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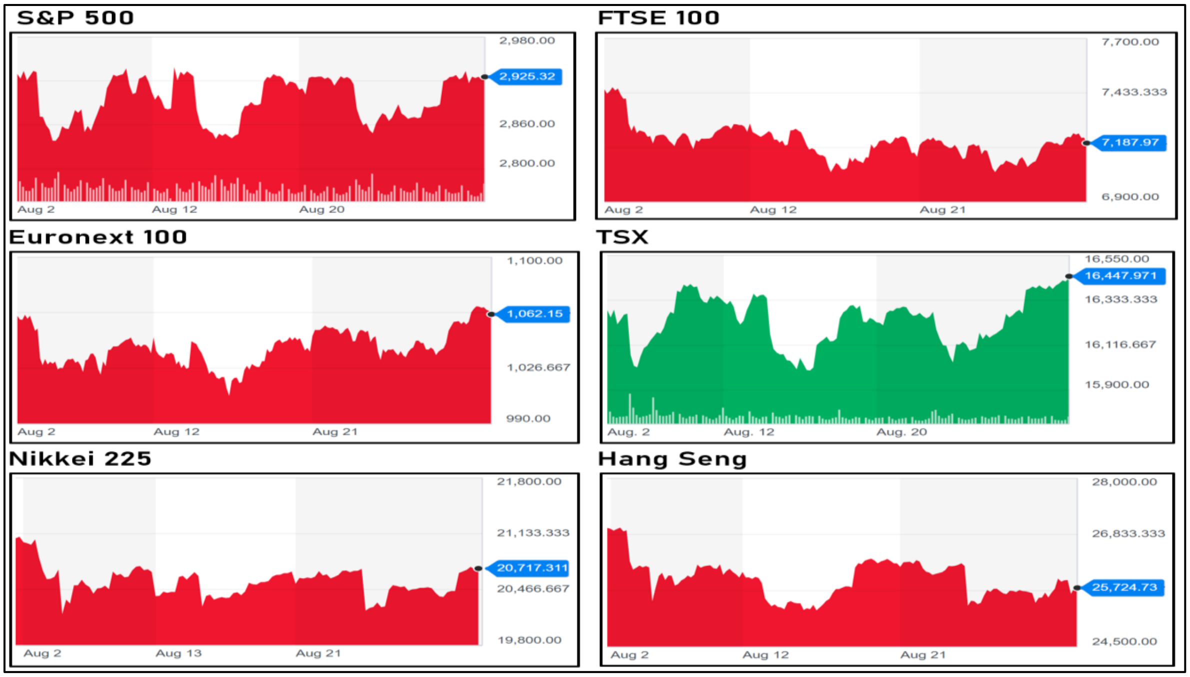
AUGUST 2019 INVESTMENT COMMENTARY

Global trade tensions caused large swings in world markets during the month of August as the US and China continued to escalate the trade war between them. There were many other factors too that spooked investors and drove up the prices of safe-haven assets such as gold. Fears of a recession were driven by negative economic growth in Germany and the UK as well as the inversion of the yield curve in the US. Global equities largely recovered in the final week of the month, but most major indices were down for the month. We'll go into more detail on all of these issues below.

August was only the second month in the red for US equities so far in 2019; May being the other. Of the major indices, the S&P 500 was down 0.1%, the Dow down 1.7%, and the NASDAQ fell 0.5%. Since the sharp drops late in 2018, there has been a strong rally in domestic stocks. This rally has been stoked by good economic data (low unemployment and continued GDP growth), decent company earnings (on the whole), and continued quantitative easing as the Federal Reserve continues to keep interest rates low.



Source: Yahoo Finance

As the charts above indicate though, August was an extremely volatile month, indicating the high level of uncertainty that exists in global markets right now. On August 14th for example, the Dow lost 800 points on a single day of trading. Asian stocks have been hit particularly heavily recently due to the continued escalation of the US-China trade war. As Donald Trump announced increased tariffs on Chinese goods being imported into the US, the Chinese government retaliated with more tariffs of their own.

While the trade war is certainly hurting economies of both the nations, it is the markets in Shanghai that appear to be feeling the pain more than Wall St so far. Perhaps the reason for this is that, in addition to the trade war, news also broke out this month that factory output in China grew at its slowest pace for 17 years. This is one of many signals that the Chinese economy is not the growth machine that it has been for the last decade and that it is experiencing a slowdown. In response, the Chinese government has devalued the renminbi to new lows against the US dollar – a move that the US President was quick to condemn.

Outside of Asia, there are other signs that a global economic slowdown is imminent if not already here. The GDP growth for Germany and the UK in the second quarter of 2019 was announced earlier in August and it was not positive. Germany's GDP shrunk by 0.1% compared to the prior quarter and the UK shrunk by 0.2%. While the UK's economic woes are more self-inflicted (a no-deal Brexit is looking increasingly likely), the Germans are being hurt by external forces as their economy is highly reliant on exports and is therefore particularly vulnerable to an increase in global trade restrictions.

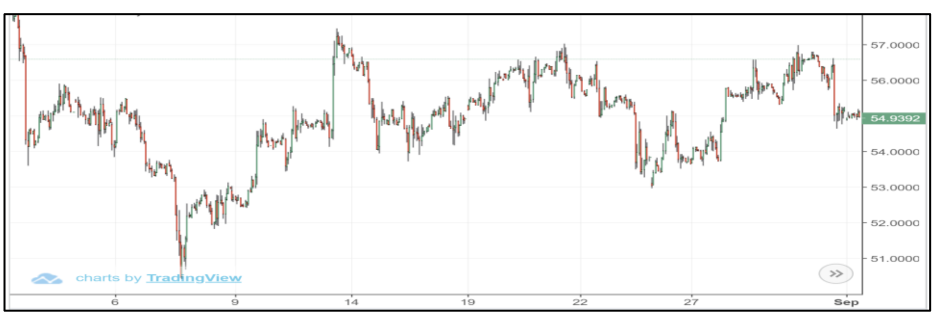
As we look forward to September, it is worries about a recession that will weight most heavily on investor's minds. As was mentioned earlier, several countries in Europe have experienced negative growth already and Asian output is being harmed severely by trade war escalations. It would be foolhardy to think that the US and Canada are immune to this. There were several points in time in August where the yield curve in both Canada and US inverted; this is significant because a yield curve inversion has historically been a reliable indicator of a recession.

The price of safe-haven assets like gold and US treasuries have been pushed higher and higher by these investor worries. Gold in particular has climbed to a 6-year high and the 30 year US treasury yield dropped to its lowest level on record earlier this month (remember that yield and price are inversely related).

In Canada, the picture is a little rosier. The Toronto Stock Exchange was the only index listed above to end the month higher than it started, although it was still a somewhat turbulent period for investors. On a macro level the Canadian economy appears to be in good shape; it was reported at the end of the month that GDP growth for the second quarter was 3.7% (annualized) which was stronger than expected and higher than its neighbour to the south. As global trade tensions continue to rise, it will be interesting to see how this may impact their growth which is also highly export-driven.

Another event to mark in your calendar with regards to Canadian markets is the upcoming federal elections, due to be held on or before October 21st of this year. Currently, CBC's latest poll and projections have the Conservatives and Liberals neck and neck with 34% and 33% of the vote respectively. Meanwhile, the NDP polls at 12.8% and the Greens have 10.7% - both of these smaller parties have enough of the vote that the Conservatives and Liberals will rely on them to try and form governments.

The final topic for our August roundup is to see what movements occurred in commodities markets. The chart below shows the price movements of crude oil over the last 30 days. Similar to the movements in equities, there was some significant fluctuation and the price ended down slightly. As was mentioned earlier, the price of safe-haven assets like silver and gold rose during the month on the back of increased investor uncertainty.



Source: Yahoo Finance

In conclusion we continue to favour equities over fixed income in the near and medium term. However, I have reduced our exposure to equities and am now market weight. I am also ready to go underweight should indicators point to a recession in the near term, which is not my base case scenario.

I hope you found this commentary informative. Please feel free to call me at 416-956-8888 if you have any questions.

Thanks,

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