glc asset management

Market Matters

Summary for September 2019

Q3-2019 Highlights

- Big market swings netted out to modest quarterly returns for both North American stock and bond markets.
- U.S. Federal Reserve cut interest rates for the first time since 2008.
- Global growth, trade negotiations and geopolitical uncertainty (e.g. Brexit, Hong Kong protests) remain at the center of shifting investor sentiment

Stocks and bonds deliver modest returns in Q3-2019, but can the bull market in everything keep going?

Talk about a see-saw ride: Stocks were up and bonds were down in July. Then, stocks were down and bonds were up in August, followed by yet another reversal with stocks going up and bonds going down in September.

With each pendulum swing similar themes set the backdrop: the U.S.-China trade dispute cooled, heated up, then seemed to cool again – adding to uncertainty around global economic growth and shifting investor sentiment. Expectations around easing monetary policy waivered too, but ultimately the U.S. Federal Reserve (Fed) cut interest rates in July and September (the first rate cuts since 2008), while the Bank of Canada (BoC) left monetary policy unchanged. The European Central Bank (ECB) cut rates further into negative territory and announced the return of quantitative easing.

Year-to-date returns at the end of September 2019 for North American stock and bond markets remain very strong, muting expectations that markets may find fundamental reasons to continue their pace of gains into year-end. This all begs the question, what should you do about it? The short answer: If your investment time horizon is less than ten years, you might want to consider de-risking your investment portfolio.

GLC portfolio managers weigh in with their current market investment strategies.

"Now is not the time to bet big on equities." That's a key message from GLC's Chief Investment Strategist, Brent Joyce (read more of what Brent has to say on GLC's news and insights page "Brent Joyce explains why de-risking makes sense right now"). As part of GLC's Asset

Market Summary

Canadian Fixed Income[1]	Month	QTR	YTD
FTSE Canada Universe Bond Index	-0.8%	1.2%	7.8%
FTSE Canada All Corporate Bond Index	-0.5%	1.1%	8.0%

Canadian Equities[2]	Month	QTR	YTD
S&P/TSX Composite	1.3%	1.7%	16.3%

	Month		QTR		YTD	
Global Equities[2]	Local	CAD	Local	CAD	Local	CAD
S&P 500	1.7%	1.3%	1.2%	2.3%	18.7%	15.4%
MSCI EAFE	3.2%	2.1%	1.1%	-0.6%	12.6%	6.8%
MSCI Emerging Markets	1.3%	1.2%	-3.0%	-4.0%	5.5%	0.7%

Currencies and Commodities (in USD)	Level	Month	QTR	YTD
CDN $	$0.76	0.6%	-1.1%	3.0%
Oil (West Texas)	$54.07	-1.9%	-7.5%	19.1%
Gold	$1,470.54	-3.5%	4.3%	14.7%
Reuters/Jeffries CRB Index	$173.94	2.1%	-3.9%	2.4%

Canadian Sector Performance[2]	Month	QTR	YTD
Cons. Disc.	-1.2%	2.3%	16.4%
Cons. Staples	-0.4%	5.4%	17.8%
Energy	5.0%	0.0%	9.8%
Financials	6.4%	4.2%	16.7%
Health Care	-7.4%	-30.1%	-5.7%
Industrials	-2.4%	-1.8%	18.0%
Info Tech	-7.1%	3.3%	47.7%
Materials	-7.5%	0.1%	13.7%
Real Estate	2.8%	7.4%	21.6%
Comm. Services	0.1%	0.9%	8.3%
Utilities	2.9%	9.0%	30.3%

Local currency unless otherwise stated.
[1]Total return [2]Price only return
Source: Bloomberg

Mix Committee, Brent highlights that balanced portfolios managed by GLC have already shifted modestly to a more defensive asset mix, while taking comfort in knowing that GLC's investment mandates remain true to their style and investment objectives. Within specific portfolios, GLC's portfolio managers have been tactically seeking out holdings that play to more defensive positions and/or holdings they see as being able to hold up better than their peers in the current environment.

We asked some of GLC's senior portfolio managers to expand on how they're addressing the risks and opportunities of today's market conditions. In doing so, **we learn more about the value of disciplined investment processes and active portfolio management in managing market volatility while still focussing on strong, long-term returns.**

"Over the past year (and again in September) we have been diligently reviewing the portfolio ***to ensure that we invest in the type of high quality businesses that will continue to perform in up as well as down cycles.*** *Companies with strong business models, balance sheets, and secular tailwinds not only excel in strong markets, but can take advantage in weak environments by stealing market share or acquiring weaker competitors. Ultimately our goal is to hold a diverse group of high quality, cash flow compounding stocks that possess below average cyclical exposure."* *Ben Fawcett, Vice-President, Equities and lead portfolio manager for Laketon's equity growth portfolios.*

"We've preferred fewer cyclical investments for quite some time due to our concerns about cycle maturity and risk/reward in many areas of the market. The premiums being paid for supposed certainty are at, or approaching all-time highs, so we're more defensively positioned now, owning more Utilities, REITs and cash – ***cash that's ready to deploy when expected market volatility and fast sector rotations reveal opportunities to add to great companies at cheap prices."*** *Clayton Bittner, Vice-President, Equities and lead portfolio manager for GWLIM's Canadian and US dividend mandates.*

"During times like this, we prefer higher credit quality. Valuations are high across asset classes, but the most mispriced seem to be equities and credit product, so we are somewhat defensive on credit. Regarding duration, we see more opportunities based on volatility than any outright duration call. In other words, ***we are trading tactically for investors, with the payoffs coming from taking advantage of asymmetric risks (and thus opportunities).*** *Regarding sectors, low rates and inverted yield curves make it very difficult for banks to earn money, so we are negative on financials. Conversely, this environment is positive for REITs and the mortgage space in general. We are watching to see if falling profit margins start to impact employment. If it does (no sign yet) that could quickly impact consumer spending, and we would get cautious on consumer staples."* *Mark Hamlin, Vice-President, Fixed Income and lead portfolio manager of GLC's Portico investment division.*

"Earlier in the year, we moved to de-risk the portfolio as we grew concerned that trade disputes would begin to meaningfully impact global growth; corporate earnings would suffer and valuations were stretched in many parts of the market. The portfolio is focused on owning high-quality companies offering superior and resilient earnings growth – with valuations that make sense. ***Our disciplined process will serve us well in these volatile markets, giving us an opportunity to add to our favoured growth companies at more reasonable prices. We have the experience that is necessary to manage portfolios through up and down cycles and the analytical talent and constant focus that allows us to take advantage of this volatility."*** *Patricia Nesbitt, Senior Vice-President, Equities and lead portfolio manager for GWLIM's Canadian Growth equity mandate.*

"Times of increased volatility is when our process and focus on risk management is an advantage because our disciplined, quant-based process is designed not to be subjective or swayed by emotion and bias. Our process and adherence to risk management is rules-based. Rather than spend our time guessing things like what the Fed (U.S. Federal Reserve) is going to say, our confidence comes from robust analysis of the current market against research and back-testing over multiple decades and market cycles. ***People often look for managers who will pick tomorrows winners, but history tells us that it's the active portfolio managers who manage the risks while seeking quality companies that serve investors best in the long run."*** *Robert Lee, Vice-President, Equities and lead portfolio manager of GLC's London Capital investment management division.*

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VP Marketing and Communications, has more than 15 years of investment industry experience and has been writing the monthly Market Matters for over 10 years.