TBD……

QPW Perspectives – July 2019

From a financial market perspective, the second quarter felt a bit like “same old, same old”. Trade war tensions continued. Progress on trade talks moved forwards and backwards and forwards again, leaving us in the same position – waiting to see how events play out. Despite the déjà vu feeling of trade war headlines, the past quarter also contained some new insights regarding central banks’ views of the current environment.

Equity Markets

Returns **As of June 30, 2019**	**Q2**	**YTD**
Canadian equities (S&P/TSX Index) CAD$	2.6%	16.2%
U.S. equities (S&P 500 Index) USD$	4.3%	18.5%
International equities (MSCI EAFE Index) USD$	3.7%	14.0%

During the second quarter, equity market returns were in the low single digits, providing a modest contribution towards strong year-to-date returns. For Canadian investors, the impressive U.S. and international equity market year-to-date returns of 18.5% and 14.0%, respectively, translate to 13.9% and 9.6%, respectively, in Canadian dollar terms. On a year-to-date basis, the Canadian dollar has appreciated just over 4.0% relative to the U.S. dollar.

Equity markets bounced up and down during the second quarter with high and low quarter-to-date returns ranging from -3.0% to +4.0% before finishing the quarter at the levels above. These movements in the market were in response to economic data (positive and negative) as well as the ongoing global trade issues and Brexit.

Going forward, U.S. and China trade tensions continue to loom over the markets. Headlines have been touting trade war concerns for over a year now. The reality is that after a year of trade talks, a full-blown trade war, which could include higher tariffs, non-tariff barriers such as import quotas, investment restrictions, export restrictions and other pressure points (immigration, military, boycotting campaigns to name a few), has not materialized to date. Although seemingly little negotiating progress has been made, both parties keep returning to discussions, which is a positive.

Lost in the noise of trade news this past quarter were positive developments regarding the U.S. lifting of steel and aluminum tariffs on Canada and Mexico and the delay of auto tariff considerations until the fall. This may bode well with respect to the ratification of the USMCA (United States Mexico Canada) Agreement by all three countries.

Appropriate Interest Rate Response?

> *"There's the risk of being unresponsive or over-responsive, along with the risk of doing too much or too little, and of doing it too soon or too late."*
>
> - Howard Marks, Oaktree Capital.

Given the unpredictable outcome of current trade talks, central banks are in a difficult position when trying to gauge economic growth going forward. Over the past quarter, there were no changes to the key lending rates in Canada or the U.S.

It's hard to believe that just over six months ago, market participants expected the U.S. Federal Reserve to <u>raise</u> interest rates three times in 2019 for a total increase of 0.75%. Current market expectations are for almost the exact opposite; 0.50% to 0.75% in interest rate <u>decreases</u> for the current year.

The biggest influence on this rapid change in expectations remains the risk of a global trade war and the consequences it could have on the U.S. economy. Given recent comments by the U.S. Federal Reserve, market participants are expecting at least 0.50% in interest rate reductions this year. Is this the right decision? Depends on who you ask.

From an economic perspective, U.S. GDP growth remains in excess of 3% and the unemployment rate remains at a 49-year low with healthy gains in wage growth, which is supportive of keeping interest rates unchanged. On the other hand, consumer and business confidence indicators have weakened, indicating expectations of an economic slowdown going forward. These indicators, along with the potential for a trade war, are supportive of unchanged to lower interest rates.

Also exacerbating market expectations for lower interest rates is President Trump's explicit statements that a large interest rate cut is needed and that "The Fed doesn't know what they're doing". This forceful public pressure campaign from President Trump is more about "winning" the trade war and trying to "juice" the economy and asset prices before the election than what may be in the U.S. economy's best long term interests.

The Bank of Canada told a different story in their semi-annual monetary policy report which was released in early July. Economic conditions remain robust and inflation is expected to remain within their 2% target. The risk of escalating global trade tensions and its potential impacts are acknowledged, but the Bank of Canada remains of the opinion that "the degree of accommodation being provided by the current policy interest rate remains appropriate". As a reminder, Canada's target overnight rate is 1.75% which is well below the stated neutral rate range of 2.25% to 3.25%. It is clear that the Bank of Canada does not anticipate any interest rate changes for the time being.

Looking Forward

"Give me a one-handed economist! All my economists say, On the one hand on the other."

- Harry S. Truman

Trying to decipher conflicting economic data under normal circumstances is challenging in and of itself. Adding the complexities of potential trade conflict makes the analysis all the more complicated. No one knows with certainty how current conditions are going to play out (or how long it will take to reach resolution). These times serve as a reminder that portfolios should be positioned for the long term. Quadrant maintains a long term view and focuses its efforts on asset allocation policy, manager selection, and systematic rebalancing in light of each client's individual financial circumstances.

Quadrant Private Wealth - Update

It is not the norm for Quadrant to "toot its own horn", let alone in public communications. That said, over the past year there have been a number of positive developments that we want to formally share with our clients, prospective clients and industry associates.

To ensure continuity and quality of service to our clients as we continue to grow, we are investing in additions to our team and updates to our technology platform. Over time, we have assembled an industry leading team with both depth and breadth of experience. In this past year, we have added key client facing team members:

Jonathan Sorenson	Private Wealth Manager
Paul Bruch-Wiens	Private Wealth Manager
Scott McDonald	Private Wealth Manager
Doug Markewich	Vice President, Family Wealth

About Us

Disciplined. Compassionate. Effective.

Quadrant Private Wealth is an independent, comprehensive, integrated wealth management firm committed to your financial well-being and peace of mind. We take the time to understand your complete financial picture. We tie all of your information together, including tax planning, to paint a picture of what your financial future could look like. And we aim to earn your complete confidence in the process.

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All returns and figures sourced from Bloomberg.