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### Spring Forward, Fall Back

During a period characterized largely by trade uncertainty, global asset markets delivered mixed results for the third quarter of 2018, with the U.S. equity market reaching new highs and outpacing many of its global counterparts. Overall, the market appears to be treading water as it assesses the impact of rising rates and tariffs. It is often said markets “climb a wall of worry” and this correction is consistent with the incredibly slow but long recovery we have been experiencing over the past ten years.

#### Markets

The Canadian S&P/TSX Composite Index dipped slightly, losing 0.6% for the quarter, but the benchmark remained up about 1.4% year-to-date. The Canadian market’s muted performance for 2018 resulted from weakness in the energy and materials sectors and the uncertainty of trade talks with the U.S.



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U.S. equities posted strong results in the third quarter, supported by positive economic data, healthy corporate earnings and favourable business conditions that included corporate tax cuts. The U.S. S&P 500 had a 5.9% quarterly return in Canadian dollars and 13.5% year-to-date. As mentioned last quarter, the technology sector had an outsized influence on these returns. After the quarter-end, concern about a stronger dollar, interest rates, inflation and their collective impact on profit margins had the market resetting profit expectations. This resulted in the sector with the biggest earnings growth, technology, to correct the most.

The MSCI EAFE Index, which represents International large and mid-cap equity, posted moderate negatives for the period, down -1.0% for the quarter, and -1.3% year-to-date as several local markets in Europe and Asia posted moderate losses. Emerging markets also continued to sell off on rising interest rates/tariffs and strong US dollar concerns, as they have since early in the year.

In contrast with concerns raised by the recent market selloff, economic readings remain consistent with U.S. momentum, with leading indicators signalling continued growth.

#### Interest rates

Interest rates continued to move upwards over the quarter. The Bank of Canada left its benchmark interest rate steady at 1.5% in September following a 25-basis point hike in July.

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The U.S. Federal Reserve, meanwhile, responded to the labour market's strength and the continued growth of economic activity by raising its target rate from 2% to 2.25%, its highest level since April 2008. Ten-year government bond yields in Canada and the U.S. rose throughout the period, with the FTSE Canada Universe Bond Index, which measures government and corporate bonds in Canada, down -1.0% for the third quarter and about -0.4% year-to-date.

**Outlook:**

The gradual rise in interest rates and inflation are both a signs of a healthy economy and a signal the economic cycle is maturing. We remain constructive on equities given the two main drivers of stocks – economic and earnings growth – are expected to continue. The likelihood of higher financing costs and inflation, as well as rising global trade tensions, favour adding resiliency and some inflation protection to portfolios. Upgrading credit quality in fixed income and a focus on quality and dividend growth in equity investing represent our preferred approach.

**Estate Planning:**

If you are appointed executor or power of attorney for a family member or friend it is a good idea to chat with our estate planning group. They can educate you on some common pitfalls that can occur and that may be avoided with some simple pre-planning. Let us know if you would like us to set up a meeting or if there is any information you would like us to provide from our library of resources. If you have any concerns about your account or if there have been any changes to your personal circumstances, we would be very happy to discuss them with you. Please do not hesitate to contact our office.

**Team Changes**

It is with mixed feelings that we announce that Christos is moving on to an exciting new career opportunity within DS. We would like to take this moment to thank him for his six years of valuable contributions and wish him the very best. At the same time, we are excited to welcome Sarah Bertrand to the team. Sarah is a CPA, CA with extensive experience in discretionary portfolio management and financial services. Welcome Sarah!

Sincerely,



Don Moore, FCSI, CFP



Mark Gallivan, CPA, CA, CFP



New team member Sarah Bertand CPA, CA