MARKET UPDATE FROM THE GLOBAL CIO OFFICE

FEBRUARY 2019

FIERA CAPITAL

After a dismal end to 2018, risk appetite resurfaced in January - thanks to an increasingly conciliatory tone from global central banks, solid corporate earnings results, and some tentative signs of progress on the US-China trade front. Notably, financial markets embraced the Federal Reserve's pivot away from its tightening bias, with policymakers signaling a near-term pause in rate hikes – while similarly cautious undertones from the likes of the European Central Bank, Bank of Japan, and People's Bank of China also lent support. Moreover, high-level trade discussions between the US and China ended on an optimistic note - though stopped short of a breakthrough that would end the conflict ahead of the March deadline for avoiding further escalation in the trade war.

FINANCIAL MARKET DASHBOARD

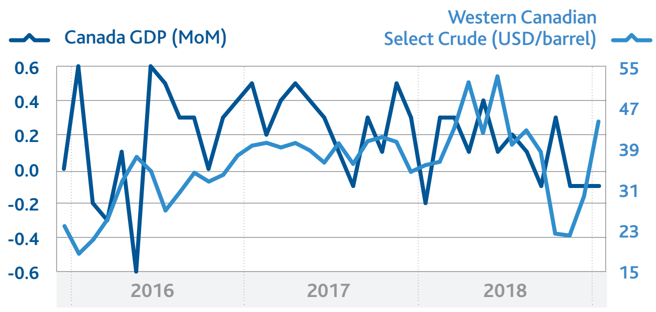
	JAN. 31 2019	JAN.	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	2,704	7.87%	7.87%	-4.24%
S&P/TSX	15,541	8.50%	8.50%	-2.58%
MSCI EAFE	1,831	6.47%	6.47%	-14.95%
MSCI EM	1,050	8.71%	8.71%	-16.31%
FIXED INCOME (%)		BASIS POINT CHANGE		
US 10 Year Bond Yield	2.63	-5.5	-5.5	-7.6
US 2 Year Bond Yield	2.46	-3.0	-3.0	31.7
CA 10 Year Bond Yield	1.88	-8.8	-8.8	-41.0
CA 2 Year Bond Yield	1.78	-8.8	-8.8	-6.3
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.76	3.91%	3.91%	-6.18%
EUR/USD	1.14	-0.17%	-0.17%	-7.78%
USD/JPY	108.89	-0.73%	-0.73%	-0.27%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	53.79	18.45%	18.45%	-16.90%
Copper (USD/pound)	2.78	5.83%	5.83%	-12.86%
Gold (USD/oz)	1,319.70	3.00%	3.00%	-1.44%

Global equity markets made an impressive comeback in January after breaching deeply oversold levels late last year. US equities closed at an eight-week high, while Canadian equities also roared higher – with the S&P/TSX ending January at its highest level since October. The more relaxed outlook from global central banks and some robust earnings results also contributed to a bounce back in European shares. Finally, emerging stocks continued to outperform their developed peers as investors cheered the Federal Reserve's flexible approach to monetary normalization, while hopes for diffused trade tensions and softer dollar conditions also added fuel to the emerging market rally that began in late-2018.

North American fixed income markets also posted positive results as the profound shift in global monetary policy sent bond yields lower. Of note, the Federal Reserve walked back on hawkish testimony and signaled that the subdued inflation backdrop will allow for a "patient" approach to the future policy path. Similarly, the European Central Bank acknowledged the vulnerable economic and geopolitical backdrop and downgraded its assessment for risk, while the Bank of Japan lowered its inflation forecasts – essentially signalling no end in sight for ultra-accommodative policies from central banks abroad. Meanwhile, credit spreads narrowed after a violent blow-out in late 2018, with corporate bonds outperforming their government peers in January.

The greenback declined for a second consecutive month amid the Federal Reserve's increasingly dovish stance, while the prolonged government shutdown also weighed. In contrast, the Canadian dollar firmed thanks to the strong comeback in crude prices and broad US dollar weakness in general. The pound also ended the month higher on speculation that a no-deal Brexit will be averted, while emerging market currencies continued their winning streak at the beginning of 2019.

In commodity markets, oil prices soared higher as OPEC and its allies made good on their pledges to curb production at the beginning of the year, while the political crisis in Venezuela also threatened to disrupt supply for a market that's already nearly-balanced. Gold posted its fourth straight monthly gain after the Fed signaled a pause in its rate hike trajectory, while US dollar weakness also reinforced the appeal of the yellow metal. Finally, copper posted robust gains after China's economy stabilized somewhat in January, while signs of simmering trade tensions also helped to alleviate the outlook for global demand.



In Canada, recent softness in interest-sensitive sectors such as consumption and housing have reinforced the necessity for exports and investment to drive growth going forward. And while woes in the energy are also set to temporarily depress growth in the first quarter of 2019, the sharp rebound in Western Canadian Select crude prices should set the stage for a rebound in the second quarter.

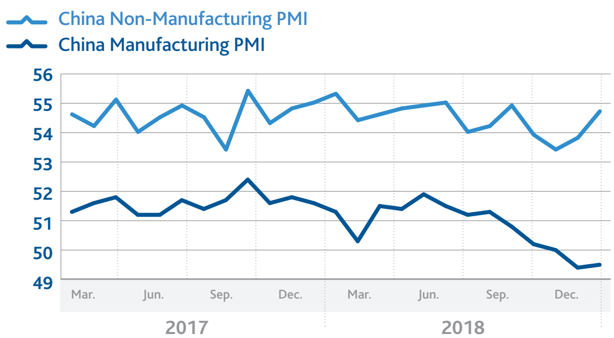
CANADA

The Canadian economy slowed at the end of 2018, with output contracting modestly in November. Weakness was exacerbated by woes in the energy sector (with discounts on Canadian crude hitting record highs in November), while the retail, autos, and construction-related sectors were also vulnerable in the rising rate environment. These trends have all but reinforced the necessity for Canada's growth drivers to rotate away from the overly-exhausted consumer and housing sectors towards exports and investment, which should be facilitated by a solid demand backdrop stateside and a still-competitive loonie. Looking ahead, the combination of temporary, oil-induced weakness at the beginning of 2019, heightened global economic uncertainty, and a tame inflation backdrop has reinforced a patient approach from the Bank of Canada for 2019.

Signs of underlying resilience in the US economy were largely at odds with the Federal Reserve's dovish-turn at the beginning of 2019. Consumer trends remained supportive thanks to an impressive 304k payroll print and a 3.2% y/y acceleration in wages in January, while the factory sector also surprised to the upside, with the ISM Manufacturing index unexpectedly rebounding early-on in the new year.

USA

While a number of economic data releases have been delayed due to the partial government shutdown, incoming data suggests that the world's largest economy remains in healthy shape. Of note, the US economic backdrop remained buoyant early-on in 2019, owing to robust job creation and stellar wage gains, while the impressive rebound in the factory sector also suggests that fears of a pronounced economic slowdown are generally misplaced. This economic strength came in stark contrast to the Federal Reserve's dovish-turn in January, with the central bank capitulating on its plans for further rate hikes in the near-term in response to a number of "crosscurrents" at hand (such as slower growth in China and Europe, ongoing trade negotiations, financial market volatility, and Brexit).



The official PMI data for January suggests that the Chinese economy may have stabilized after the softness witnessed through 2018. The slowdown in the factory sector has eased off somewhat, while the services sector continues to show signs of resilience in an encouraging sign that the recent string of monetary and fiscal stimulus measures may finally be placing a floor under the world's second largest economy.

INTERNATIONAL

The global economy lost some momentum last year, owing mainly to the contentious trade backdrop and signs of slowing growth in China – a key player on the global scale. However, we are seeing some tentative signs of stabilization in China in an encouraging sign that recent monetary and fiscal measures to reflate the economy are finally beginning to bear some fruit – which should have positive spillover effects for the global economy in general. Namely, high-frequency activity data such as retail sales and industrial production both reaccelerated in December, while the official gauge of China's economy indicated that the factory sector slowdown eased somewhat in January – though further stabilization in the world's second largest economy hinges directly on the outcome of ongoing US-China trade discussions.