NICOLA WEALTH

Five Things to Know This Quarter

Q1 2019

OVERVIEW

The first quarter of 2019 in many ways was the mirror image of performance experienced in the last quarter of 2018. Concerns the U.S. Federal Reserve were making a policy mistake by continuing to raise short term interest rates largely dissipated as the Fed pivoted to a more dovish stance with no rate increases expected in 2019.

Likewise, prospects for a resolution in the trade war between China and the U.S. brightened as both sides communicated progress towards a trade deal, hopefully before the end of the second quarter of 2019. A slowing global economy remains a headwind, as do the many geopolitical risks still weighing on investors, but the two major issues impacting markets at the end of 2018 appear less of a concern in the first quarter of 2019

Below we outline some brief highlights from the past quarter to keep in mind as you read your Nicola Wealth Portfolio Statement:

1. Most asset classes increased in Q1. Both equities and fixed income returns were positive as falling interest rates and tightening credit spreads helped drive prices of bonds and equities higher. Preferred Shares were the only asset class reporting negative returns (Nicola Preferred Share Fund -0.6%) as heavy new issuance and lower five year Government bond yields weighed on valuations.

2. Most global equity indices experienced double digit gains in Q1. Equity results were very strong, but gains largely just reversed losses experienced near the end of 2018. With valuations again moving back towards the upper end of historical ranges and earnings growth expected to slow in the first half of the year, we would expect the momentum of the current rally to slow. While we are still constructive towards the market in the short to medium term, given we are in the latter stages of the current economic cycle and valuations are high, we tend to be more defensively positioned in most portfolios (both equity and fixed income), a fact which contributed to lower relative returns in Q1.

3. The Canadian dollar was stronger this quarter, up just over 2%. Higher oil prices and a more dovish U.S. monetary policy likely helped partially reverse the previous quarter decline. The stronger dollar detracted from the performance on our investments denominated in U.S. dollars, including the Nicola US Real Estate Limited Partnership, Nicola Global Equity Fund, Nicola Global Bond Fund, Nicola US Equity Income and US Tactical Funds and the Nicola Alternative Strategies Fund to name a few.

4. Oil prices were higher. We saw WTI Crude rise 32%, Brent Crude +27% and Western Canada Select Crude +72%. This was good for Canadian equities and the Canadian economy. Most commodities were strong, in fact, as signs of a rebound in Chinese manufacturing helped move prices higher.

5. Volatility has again turned lower, after spiking at the end of 2018. We highlight this more as a reminder as to the benefits of a diversified portfolio, which is constructed to reduce volatility in quarterly performance like we saw in Q4/18 and Q1/19. Certain asset classes like Alternative Strategies, Precious Metals, and to some degree, Bonds, helped smooth out returns in times of elevated volatility, while non exchange traded asset classes like hard asset real estate and private equity are not impacted by sudden changes in investor sentiment.