Market Commentary & Outlook October 2015

Greetings, we hope you enjoyed your summer and are looking forward to a pleasant fall season. We are writing to give you a brief update on how financial markets have fared over the past few months and what our expectations are for the next quarter and the entire year.

Financial markets continued to exhibit a higher degree of volatility than normal throughout the third quarter of 2015, with most equity indexes finishing the period with losses and mixed results for bond markets. Equity values declined in late August and remained choppy into the end of September due to a number of factors, including China's decision to devalue its currency and a subsequent sell-off of Chinese stocks; slower global growth; and uncertainty surrounding the US Federal Reserve's plans to raise interest rates.

By quarter-end, the S&P 500 Index in the U.S. had rebounded slightly to post a 6.4% loss for the three-month period and a 5.3% decline for the year-to-date, while the MSCI World Index was down 8.3% for the quarter and 5.6% for the first nine months of the year, both in US dollar terms. The benchmark Canadian S&P/TSX Composite Index, meanwhile, continued to underperform other developed markets indexes, with its resource-oriented sectors impacted by softer global demand for commodities. The index dropped 7.9% in the third quarter and was down 7.0% in the first nine months of the year.

Given the equity market uncertainty and in light of weaker economic conditions, central bankers exercised caution throughout the quarter. The US Federal Reserve opted to keep its benchmark interest rate unchanged, despite evidence that the American economy continues on a path of modest growth and its stated goal of raising rates in the near future. In Canada, soft commodity prices continued to weigh on the economy, and two consecutive quarters of declining GDP prompted the Bank of Canada to cut its lending rate to 0.5% in July. Yields for developed market government bonds declined slightly through the quarter as investors sought out their perceived safety.

Our pure equity portfolios performed well versus the -7% Canadian benchmark. The Canadian growth portfolio experienced a positive performance of 3.6% and the Canadian dividend portfolio experienced a negative return of 3.4% but still outperformed the Canadian benchmark. Our asset allocation strategy of holding larger than normal cash positions along with fixed income and very little emerging market exposure has allowed our clients to avoid large negative total portfolio return experiences. We were looking for opportunities to deploy the cash but continue to hold our cash position for future opportunities that we expect will present themselves in the upcoming quarter.

We are now at the beginning of earnings season. Corporate earnings are expected to be negative which is partly why the North American markets are in the red. The expectation is that US earnings will decline by just under 6% and Canadian earnings by 5%. Energy earnings are the most significant contributor to the negative earning print and a much bigger contributor to Canadian earnings vs. US earnings. As a result, our asset allocation favours US and global exposure and limited energy exposure. We are of the opinion that we will see a trough in earnings and that next quarter will produce positive earnings.

Although the underlying global economy still faces challenges, it continues to grow slowly. In the US, the economy expanded at an impressive annual rate of 3.9% in the second quarter of this year. Early third quarter data indicates that the Canadian economy has also returned to positive growth. Overseas, the rising US dollar is putting pressure on emerging economies, but China's economy is still expanding – albeit at a slower rate – as are many developed economies including Germany and France.

Heightened market volatility can be unsettling, but we know that financial markets cycle through periods of stronger and weaker returns. Market pullbacks often provide opportunities for investors to buy high-quality securities at attractive prices, and can help to build value over time. As we are holding higher than normal cash positions, our clients will benefit from this market volatility over the next year.

Having just enjoyed Thanksgiving, we wanted to say we are grateful to you our clients and for the many referrals you have provided us over the years. We wish you and your families a Happy Halloween!

As always and at any time should you have any questions about your investment portfolio, we are here to help. Please do not hesitate to contact us.

The Angas Shick Group Private Wealth Counsel