Investment Notes

March 29, 2019

GLOBEINVEST
CAPITAL MANAGEMENT INC.

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Overview

Stock markets around the world rebounded this quarter confirming our assessment that markets ended the year extremely oversold and disconnected from underlying economic fundamentals. Optimism on a U.S./China trade agreement and a pivot in U.S. Fed policy to a more dovish stance also buoyed markets to a strong finish in the first quarter of the year.

Given we are in the tenth year of the economic recovery (one of the longest on record), market pundits are invariably on the lookout for signs of the next recession.

The inversion of the U.S. Treasury Yield Curve on March 22 has raised concerns about recession risks, e.g. 3 month Treasury Yield is greater than the 10 Year Treasury Yield. While the inversion should not be ignored, other cycle indicators must also be taken into consideration. As well, given the unorthodox monetary policy (in the form of quantitative easing) adopted by central banks following the Great Recession, the reliability of the U.S. yield curve as recession predictor is debatable.

Commentary

The panic attack in late 2018 was triggered by concerns of an economic downturn against a backdrop of rising interest rates and ongoing trade war between the U.S. and China. A more constructive tone surrounding both of these issues assuaged markets, with most major indices recouping a large portion of the losses suffered last year.

Given its proven track record as a predictive leading indicator of a recession, the U.S. Treasury Yield Curve inversion should not be ignored. On the last seven occasions that the yield curve inverted, the U.S. economy went into a recession within 15 months. However, a few key considerations:

- The inversion (driven by a drop in 10 year interest rates) was relatively brief with a duration of seven days, and is now positively sloped with a spread of +10 basis points. Typically, the yield curve remains negative on average 11 months and a minimum of five months.
- A recession is not necessarily imminent, with the lead time between inversion and the onset of the subsequent economic contraction ranging from 14-34 months.
- Other cycle indicators such as manufacturing and services activity, employment situation, inflation, high yield credit spreads and consumer confidence suggest continued growth, albeit at a slower pace.

Undoubtedly the market swoon last quarter combined with the prolonged U.S. government shutdown has not only impacted consumer confidence but also distorted reported economic data. Recent readings indicate U.S. consumer and small business confidence is recovering. Both manufacturing and services activity have also been improving.

After an unexpectedly weak fourth quarter, the Canadian economy appears to be on firmer ground. The labour market continues to surprise to the upside with job gains lead by the private sector and full-time positions.

The stimulus measures implemented by Chinese authorities appears to be taking effect with recently reported manufacturing data rising back above the expansionary level. The Eurozone remains the laggard hampered by ongoing uncertainty on Brexit in addition to weaker export demand from a slowing global economy. In response, ECB President Mario Draghi announced further expansionary measures in late March, including pushing back any interest rate hikes until the end of the year.

For now, our conclusion is that the recent decline in longer term interest rates signals muted economic growth prospects, but nonetheless continued growth. Globally, central banks have noted the slowdown and accordingly backed off on further rate increases and normalization policy programs.

Summary

With stock markets within striking distance of prior highs, key signposts that will support further gains include: (1) resolution of trade wars (2) affirmation from hard data of a growing economy and (3) growth in corporate profits.

We will continue to assess developments and make any necessary adjustments to client portfolios with the goal to preserve and grow your capital over the long-term.

Housekeeping

We are pleased to announce that we have a new addition to our team. Elizabeth Cruz joined us in December as a Client Service Associate. Elizabeth has worked in the industry since 1998. She brings to GlobeInvest strong client relations experience from prominent banking institutions and asset management firms. Elizabeth will be assisting Wendy in all aspects of client service. She looks forward to speaking and meeting with you.

It is that time of year again. You will have received your 2019 Investment Policy Statement and the Amendment to the Client Relationship Document. If you have not already done so, please take a few minutes to review and return to us.

Peter Brieger, HBA, CFA
Christine Poole, MBA, CFA
Wendy Sanita, CFP®, CIM®
Chris Blumas, MBA, CFA

2019 BNN Dates

Christine: Wednesday, April 10 @ 6:00pm
Christine: Tuesday, May 14 @ 12:00pm
Christine: Wednesday, May 29 @ 7:00am
Christine: Tuesday, June 11 @ 12:00pm
Christine: Wednesday, July 10 @ 6:00pm
Christine: Tuesday, August 13 @ 12:00pm
Christine: Thursday, September 12 @6:00pm
Christine: Wednesday, October 9 @ 6:00pm
Christine: Tuesday, November 12 @ 12:00pm
Christine: Tuesday, December 10 @ 12:00pm

March 29, 2019 Statistical Summary

STOCK MARKETS	**QTD**	**1 Year**
S&P TSX Composite Total Return (CAD)	13.3%	8.1%
S&P 500 Total Return (CAD)	11.2%	13.4%
S&P 500 Total Return (USD)	13.6%	9.5%
DJIA Total Return (USD)	11.8%	10.1%
NASDAQ Composite Price Return (USD)	16.5%	9.4%
MSCI World Index Price Return (USD)	11.9%	2.0%
COMMODITIES		
GOLD	0.7%	-2.5%
SILVER	-2.2%	-7.1%
COPPER	9.0%	-2.9%
NATURAL GAS	-9.5%	-2.6%
WTI	32.4%	-7.4%
BRENT	26.9%	-1.6%
CANADIAN UNIVERSE BOND INDEX	3.9%	5.3%

TREASURY BONDS	**03/29/19**	**12/31/18**	**03/31/18**
2 Year (CAD)	1.55%	1.87%	1.18%
(US)	2.27%	2.59%	2.27%
5 Year (CAD)	1.52%	1.89%	2.00%
(US)	2.23%	2.59%	2.56%
10 Year (CAD)	1.62%	1.96%	2.11%
(US)	2.41%	2.73%	2.74%
30 Year CAD)	1.90%	2.16%	2.28%
(US)	2.81%	3.05%	2.97%
Inflation			
CPI (CAD)	2.1%	1.7%	2.2%
(US)	2.1%	2.2%	2.2%

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