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Monthly Commentary

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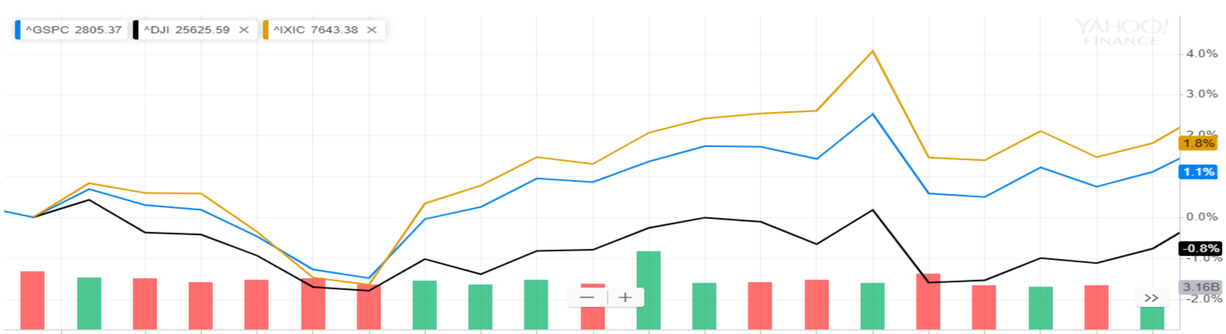
March 2019 INVESTMENT COMMENTARY

Global equity markets continued their recovery from the lows of December last year. On the back of a strong performance in the preceding two months, the consensus estimate was for U.S. markets to soar in March, supported by improving macro-economic and geo-political conditions. There were several reasons behind the lower than expected market performance in March, which will be discussed later in this commentary.

The S&P 500 Index gained 1.1% in March, whereas the all-important Dow Jones Industrial Average (DJIA) failed to rise in March. The best performer in March was the Nasdaq Composite which gained 1.8% during the course of the month.

U.S. market performance in March

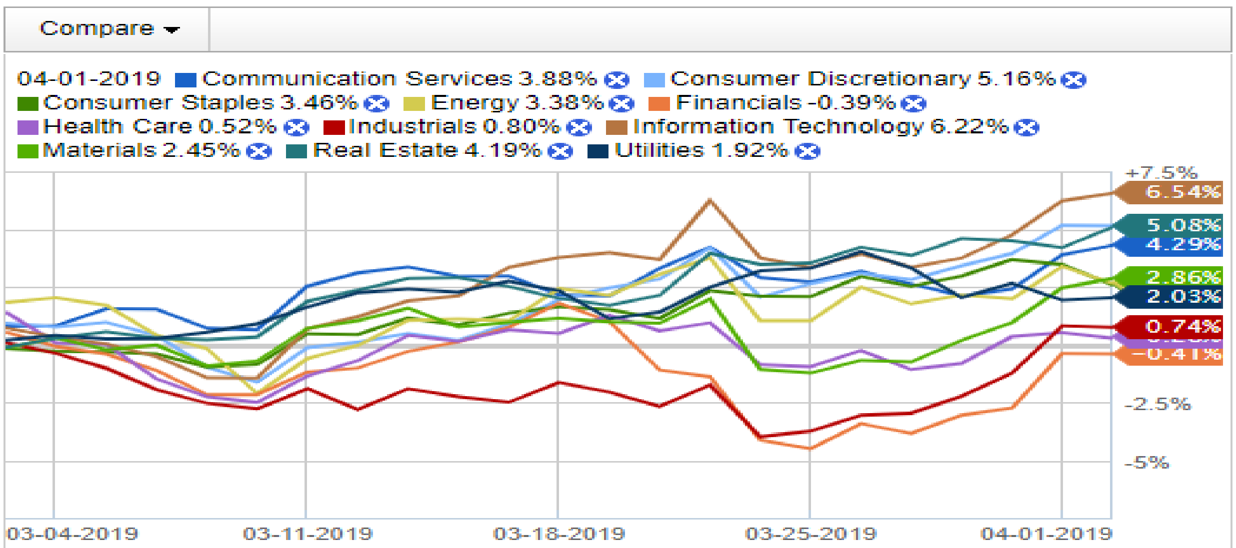


(Source – [Yahoo Finance](#))

The tech heavy Nasdaq Composite was well supported by the price appreciations of many high-tech firms including Apple and Amazon, and this paved the way for the Nasdaq Composite Index to outperform its peers.

The information technology sector gained 6.22% in March, followed by strong performances from the consumer discretionary sector and the real estate sector. A strong performance from these cyclical sectors indicates the optimism surrounding the overall health of the U.S. economy among investors, which doesn't come as a surprise considering macro level developments through late March.

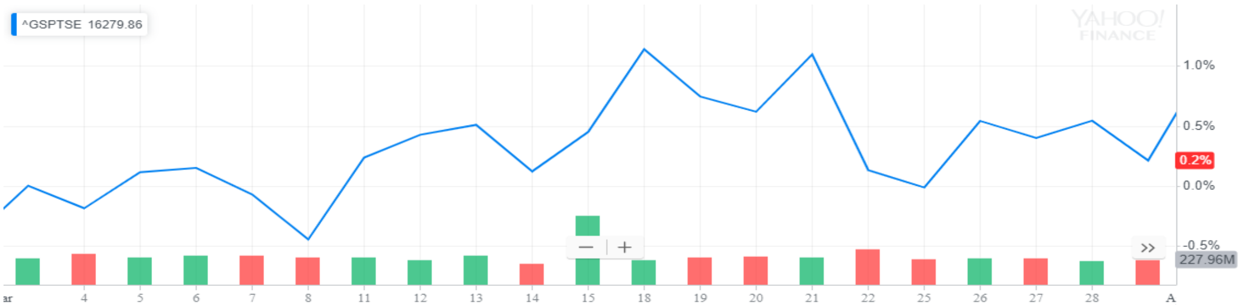
Sector-wise performance in March



(Source – [Fidelity](#))

In Canada, The TSX lost 0.2% in March, primarily driven by the unstable political environment and the underperformance of the energy sector, which is an important driver of the market in Canada.

TSX performance in March



(Source – Yahoo Finance)

The energy sector underperformance in March came as a surprise considering the improving macro and micro level developments.

Other events that dominated business news this past month were:

The yield curve inverted in March – an ominous sign

The yield curve partially inverted in December 2018, which created panic among investors, only to disappear as industry veterans indicated that they would not worry unless the 10 year – 3 months yield curve inverts. This is exactly what happened in March, and this created an instantaneous market sell-off in the latter half of March.

U.S. markets were on the way to post stellar returns in March as well when this phenomenon occurred, but recovered meaningfully to end March on a positive note.

The yield curve is considered inverted when the 10-year Treasury bond yield falls below the yield for 3-month T-Bills. The last time this happened was in 2005, 2 years before the financial crisis hit the markets and wiped billions of dollars off markets. The yield curve remained inverted from 2005 to 2007.

The forecasting ability of an inverted yield curve is mixed. Even though an inverted yield curve is one of the key leading indicators of a recession, it is not the only one. See chart at the end of the commentary.

Even though the yield curve momentarily inverted in March, it has recovered since then and the 10-year Treasury bond yield is currently above the 3-month T-Bill yield.

10-year Treasury constant maturity minus 3-month Treasury constant maturity

(Source – FRED)

Generally, it has taken more than one year from the yield curve inversion to an economic recession, if one were to occur. We are on the lookout for this.

Geo-politics drove markets in March

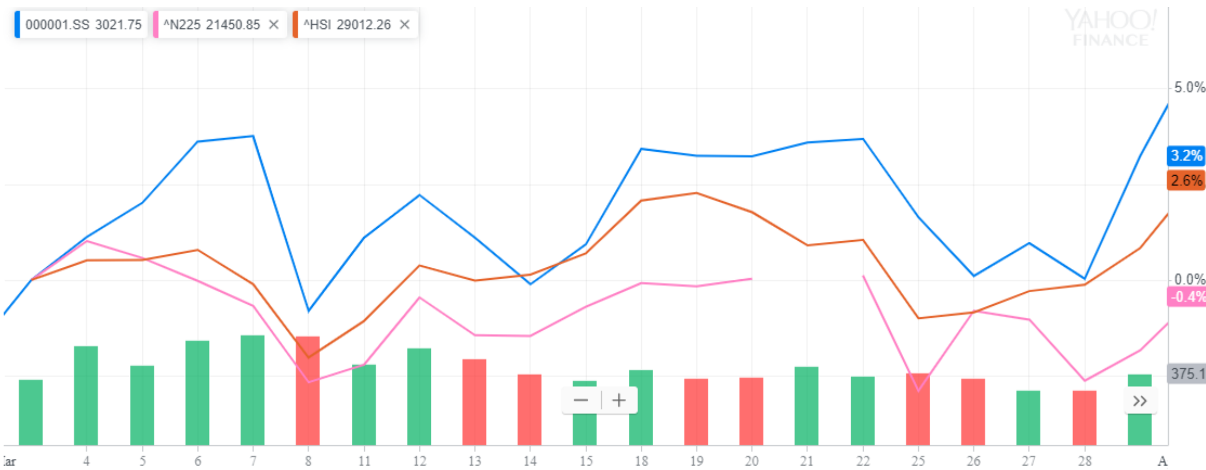
Tit-for-tat tariffs implemented against each other by the two largest economies in the world, the U.S. and China, continued to hurt markets in 2018. Earlier in March, the American President Donald Trump agreed to extend the deadline to reach a trade deal with China, and took it to twitter to confirm that a trade deal was imminent.

Global capital markets received a much-needed boost from this geo-political development, and investors became increasingly bullish of growth prospects. The likelihood of a trade deal remained positive throughout March, and in the latter half of March, both Chinese and American presidents confirmed this.

The improving geo-political environment certainly provided a boost to East Asian markets, understandably so because all these markets received a beating since mid-2018 as investors pulled out of Asian markets in fear of further tariffs from the U.S.

Even though the Nikkei 225 gained marginally, Chinese stock markets provided stellar returns in March.

East Asian market performance in March



(Source – [Yahoo Finance)](#)

Investing in emerging markets was considered a high-risk investment throughout the last couple of years, but things could change if a trade deal is signed between the U.S. and China. As such we are slightly overweight emerging markets equities at present.

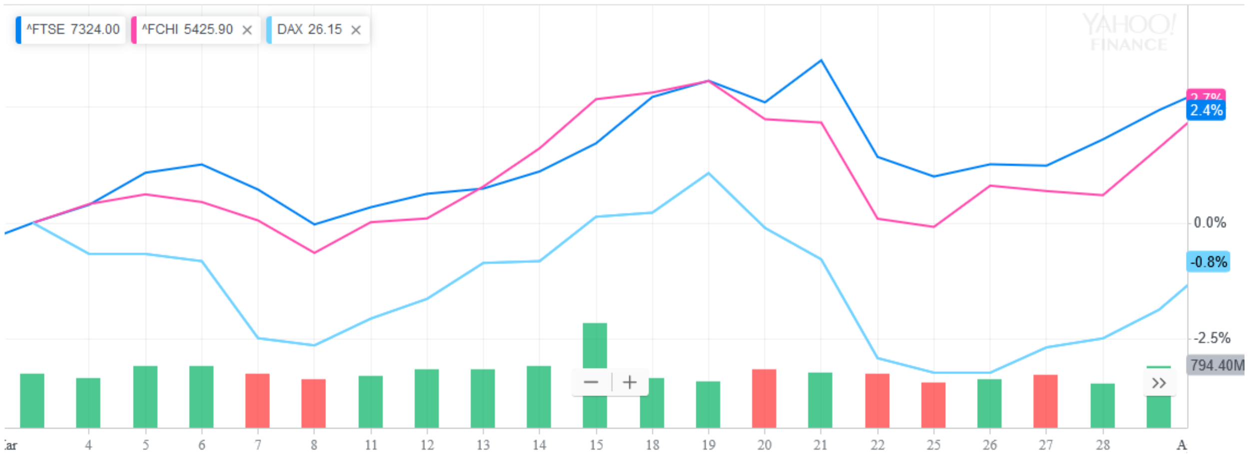
In Europe, Brexit related issues continued to remain an obstacle for equity market performance in March as well. Even though many investors around the globe were optimistic of a positive outcome from the Brexit related parliamentary votes in March, the situation only deteriorated and the British Prime Minister failed to get the parliamentary vote in her favour.

In March, analysts cited the possibility of an extension to the deadline to reach a deal with the EU. Most notably, none of the Brexit proposals submitted to the House of Commons received the green light, and this has basically created havoc in not only UK equity markets, but also in neighbouring European countries as the UK remains one of the largest economies in the region.

The UK Prime Minister has failed to strike a deal with the European Union still, and this is hurting the macro-economic outlook of almost all European Union member countries in general.

Despite the mounting worries in the country, the FTSE 100 Index performed in line with CAC 40 and over-performed the DAX 30, which came in as a surprise. Apparently, the sell-off that was triggered by the yield curve inversion in the U.S. did not impact European market performance meaningfully, and this resulted in a better market performance in Europe in comparison with the North American market performance.

European market performance in March

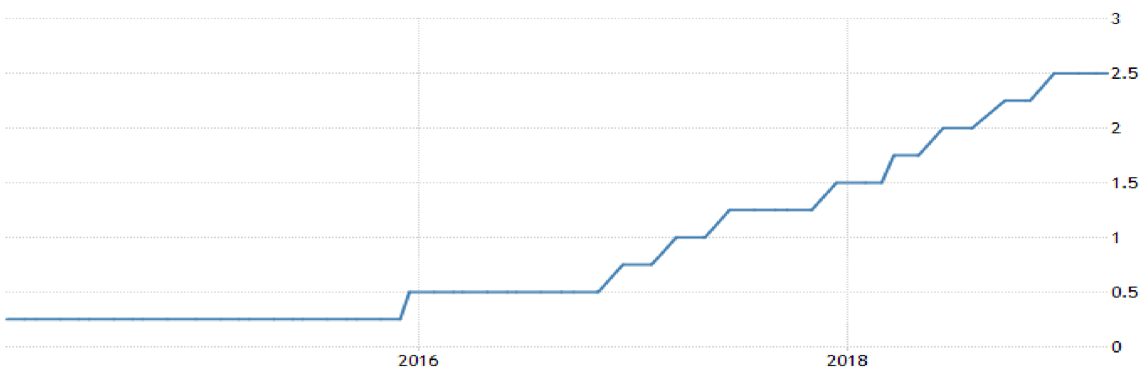


(Source – [Yahoo Finance])

The Fed confirmed the patient stance and European Central Banks are following suit

The Federal Reserve's policy meeting in March provided a relief to investors as the Fed Chair Jerome Powell confirmed the dovish stance of the Fed. On the back of multiple rate hikes since 2015, investors were dreading an even worse 2019, and markets were pricing in at least 3 Fed rate hikes in 2019.

Fed Funds Rate



(Source – [Trading Economics)]

The Fed Chair Jerome Powell confirmed in March that the Fed would remain patient regarding further interest rate hikes, and will monitor economic activities carefully before hiking rates further. The Fed is aware of the negative impacts a rate hike could have on the U.S. economy, so are investors. The dovish stance of the Fed is expected to remain the same for at least another couple of months, and this is a positive sign for equity market investors.

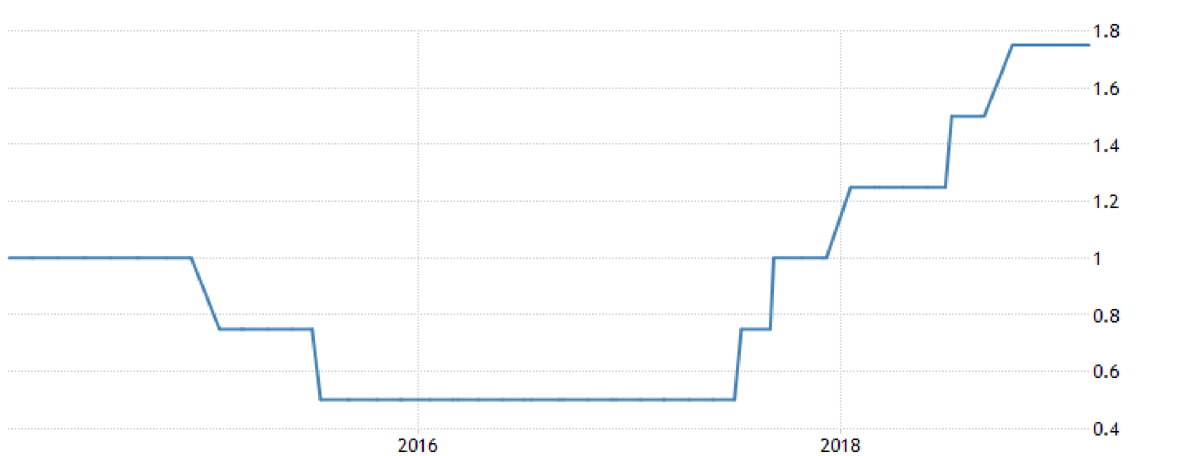
The monetary policy outlook in the European region is certainly supportive of equity market performance, and certain comments and reactions of policymakers in the European region confirmed this in March.

The European region is definitely looking at subdued levels of economic growth, which can be seen by the recent slashes in economic growth forecasts by major Central Banks in the region. Earlier in February, the Bank of England slashed the economic growth forecast to its lowest level since 2009, and the European Central Bank cut the Euro Zone growth forecast to 1.3% from 1.9%, which represents the unattractive macro-economic outlook for the European region. As authorities continue to slash economic growth forecasts in this region, we are likely to see rate cuts in the near future aimed at stimulating economic activities in the region. Overall, lower than forecasted growth rates will hurt capital markets in the European region, but on the other hand, if business activities recover with the expected boost from rate cuts, we might see attractive returns from equity markets in the European region.

Interest rate outlook for Canada remained supportive of equity markets in March

The Bank of Canada left rates unchanged at 1.75% in its March policy meeting, and analysts are now predicting the possibility of a rate cut later this year, as economic growth is decelerating in Canada and inflation numbers are softening.

Bank Rate in Canada



(Source – Trading Economics)

Followed by dovish tones in the U.S. and European region, the Bank of Canada continued to remain dovish in March and confirmed their close scrutiny of macro-economic developments in the second half of this year to gauge a measure of where interest rates need to be. Even though investors were fearful of further rate hikes at the beginning of the year, many analysts now share the opinion that it would be irrational for the Bank of Canada to raise interest rates anytime soon.

The interest rate environment is seemingly supportive of economic growth in the future, and this should provide a much-needed boost to Canadian stocks. However, the future outlook depends on the outcome of global geopolitical developments including the success of Brexit and trade talks between the U.S. and China.

Major developments in Canadian markets in March

The heightened political uncertainty in Canada continued to be an obstacle for positive equity market performance in March. The Canadian Prime Minister Justin Trudeau continued his struggle to contain the fallout from the SNC Lavalin Controversy.

Crude oil prices continued their recovery in March as well, and Saudi Arabia led OPEC hinted at controlling the supply levels of oil to maintain the current price level for oil.

Despite the oil price gains in March, and the promising outlook for oil prices in the foreseeable future, Canadian energy sector stocks did not perform as expected.

Crude oil price recovered in March

(Source – Macro Trends)

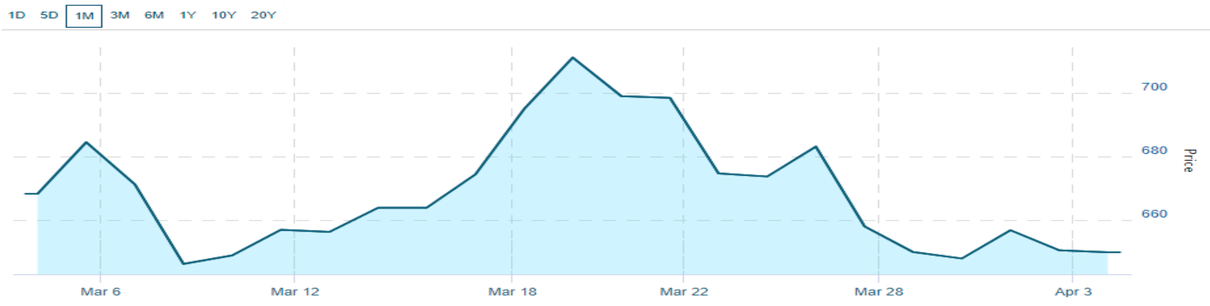
Despite the positive macro level outlook for oil, dividend hikes, and share buybacks, the Canadian energy sector stocks declined in March as well, and this was one of the primary reasons for the overall markets to remain negative.

(Source – [Investing](#))

The Cannabis sector remained another favourite sector of many Canadian investors, and investors are expecting this sector to boom in the future in line with the legalization of Cannabis in 2018. As the first G7 country to legalize the use of cannabis for recreational purposes, it's natural for investors to be bullish on the outlook of this growing sector. As more countries and regulators take measures to legalize the use of cannabis, the consensus estimate is for the Canadian cannabis sector to blossom as these companies enjoy first-mover advantages.

However, the Canadian Marijuana Index declined nearly 3% in March, and the decline can be attributed to the underperformance of many leading cannabis stocks. In addition, the Food and Drug Administration (FDA) of the U.S. confirmed that it would take at least a couple of years to reach a decision on the legalization of cannabis in United States, and this impacted Canadian listed cannabis stocks negatively in March as well.

Canadian Marijuana Index performance in March



(Source – [Marijuana Index])

IPO activities in March (U.S. markets)

Lyft was the highlight Initial Public Offering (IPO) in March, and this is one of the most-awaited IPOs in the recent history. The ride-hailing giant came to the markets with a bang, and its rival, Uber is expected to complete its IPO in 2019 as well.

Priced in IPOs in March

Company Name	Symbol	Market	Price	Shares	Offer Amount	Date Priced
LYFT, INC.	LYFT	NASDAQ Global Select	$72	32,500,000	$2,340,000,000	3/29/2019
PUYI, INC.	PUYI	NASDAQ Global	$6	4,292,276	$25,753,656	3/29/2019
PRECISION BIOSCIENCES INC	DTIL	NASDAQ Global Select	$16	7,900,000	$126,400,000	3/28/2019
8I ENTERPRISES ACQUISITION CORP.	JFKKU	NASDAQ Capital	$10	5,000,000	$50,000,000	3/28/2019
GENFIT S.A.	GNFT	NASDAQ Global Select	$20.32	6,150,000	$124,968,000	3/27/2019
LEVI STRAUSS & CO	LEVI	NYSE	$17	36,666,667	$623,333,339	3/21/2019
INSURANCE ACQUISITION CORP.	INSUU	NASDAQ Capital	$10	13,100,000	$131,000,000	3/20/2019
UP FINTECH HOLDING LTD	TIGR	NASDAQ Global Select	$8	13,000,000	$104,000,000	3/20/2019
TRINE ACQUISITION CORP.	TRNEU	NYSE	$10	26,100,000	$261,000,000	3/15/2019
CRESCENT ACQUISITION CORP	CRSAU	NASDAQ Capital	$10	25,000,000	$250,000,000	3/8/2019
FUTU HOLDINGS LTD	FHL	NASDAQ Global	$12	7,500,000	$90,000,000	3/8/2019
SHOCKWAVE MEDICAL, INC.	SWAV	NASDAQ Global Select	$17	5,700,000	$96,900,000	3/7/2019
TUSCAN HOLDINGS CORP.	THCBU	NASDAQ Capital	$10	24,000,000	$240,000,000	3/5/2019
HENNESSY CAPITAL ACQUISITION CORP IV	HCACU	NASDAQ Capital	$10	26,100,000	$261,000,000	3/1/2019

(Source – [Nasdaq])

Conclusion

March was another positive month for many global equity markets, and the macro level developments in March are expected to gain traction in April as well, setting the table for a good market performance for the foreseeable future. However, as always investors should pay attention to diversify their portfolios to better manage risk in light of higher expected volatility this year.

I remain constructive on the equity markets in 2019 especially International and Emerging Markets.

Please do not hesitate to contact me if you have any questions or comments.

Yours truly,

Karim

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