Global Asset Management

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Capital markets performance

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The U.S. dollar weakened against all four key currencies in the quarter ended February 28, 2019, marking a reversal after the greenback strengthened last year against most currencies. The U.S. Federal Reserve's (Fed) decision to delay further interest-rate hikes and mounting evidence of a slowing U.S. economy were likely instrumental in turning back the trend. The pound's 3.9 percent gain versus the U.S. dollar was the most of the major currencies, with sterling perhaps benefiting from optimism that the worst-case scenario of a no-deal Brexit will be avoided. Conversely, Italy's fall into recession and weakness in many other European economies weighed on the single currency, which eked out a 0.5 percent gain versus the greenback. The yen rose 1.8 percent versus the U.S. dollar and the Canadian dollar posted a 1.0 percent increase. Even with the most recent quarter's weakness, the U.S. dollar managed to rise against all major currencies over the last year. The U.S. dollar gained the most against the euro over the one-year period, appreciating by 7.3 percent.

Most fixed-income markets registered gains in the latest three-month period in U.S. dollar terms, in contrast to the broad declines experienced in the prior quarter. With many central banks unlikely to raise rates in the near term, yields fell materially in key markets from levels at the end of November. The yield on the 10-year U.S. Treasury bond finished the period at 2.72 percent, down from 2.99 percent a quarter ago. Also supporting bond returns was the retreat of credit spreads, which retraced 75 percent of their prior widening from last year. Major global fixed-income benchmarks that we track recorded gains of between 2.8 percent for the FTSE European Government Bond Index and 3.9 percent for the FTSE Canada Universe Bond Index, in U.S.-dollar terms.

Equity markets experienced substantial volatility this past quarter as the S&P 500 Index plunged as much as 15 percent in December and then more than recouped those losses with gains of almost 20 percent to finish the period with a gain of 1.4 percent. The precipitous decline in equity markets in December coincided with extreme levels of investor pessimism, which was likely due to anxiety about Fed interest-rate hikes and another round of tariffs that U.S. and China threatened to levy on each other. The subsequent dovish statements from the Fed and Trump's newfound will to strike a trade deal with China led to a restoration of investor confidence and the stock-market recovery in early 2019. By the end of the three-month period, the S&P/TSX Composite had soared 7.1 percent, and foreign indexes like the MSCI Emerging Markets Index and MSCI EAFE Index rose 6.1 percent and 4.0 percent, respectively, all in U.S. dollar terms. The MSCI Japan Index lost 1.0 percent over the same period and was the only major stock market to record a loss, as Japanese stocks were hurt by weak economic data and deteriorating fundamentals.

The U.S. mid-cap S&P 400 Index, which climbed 2.1 percent in the last three months, narrowly outperformed the small-cap S&P 600 Index at 1.5 percent and the large-cap S&P 500 Index at 1.4 percent, but remains behind its counterparts over the year. Growth stocks continued to outpace value stocks over the quarter as the Russell 3000 Growth Index advanced 3.3 percent, versus a 0.6 percent increase for the Russell 3000 Value Index. All sectors except Health Care were up for the quarter with Materials, Information Technology, Utilities, Industrials and Real Estate all recording returns of 5 percent or more. The outperformance of Materials, Industrials and Information Technology is noteworthy because these sectors suffered the most during the market swoon at the end of last year. Still, Materials and Industrials remained among the worst performing sectors over the one-year period.

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