2nd Quarter Market Update – July 15, 2015

Global capital market volatility increased during the second quarter of 2015 as investors considered slower economic growth, delayed interest rate increases, and later in the period, the potential for a Greek debt default.

Earlier in the quarter, economic indicators showed an improving outlook in the U.S. and Europe, and demand for global bonds softened. U.S. Treasury yields rose through to mid-June, while Eurozone bond prices also began to decline after a long rally that started in late 2013. Interest rates were held steady in the United States and Canada, while the European Central Bank continued its aggressive quantitative easing program designed to stimulate economic growth. Government bond prices rebounded later in the period as investors shifted their focus to the fractured negotiations between the Greek government and its creditors.

Many global equity markets ended the period slightly lower, as gains made early in the quarter were offset by broad declines through the month of June. The U.S. Federal Reserve decision to hold the line on interest rates initially dampened the value of the U.S. dollar relative to other world currencies and supported the U.S. equity market. This trend reversed, however, as the Greek debt crisis dragged the euro lower and investors sold equities in favour of the perceived safety of government bonds. The MSCI World Index was down 1.2% for the quarter when measured in Canadian dollars, U.S. equities as measured by the S&P 500 Index registered a modest decline of about 0.3% (-1.4% in Canadian dollar terms), and European equity markets also dipped.

Canadian stocks as measured by the S&P/TSX Composite Index started the quarter positively but also traded weaker through May and June to finish the quarter with a loss of 1.6%. The Canadian index has underperformed most other developed markets since the start of 2015, based on low commodity prices and subdued global growth forecasts. Emerging market equities struggled with the expectation of higher U.S. interest rates, currency volatility and slower growth in several emerging market economies. In China, the Shanghai Composite Index initially continued its rally and hovered near a seven-year high before beginning a sharp decline in mid-June. The Chinese market ended the three-month period with a 14.1% gain in local currency terms, but continued to lose ground early in the third quarter. The index fell 30% from its peak in June before government intervention stopped the plunge in early July.

Although the Greek debt crisis and Chinese stock market sell-off have dominated recent headlines, the actual impact of these events on global growth is expected to be limited. Greece accounts for only about 2% of the Eurozone economy, while its lenders, including the European Central Bank and International Monetary Fund, have significant financial resources. In China, the fact that investment in mainland Chinese equities remains largely inaccessible to foreign investors should help to contain the impact. The underlying Chinese economy, meanwhile, continues to expand.

It is also important to view these events through a longer-term lens. Equity markets rarely move forward without periods of volatility. The S&P 500 Index in the U.S. has gained more than 200% since March 2009, and has been trading above its pre-crisis highs for more than two years. There have been several market declines and recoveries over the past six years, but the trend has been broadly upward, based on steady global economic growth, fundamental improvement in business conditions, and the gradual willingness of investors to re-enter the market.

Looking ahead, it seems that more volatility is likely. Rather than retreating from the markets at this time, we believe the best strategy is to maintain a long-term view, investing with care in a well-diversified portfolio that suits your tolerance for risk.

If you have any questions about your portfolio or your overall financial plan, please do not hesitate to contact our office.

With kind regards and best wishes for a wonderful summer season,

Karen and Richard

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