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**Up and Down, Then Up Again** – US equity markets registered new all-time highs in July, fell in August as risk-off price action took hold and ended the quarter back near their peaks. Similar themes caused the roller-coaster quarter. The on-again/off-again US-China trade war dominated the headlines as well as weak global growth, recession fears and central bank monetary policy. Canada's S&P/TSX Composite continued its strong 2019. However, energy stocks persistently underperform as crude prices slipped 8.5% during the quarter. Outside of North America, markets struggled to combat a slowdown in China that is reverberating through much of the globe.

The Federal Reserve embarked on a new easing cycle with two rate cuts. The long-end of the US yield curve fell dramatically, causing a temporary inversion of the 10-year and 2-year spread. The Canadian dollar slipped during the quarter, but still remains approximately 3% higher than at the beginning of the year against the US dollar.

| INDEX TOTAL RETURN                   | 3Q19    | 1-YEAR  |
|--------------------------------------|---------|---------|
| MSCI All Country World Index (USD)   | (0.03%) | 1.38%   |
| S&P 500 Index (USD)                  | 1.70%   | 4.25%   |
| S&P/TSX Composite Index (CAD)        | 2.48%   | 7.06%   |
| MSCI Emerging Markets (USD)          | (4.25%) | (2.02%) |
| MSCI EAFE Index (USD)                | (1.07%) | (1.34%) |
| Barclays Global Agg Bond Index (USD) | 0.71%   | 7.60%   |
| Barclays US Agg Bond Index (USD)     | 2.27%   | 10.30%  |

Source: Bloomberg

**Paradigm Shifts & Turning Points** – Following-up on our [July 2019](#) issue, we continue to evaluate investment opportunities that are expected to outperform or at least be prevalent over the next decade. To recap, structural shifts in consensus beliefs appear to occur every ten years or so. This time frame applies to the formation of a championship hockey team and to investment allocation strategies. The transition often rewards early adopters. Eventually excessive optimism of the "New Paradigm" forms and mimicking becomes widespread. Ultimately, profits erode and the bubble bursts. This cycle was coined by George Soros as the theory of reflexivity.

The current investment views have been formed by events over the last decade. This period witnessed the failure by the US Federal Reserve to sustain inflation above its 2% inflation target, while wage growth has been 180 basis points less than the decade previous. Meanwhile since 2010, the S&P 500 Index has outperformed the MSCI World-Ex US Index by an average of 70 basis points per month. The Technology sector has been the leader with a 15.2% average annual return. Finally, the trade-weighted US dollar index is at its highest levels since tracking began, up over 30% over the trailing 10-year period.

Below we review the commonly held views that we believe may be more backward looking and offer a strategy or investment strategy to combat this.

### Inflation

|                 |  |
|-----------------|--|
| Consensus       | US core inflation rate has not breached 3% since the mid-90s. Debt, demographics and tighter monetary policy in developed economies will lead to a continuation of the current deflationary environment.   |
| Contrarian View | Low labour costs (China and excess workers in US) along with falling commodity prices have masked inflationary pressures. If inflation picks up, long-term bonds are most at risk while commodity equities have both relative and absolute upside. |

### US Equities & Dollar

|                 |   |
|-----------------|---|
| Consensus       | The US economy will continue to outperform, perhaps due to more desperate issues around the world. A shortage of US dollars will send the greenback higher eliminating the need to hedge currency risk.   |
| Contrarian View | The twin deficits in the US may come in to focus causing an outflow from the dollar should there be a sustained loss of confidence in US growth or fiscal prospects. International equities appear better relative plays while gold could stabilize a portfolio if economic uncertainty persists. |

### Technology

|                 |   |
|-----------------|---|
| Consensus       | The top seven companies by market capitalization are technology firms. With near zero cost of capital and operating within oligopolies, technology giants will continue to expand their empires and profits.  |
| Contrarian View | Sheer size alone warrants caution as bigger organizations face more bureaucracy and government scrutiny. Meanwhile, China and the US now appear to have chosen technology supremacy as a matter of national security. Underweight US technology while focusing on smaller, more disruptive companies. |

While positioning does not ensure annual outperformance, the probability of success increases due to a commitment to the process. A well diversified portfolio has an objective of long-term wealth creation rather than outperforming in any single year.