Crowder Wealth Management Group's Quarterly Comment

Wealth Management
Dominion Securities

October 2019

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We hope you had a great summer and have the opportunity to enjoy some pleasant fall weather as we head into the final few months of the year. Here's a bit of an update, along with some additional comments that should help to bring you up to date on some key market developments over the past three months and to provide some context for how your investment portfolio may have performed during that time.

Many of the main themes that have affected global asset markets in 2019 – including U.S.-China trade tensions mentioned earlier, political uncertainty due to the Brexit negotiations, and slowing economic activity – continued in the third quarter, resulting in somewhat choppy capital markets. Nevertheless, investors ultimately found reasons for optimism in moderate inflation, generally positive corporate earnings reports and supportive business conditions. As a result, many global bond and equity markets posted gains for the quarter.

After reaching a new high in the prior quarter, the U.S. equity market fell sharply near the end of July and remained volatile over the next several weeks before climbing higher again. The S&P 500 Index, an *index* of the *500* largest U.S. publicly traded companies, finished the period up 3.0% and with a gain of 17.0% for the year-to-date in Canadian dollar terms. The U.S. market rally has been broad-based in 2019, with particularly strong results for companies in the information technology, utilities and real estate sectors.

In Canada, the S&P/TSX Composite Index also weakened in late July, but bounced back to reach a record high late in the quarter, with a rally that was fuelled by companies in the financials and consumer staples sectors. The Canadian benchmark gained nearly 2.5% for the quarter, and was one of the best-performing equity markets globally with a year-to-date gain of 19.1%.

Performance for the MSCI EAFE Index, which captures performance for large and mid-cap companies in 21 developed markets across Europe and Asia, was more muted. The index rose slightly by 0.3% in Canadian dollars for the third quarter, bringing its year-to-date gain to 9.7%.

With global growth slowing, the expectation of rate cuts by leading central banks led government bond yields lower and prices higher through much of the three-month period. The U.S. Federal Reserve cut its policy rate twice in the third quarter – once in July and again in September – citing risks including trade tensions and slowing growth overseas. The European Central Bank responded to slower economic growth by taking its key lending rate into negative territory (a mysterious and perplexing phenomenon - to say the least) and re-starting its bond purchase program to ease credit conditions. The Bank of Canada, however, bucked the trend, pointing to a strong economy for maintaining its overnight lending rate at 1.75%. The FTSE Canada Universe Bond Index, a broad measure of Canadian government and corporate bonds, returned 1.2% for the quarter and 7.8% for the year-to-date.

Lately, there has been much talk of economic recession. In our instant media and short attention span world, sensational, recent, and often bad news is much easier to notice and remember than is the quiet, slow but persistent daily march of economic progress and wealth creation. The fact is – at least for now – economic growth is positive in most areas of the globe. Slow for sure, but positive. However, the current global slowdown and uncertainty brought on by the ongoing trade dispute between the US and China, among other things, has raised the possibility of a recession somewhat, and thus the need for stimulus through rate-cutting.

History would dictate that eventually there will be economic recession. Since predicting these things is virtually impossible, investors should be mentally prepared. First of all, it's important not to blow things out of proportion, and to understand that recessions come and go, and generally don't result in widespread economic disaster. But, they can create an uncomfortable environment for anxious investors.

Selling everything and sitting on the sidelines isn't generally a good idea, since the timing and severity of capital market movements is so uncertain. The reality is that you could wait a very long time for something to happen, and face a large opportunity cost in the meantime. In our view – besides being mentally prepared for bumpy markets – a very reliable solution is to take a long-term view, and to own things with durable and growing cash flows. A diversified portfolio with the likelihood of producing steady (and hopefully growing) earnings or distributions, that reflect an attractive yield on cost, seems like a reasonable and prudent solution. In our view, durability and dependability are highly desirable (as opposed to high-risk longshots) because they also tend to coincide with long-term security. Likewise, taking this approach removes the need for investors to be making impossible predictions about the short-term future.

While all this might be somewhat self-evident, the challenge lies in assessing the durability and growth of cash flows and making sure the price you pay allows for a good return. We can't reinforce enough the need to see through short-term issues, and remain focused on the long-term. In today's market environment, assets with predictability are often priced relatively richly, thereby reducing the potential future returns. After all, with interest rates at all-time lows, there's a widespread thirst for yield from investors. At the same time, the economy and markets seem to be operating under rules that are different from those of the past in many ways – particularly because of the influence of central bank policies. These are some of the reasons why, while simple in concept, investing is far from easy . . . especially today.

Looking ahead, global growth is expected to continue, albeit at a relatively slow pace compared to historical norms, while the risks stemming from trade disputes and political upheaval could continue to affect global economies and markets.

Again, it's worth emphasizing that markets rarely move forward without temporary corrections or bouts of volatility. Investors need to always be prepared for that, and to remain focused on the long-term.

IMPORTANT TEAM NOTICE:

Jennifer Squires is now off until July 2020 a one year maternity leave. During that time, her position will be covered by Beatriz (Bea) Cuellar. We are delighted to have Bea with us, and wish Jennifer and her family all the best!

Bea can be reached at 519-675-1141, beatriz.cuellar@rbc.com.

As always, my team and I thank you for the opportunity to work together. Should you have any questions or concerns, please don't hesitate to contact us.

Sincerely,

Wayne Crowder, B.Sc.(Agr), CFA
Vice President and Portfolio Manager
Crowder Wealth Management Group

Index	YTD	1 Year	5 Year
S&P/TSX Composite Total Return Index	19.1%	7.1%	5.3%
S&P 500 Total Return Index ($CAD)	17.0%	7.0%	14.6%
S&P 500 Total Return Index ($USD)	20.6%	4.3%	10.8%
MSCI World Price Index ($CAD)	12.3%	2.4%	8.7%
Broad Composite Cdn. Bond Index	7.8%	9.7%	3.9%

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