Financial Markets Summary

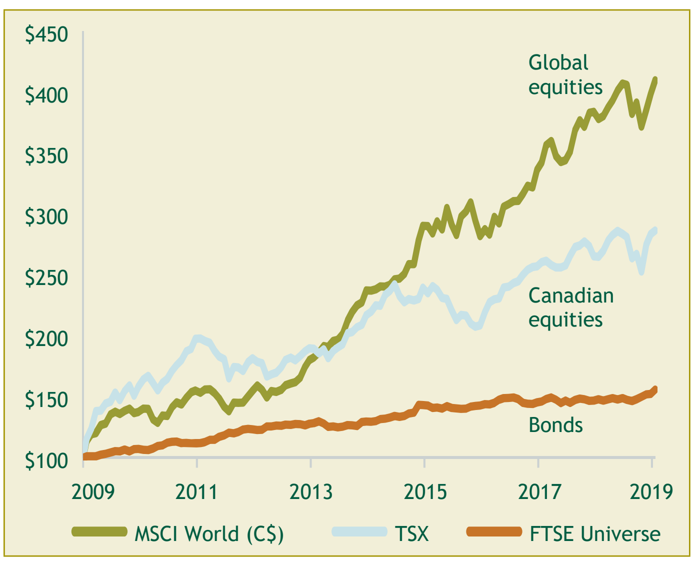
March 31, 2019

PORTFOLIO MARKETS SUMMARY

The first quarter of 2019 saw equities perform strongly—the TSX and the MSCI World indices gained 13% and 10% respectively in Canadian dollars over the period—in contrast to the previous quarter when equity markets experienced significant declines in value. The first quarter rally was fueled by a welcome respite from recent interest rate increases and more stimulative policies globally. Most importantly, the US Federal Reserve's change in tone saw the US central bank signal a pause in interest rate increases for the foreseeable future after hiking rates over the past three years. This was well received by investors that feared the Fed would increase rates too much and trigger a recession. Equity investors responded by driving up stock prices. In addition to the Fed, the Bank of Canada, which has also increased interest rates in recent years, held rates steady and signaled it would not be raising rates in the near term. In China, the government's use of the available tools to support its economy looks to be working, which is good for equities.

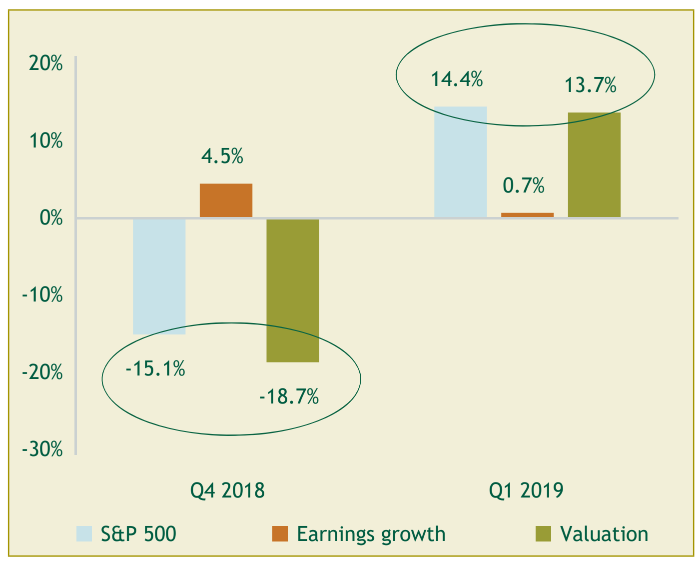
Fixed income securities also started the year with strong returns, and, like equities, their performance was driven by central banks pausing interest rate rises. This lower-for-longer interest rate outlook resulted in bond yields falling and bond prices rising. As the current bull market celebrated its tenth anniversary in March, the performance of equity and bond markets this quarter reminds us of the importance of staying invested. Since the lows of the financial crisis a decade ago, equities and bonds have returned over 250% and 50% respectively—while holding cash has returned less than 10%.

Growth of $100 CAD since March 9, 2009



Source: MSCI, S&P, FTSE

Valuations have had the largest effect on equities' performance



Source: Thomson Reuters Datastream, S&P, IBES

PORTFOLIO STRATEGY

At the start of the first quarter we took advantage of the stock market weakness to add to our portfolios' allocations of Canadian small cap equities. We've had an underweight allocation to Canadian small caps for a while, and elected to buy them at a significant discount. In addition, we believe China's actions to support its economy could help commodity prices and the commodity-exposed TSX small cap equity index. Despite the rally in equity and bond markets, our investment process continues to indicate slowing global economic growth—we remain defensively positioned and expect further market volatility as investors react to data and as expectations shift between a recession and a reacceleration of economic growth.

Within fixed income, we continue to like higher quality investment-grade and government debt. We believe the additional yield investors receive for holding riskier bonds doesn't adequately compensate for the higher risk at this point in the business cycle. In addition, in the event of further market declines the higher quality debt should better preserve capital.

It was a busy quarter for our alternative asset managers: our infrastructure team acquired new hydro assets, our real estate team bought an office building in Vancouver and our private loans team extended a loan to a company in BC. We continue to believe that over the long term, alternative asset classes such as these can provide investors with a strong source of diversification and risk-adjusted returns.

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