markets started 2018 by moving steadily upward through the month of January, much as they had during the previous 12 months. In early February, however, market volatility suddenly resurfaced, with equities dropping sharply into correction territory (defined as a decline of 10% or more). Market participants appeared to be concerned about rising inflation based on strong U.S. economic data. Valuations recovered in the ensuring weeks, but equity indexes were roiled again in late March by rising international trade tensions.

The Dow Jones Industrial Average, a bellwether index of 30 large publicly traded U.S. companies, peaked at a record high of 26,617 points on January 26, but shed about 10.4% of its value over several days in early February. The index recovered to finish the first quarter about 2.5% lower in U.S. dollar terms.

Most global equity markets remained choppy through February and March, finishing the period with negative returns in local currency terms. The S&P 500 Index lost 0.8%, the MSCI World Index fell about 1.2% and developed markets in Europe also declined in value. Markets in Asia were mixed. Canada's S&P/TSX Composite Index lost 4.5% during the three-month period.

Index	Q1 return local currency	Q1 return in C$
S&P/TSX Composite Index	-4.5%	-4.5%
S&P 500 Index	-0.8% USD	2.0%
MSCI World Index	-1.2% USD	1.6%
MSCI EAFE Index	-1.4% USD	1.3%
FTSE TMX Canada Universe Bond Index	0.1%	0.1%

North American energy and materials companies were among the weakest performers. Despite losing value later in the period, information technology shares were among the quarter's top performers based on strong gains made early on.

The Canadian dollar fell about 2.7% in value relative the U.S. dollar over the three-month period. As a result, returns for many markets were modestly positive when expressed in Canadian dollars. Including dividends, the S&P 500 Index gained 2.0%, the MSCI World Index was up 1.6% and the MSCI EAFE Index, measuring returns for Europe, Australasia and the Far East, added 1.3% in Canadian dollars for the first quarter.

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

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Bonds and interest rates

After raising rates in January, the Bank of Canada announced that it was maintaining the target for its key overnight interest rate at 1.25% at its meeting on March 7. Although growth in 2017 had been strong, the central bank raised concerns about the heightened uncertainties surrounding international trade.

The U.S. Federal Reserve under new Chairman Jerome Powell also raised its target range for the federal funds rate by a quarter point to 1.5-1.75% during its March 2018 meeting, in line with market expectations, based on a stronger U.S. economic outlook.

U.S. 10-year Treasury yields rose in the quarter, reflecting the market's optimism for continued global growth and expectations of higher interest rates, while Canadian government bond yields were up slightly. The FTSE TMX Canada Universe Bond Index, a broad measure of Canadian government and corporate bonds, returned 0.1% for the quarter.

Market themes

At the end of a relatively turbulent period of market activity, results for most markets were flat to slightly negative in local currency, but modestly positive in Canadian dollar terms. Canadian equities underperformed their global counterparts.

The re-emergence of equity volatility in the first quarter may have surprised many investors after an unusually lengthy period of relative calm, but in fact was a return to normal. During the month of February 2018, the S&P/TSX Composite Index had three trading days in which losses were greater than 1.50%, *while 2017 only had two trading days during the entire year in which losses were greater than 1.50%**[i]***

After long periods of calm, investors can easily forget what it feels like to experience sudden market ups and downs. However, those ups and downs are a natural part of investing, and market movements are necessary to be successful. It's when the market falls that the best opportunities tend to present themselves.

With asset class correlations on the rise and individual stock price correlations trending downward, true active management and stock selection becomes more important. This divergence creates an investment environment where successful bottom-up stock pickers can thrive in periods of high market volatility compared to passive vehicles that are exposed to the fluctuations of the entire market.

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[i] For February 2018, the days are February 2 (-1.61%), February 5 (-1.74%) and February 8 (-1.73%). For 2017, the days are May 17 (-1.73%) and February 24 (-1.53%). There were only 5 days with losses greater than 1% in 2017; for the first quarter of 2018 in total there were 11 days with losses of greater than 1%.