Retirement Benefits Society

GLC's outlook for 2019 and a review of 2018

Keeping your long-term goals in focus during market volatility, while sometimes difficult, is an important part of your investment strategy. In addition to the article on market volatility, we asked Great West Life to provide information on what happened in 2018 as well as a look into 2019. GLC Asset Management, a Canadian Asset Management subsidiary of Great West Life, has provided the following comments.

2019

Market volatility and a sell-off in global equity markets has understandably heightened concerns for investors. We continue to see this as part of the process whereby capital markets are shifting from a period of market expansion, to a period of moderating growth. While the process of 'changing gears' can be painful in the short-term, at this point we don't see this as materially changing our expectations for capital markets in 2019, including our expectations for continued volatility. Importantly, we have been recommending that well diversified balanced investors take a neutral stance, which for us includes meaningful positions in high quality fixed income, a stance we have held in our balanced portfolios for several months. During this period where equities are experiencing declines, high quality fixed income has enjoyed positive returns, leaving balanced investors in a better position.

GLC's 2019 Capital Market Outlook

"For market cycles, we believe acceleration is followed by moderation, before eventually giving way to decline, with moderation being a normal, albeit less desirable stage. Importantly, this means growth has peaked, but that does not immediately give way to economic or corporate earnings decline, rather just lower growth."

This past week's volatility has been further sparked by central bank action as the U.S. Federal Reserve moved to increase interest rates, a move we see as appropriate, but expectations for future rate hikes in 2019 put investors on edge. Likewise, the potential U.S. government shut down, Brexit and U.S. trade policy and negotiations continue to infuse uncertainty into the markets, a further source of market volatility.

For perspectives on what's driving current market volatility and views for what we expect in 2019, please watch Brent Joyce, GLC's Chief Investment Strategist during his recent interview on BNN TV.

Finally, this time of year is notorious for low levels of liquidity as we approach the holidays. Volatility can be exacerbated by this lack of activity with fewer investors out there willing to make changes to their portfolio positions this late in the year.

2018

After a historically long and record-setting bull market, capital market volatility made a comeback in 2018. While corporate earnings growth remained robust, equity market returns were weighed down by worries over the potential for a slowdown in global growth. Severe equity and bond market volatility was particularly notable throughout December. Ultimately, the end of the year brought wide price swings that barely avoided 'bear market' territory.

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Please click through to view GLC's 2018 Year in Review – Nowhere to hide. It's a brief summary of how the capital markets fared (and why) during the year. We think you will find it of interest. Highlights of GLC's 2018 Year in Review include:

- Three Bank of Canada rate hikes pushed short-term bond yields higher, while long bond yields fell a touch; the result was a modest positive return for the year.
- During the fourth quarter swoon for equities, bonds provided the necessary offset balanced investors rely on.
- Canadian equities struggled, weighed down by weaker commodity prices and Canada-centric economic and trade issues.
- U.S. equities finished in the red as the darling FAANG stocks shed an average of 36%; despite this, U.S. equities ended the year as top performers relative to their developed and emerging market peers.
- International and emerging market equities struggled, weighed down by political concerns and tighter global liquidity; Canadian investor returns from most foreign assets received a currency boost from a weak loonie.
- The unratified USMCA and the threat of a U.S. and China trade war continues to weigh on sentiment with concerns that any standoff could escalate and destabilize the global trading order.