Cidel Asset Management

Looking Back

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Market Performance and Rebound from 2018

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In 2019, equity markets rallied strongly in the fourth quarter, as reflected in the increase of various indices during this period. The S&P 500 rose 9.1%, the MSCI World increased 8.6%, the MSCI Emerging Markets was up 9.6%, and the TSX rose a moderate 3.2%. For the year, the S&P 500 was up 31.5%, the MSCI World up 27.7%, the MSCI Emerging Markets up 12.8% and the TSX up 22.9%, resulting in one of the best years for equity markets since the financial crisis.

The key driver of the market rally during the fourth quarter was an easing of some macroeconomic factors which had been a negative overhang in the middle of the year. In the U.K., the Tories' election victory increased the likelihood of a resolution for the Brexit saga and resulted in a significant rally in the sterling and U.K. stocks. On the trade front, tensions eased as markets increasingly came to expect a 'Phase One' deal between the U.S. and China. In the U.S., the headlines regarding President Trump's impeachment were digested by markets as a non-event given the level of partisanship in U.S. politics. Once again, the IMF lowered its growth forecast for 2019 in the fourth quarter, from 3.3% to 3.0% with expectations for a rebound to 3.4% in 2020, a reduction from 3.5%.

From a style perspective, we saw large-cap outperform small-cap stocks and growth outperform value stocks once again. The relative outperformance of growth as compared to value has reached extremes that have only been seen a few times over the past century, and now exceed that of the tech bubble in the late 1990s. While this can certainly persist in the long term, in the past, these extremes have been followed by strong outperformance in value stocks.

Bond market performance was weak in the fourth quarter, with Canadian bonds returning -0.85% and U.S. bonds returning 0.18%. For 2019 as a whole, however, bond markets delivered solid returns as interest rates at year end were well below those at the beginning of the year. In 2019, investment-grade bonds returned 6.9% in Canada and 8.7% in the U.S. Riskier bonds performed even stronger, as reflected in the iBoxx Liquid High Yield Index, returning 2.8% in the fourth quarter and 14.7% over the full year. The laggard on the fixed income side was the Canadian preferred share market where we saw negative returns in the first nine months of the year, but a 3.9% gain in the fourth quarter, leading to a full year return of 3.5%.

Globally, interest rates trended upward in the fourth quarter, a reflection of the extreme lows to which they had fallen during the summer combined with an increase in risk appetite. In the U.S., the 10-year government bond yield rose to 1.92% at the end of December from 1.66% in September. In Canada, the 10-year government bond yield rose to 1.70% at year end from 1.36% in September. Globally, the level of negative rates slightly diminished. As an example, German 10-year rates ended the year at -0.19%, up from -0.57% in September.

In summary, 2019 was a complete reversal of 2018 in many ways. In 2018, we witnessed the vast majority of investable assets experience a negative return, while markets were on the rise in 2019. The year was characterized by a strong start, rebounding from a very weak fourth quarter in 2018, fairly flat performance over the spring/summer period, and then a strong finish.

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