The Steele Group™

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Quarterly Newsletter

Q4 2018 Market Summary

Volatility resurfaces in 2018

After an unusually calm year of solid performance for capital markets in 2017, investors experienced a much bumpier ride in 2018. Downward volatility resurfaced in the first quarter, and though markets moved generally higher through the summer months, a sharp sell-off in the fourth quarter meant that most asset classes registered negative returns for the year.

For Canadian investors in foreign markets, losses were mitigated somewhat by the weakness of the Canadian dollar, which declined about 8% relative to the U.S. dollar for the year. Here is a brief summary of how some of the major markets and asset classes performed during the period:

Capital market results

- U.S. equities posted some of the best results among global assets in 2018, with the S&P 500 Index reaching an all-time high and setting a record for the longest bull market on record in the third quarter. After the fourth quarter sell-off, however, the index finished the year with a loss of 4.4% (a gain of nearly 4% in Canadian dollar terms).
- Canada’s S&P/TSX Composite Index, meanwhile, was weighed down by themes that included plunging energy prices as well as weakness in materials and financial services. The Canadian benchmark finished the year with a loss of 8.9%.
- The MSCI World Index, a broad measure of developed market equities, fell 8.2% in U.S. dollars (-0.2% in Canadian dollars).
- Central banks in North America continued to gradually raise interest rates throughout 2018. Ten-year U.S. and Canada government bond yields rose and peaked early in the fourth quarter, but fell through November and December to end lower for the year. The FTSE TMX Canada Universe Bond Index, which broadly reflects results for the Canadian government and investment-grade corporate bond market, gained about 1.4% over the 12-month period.

Some perspective on volatility

- Although it is always difficult to pinpoint a single reason, several economic and geopolitical developments have been linked to 2018’s market gyrations. These include increasing trade friction between the U.S. and its trading partners, particularly China, and the fraught Brexit negotiations between the U.K and the European Union. Rising short-term interest rates in North America are leading to tighter financial conditions, while slower economic activity has weighed on commodity prices – particularly oil – and the materials and energy sectors.

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

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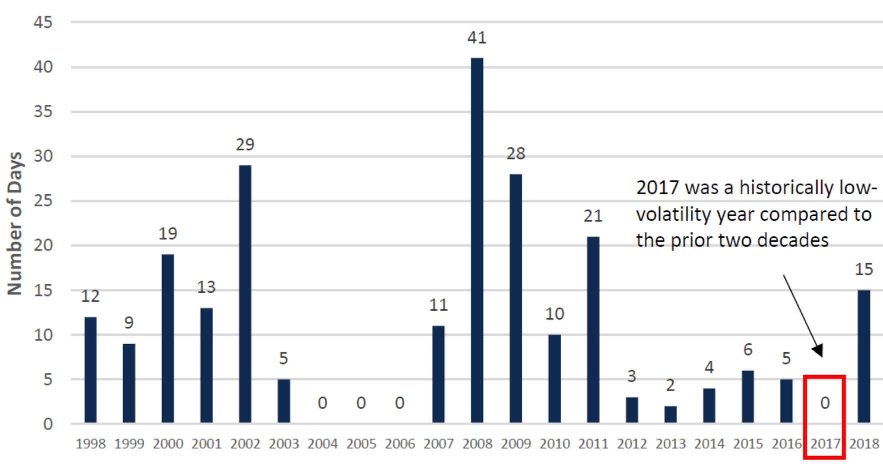
- Regardless of the cause, there is no doubt that market turbulence can be unsettling for investors, and last year's volatile performance was particularly surprising following 2017's steadiness. The reality, however, is that downside market volatility is normal.
- The chart below shows that in most years, the S&P 500 will experience several days in which the value of the index drops by 2% or more. In this context, 2017 was an outlier with nearly non-existent volatility. Last year, with 15 days registering losses of 2% or more, the level of volatility for the index returned to a more "normal" range.

Downside volatility is normal

The number of days the S&P 500 fell by -2% or more



Source: Bloomberg Finance L.P., CI Investments. S&P 500 TR USD as of December 31, 2018.

The outlook for 2019

- In contrast to last year's consensus outlook that pointed to a synchronized global economic expansion, many experts now believe we are in the late stages of the economic cycle, with global growth slowing and downside risks increasing. Nevertheless, developed economies are expected to grow throughout the coming year and inflation remains moderate. Global interest rates are low by historical standards, allowing corporations the flexibility to strengthen their balance sheets and invest in the future of their businesses. These conditions suggest a cautiously optimistic outlook for markets in 2019.

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