## FIRST QUARTER – Market Update

### What a difference a year makes!

We saw quite a turnaround story in 2019 compared with 2018. Despite escalating trade tensions between the United States and China, Brexit uncertainty, and a slowdown in the global economy, the year progressed in an unexpectedly pleasant fashion. In the second half of the year, global markets soaked up additional stimulus from global central banks and a first phase deal between the United States and China to extend the longest bull market in history. By the end of the year, every major asset class was materially positive.

### Canada

The S&P/TSX Composite was up 22.9 percent in 2019 after falling 11.6 percent in 2018. The rally was widespread with nine of the ten S&P/TSX sectors positive for the year. The only exception was the health care sector, which was driven by a material sell-off in the marijuana space. Oil, as measured by West Texas Intermediate (WTI), started the year at approximately $45 and ended the year at nearly $61 leading to a 35% gain that provided a positive tail wind for the Canadian markets. At this point, the path of least resistance for oil is upward given increasing tensions between the U.S. and Iran, which will likely support S&P/TSX earnings moving forward.

### The United States

U.S. equity markets were materially up for 2019. The S&P 500, Dow Jones and Nasdaq were up 31.5, 25.3 and 36.7 percent respectively. The primary drivers of returns were that first phase deal between the U.S. and China on trade, and an accommodative U.S. Central Bank in terms of interest rates. Lower interest rates will support consumers with lower interest rate costs for everything from mortgage rates to auto loans. For U.S. companies, lower interest rates will help company earnings in the future.

### Overseas

In overseas markets, international equities rose 22 percent in U.S. dollars as measured by the MSCI EAFE Index. European markets were encouraged by indications of a resolution to Brexit after the election results in the United Kingdom. As we head into 2020, it appears the European economy is contracting at a slower pace after a couple of challenging years for the European economy. Major Asian economies continued to weaken. Markets were supported by fiscal stimulus and more accommodative credit conditions that investors hope will support the broader economies in the region.

**Central Bank Policy**

In 2019, the Bank of Canada strayed from their global central bank peers and did not reduce interest rates in 2019—remaining at 1.75%. The Bank of Canada has shared that it's unlikely to act in the near term until it has a better understanding of the impact the weaker global economy is expected to have on the Canadian economy. In 2020, it's expected rates will very gradually decrease.

The U.S. Federal Reserve decreased its overnight rate 3 times, from 2.50 to 1.75 percent, amid slowing growth at home. This is likely the result of uncertainty and tariffs following the U.S. and China trade dispute. The Federal Reserve indicated it will likely pause and weigh incoming information before making another adjustment.

**Looking forward**

In 2020, the longest economic cycle in history will likely be supported by low interest rates. It bears repeating that a positive economic environment doesn't necessarily translate into above-average returns. The capital markets are forward-looking and the likely theme for 2020 is *show me,* since most of last year's returns were driven by the expectation of very strong company profits in 2020. Company profits are unlikely to match those lofty goals so investors would be prudent not to base this year's returns on last year's returns.

As always, if you have any questions about the markets or your investments, I'm here to talk.

Warm regards,

- Kurt

Kurt Rosentreter, CPA, CA, CFP, CLU, FCSI, CIMA
Senior Financial Advisor & Portfolio Manager, Manulife Securities Incorporated
President, Upper Canada Capital Inc.
Life Insurance Advisor, Manulife Securities Insurance Inc.

302 – 3 Church Street | Toronto, ON, M5E 1M2
Tel: 416-628-5761 Ext 230 | Toll free: 1-866-275-5878 | Fax: 416-225-8650

http://www.kurtismycfo.com | @KurtRosentreter on Twitter | linked.com/in/kurtrosentreter/ | Kurt on Facebook

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**Manulife Securities Incorporated**
**Suite 302, 3 Church Street, Toronto, ON M5E 1M2**
**T: 416-628-5761 • F: 416-225-8650 • TF: 1-866-275-5878**
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