MARKET COMMENTARY Q4 2018

GP WEALTH MANAGEMENT

What a difference a year makes. For investors in equities, Q4 2017 was an enchanted time. Prices rose nearly uninterrupted throughout the quarter, with the Dow, for example, rising 10.33%.

In contrast, Q4 2018 was a period of major stock market volatility that saw prices tumble and indexes close the year in the red. The Dow's performance? It fell 11.83%.

Of course, it wasn't just the final quarter that was the problem. In 2018, the markets were volatile from start to finish. Now that we've entered 2019, the question is, what's next? Will this ship right itself, or will the markets continue to act erratically in the months ahead?

KEY TAKEAWAYS

• The U.S. economy remains strong, but U.S. stocks have been volatile due to investor concerns about the fading stimulus from the 2017 tax cuts, political dysfunction and global risks to the economy.

• 2018 was the worst year for the U.S. markets in a decade, with the Dow falling 5.6%, the S&P 500 falling 6.2% and the Nasdaq falling 4%.

• Global risks include China's slowing economy, central bank tightening and the unresolved trade war between the U.S. and China.

• Canada's economy is vulnerable to weakening prices for commodities, oil in particular, which could hinder future earnings growth.

• Since private consumption in Canada is highly corelated to housing trends, the ongoing slowdown in housing market activity is grounds for caution.

Global Outlook

During 2018, apart from general worries that the U.S. bull market was overextended, two big concerns weighing on investors were that of the central banks increasing interest rates and the trade wars further heating up.

By year's end, the trend-setting United States Federal Reserve had raised rates four times, pushing its benchmark funds rate to a range of 2.25% to 2.5% in December. However, it also lowered its projections for future hikes, suggesting there could be only two hikes in 2019, down from the previous projection of three hikes.

On the trade-war front, China and the U.S. agreed on a 90-day ceasefire at the G-20 summit in Buenos Aires in December. Although some analysts have termed the deal fragile and tentative, it appears to be holding for now. The two sides have bought themselves some much-needed breathing room, but it remains to be seen if there will be enough political will for them to work out a comprehensive agreement.

(Cont..)

400-5045 Orbitor Drive, Building 11, Mississauga, On L4W 4V4 | T: 416.622.9969 | E: info@gpwealth.ca | W: gpwealth.ca

Other market risks that have migrated into 2019 include China's decelerating economic growth and political uncertainty in the European Union caused by Brexit and Italy.

Canada's Crude Reality

Prices for commodities, oil in particular, fell in 2018, flashing an ominous caution sign for future earnings growth. Late in the year, OPEC and Russia agreed to a production cut, which boosted oil stocks immediately by 6%.

However, global demand for energy is slowing, and Alberta oil producers are still without a means of carrying their product to the international market. Since energy accounts for nearly 20% of the Canadian economy, the country's economic engines will continue to burn below capacity as long as the oil patch's distribution potential remains constrained.

The S&P/TSX Composite fell 11.6% in 2018. Most of the loss, -10.9%, occurred in Q4, making it the worst quarter since Q3 2011.

The TSX's downturn was widespread, with six sectors posting double-digit drops. The energy sector declined the most, returning -28.6%, while consumer discretionary was second at -17.7% and financials third at -12.5%.

Looking back, Canada's economy lost momentum in the third quarter of 2018. The slowdown coincided with a near halving in private consumption growth. Private consumption in Canada is highly corelated to housing trends. Therefore, the ongoing slowdown in housing market activity is likely to have a negative impact on economic growth prospects for 2019.

U.S. a Puzzle

The economy remains strong and the jobless rate has fallen to the lowest in a generation. So, what's wrong with equities?

2018 was the worst year for the U.S. markets in a decade. The Dow fell 5.6%, the S&P 500 was off 6.2% and the Nasdaq dropped 4%.

Analysts agree the volatility was driven by a host of factors, including fading stimulus from the 2017 tax cuts, signs of a global economic slowdown, concerns about interest rates and political dysfunction. The biggest downside risk is the potential for an escalation of the trade war with China.

While the U.S. and China have agreed to a truce, the peace could be short-lived. On March 2, Washington is scheduled to increase the rate on existing tariffs from 10% to 25% — unless the trade talks produce a substantive agreement.

(Cont..)

GP WEALTH MANAGEMENT

Looking Ahead

The global outlook for stocks and the economy is mixed, but it ultimately continues to skew to the downside. While the U.S. economy remains robust, China's performance is weakening, and multiple other headwinds are present.

Notably, after years of easy money, the world's central banks have begun tightening their purse strings and raising interest rates, and there's no way to forecast how long this trend will continue. Meanwhile, the truce between the U.S. and China is positive news, but trade tensions remain elevated, giving investors further reason for caution.

Getting Advice

Are you looking for additional perspective on the financial markets and how they might affect your portfolio? We encourage you to talk to us. Speak to your Financial Advisor or contact investor services at **1 800 608 7707**.

*As of Dec 31, 2018 — MARKET MONITOR (Returns in CAD)

MARKET INDICATORS	MARKET CLOSE*	2017 RETURN	Q4 2018	2018 RETURN
S&P/TSX Composite	14,322.86	+6.03%	-10.89%	-11.64%
DJIA	23,327.46	+16.50%	-7.17%	+2.63%
MSCI World	2,380.013	+12.22%	-8.86%	-2.37%

400-5045 Orbitor Drive, Building 11, Mississauga, On L4W 4V4 | T: 416.622.9969 | E: info@gpwealth.ca | W: gpwealth.ca