Highlights

- Bond yields continued to collapse amid trade talk instability
- U.S. yield curve inverts for the first time since 2007
- Canadian equity returns were flat, while U.S., global and emerging markets declined
- Canadian equity gains in Materials sector assisted by increasing gold prices

Falling bond yields in August make history and weigh down equity returns

The big story for capital markets was the continuing collapse of bond yields amid ongoing trade threats and attention-seeking tweets from the U.S. President. The 30-year U.S. Treasury Bond yield fell below 2% for the first time in history – a headline that raised concern about economic recession on the horizon. Volatility rose and a risk-off sentiment took hold – driving fixed income returns up and weakening equity markets.

Fixed-income returns out of line with traditional views

On August 21, the 10s/2s yield curve inverted (meaning the 10-year U.S. Treasury bond traded at a lower yield than did its two-year counterpart) for the first time since 2007. Economics traditionally suggest that an inverted yield curve can be a harbinger of recession (see GLC Insights: the inverted yield curve), and of course, such was the case in 2008/2009. Increased media attention on this capital market event only added to the risk-off sentiment that already permeated markets as trade disputes and global growth concerns grew throughout the month. Investors flocked to bonds with thoughts of capital preservation over income opportunity. The result was that Canadian fixed-income investors gained almost a 2% return for the month, while equity investors realized flat returns in Canada, and negative returns pretty much everywhere else for global equity markets.

What's most puzzling is how August's decline in bond yields are at odds with overall economic conditions. On a Canadian macroeconomic level, firm inflation, solid retail sales on the back of the highest wage growth in over a decade (4.5% y/y), and better-than-expected GDP growth would typically lead to rising yields. As a result,

Market Summary

Canadian Fixed Income[1]	Month	YTD
FTSE Canada Universe Bond Index	1.9%	8.7%
FTSE Canada All Corporate Bond Index	1.2%	8.6%

Canadian Equities[2]	Month	YTD
S&P/TSX Composite	0.2%	14.8%

	Month		YTD	
Global Equities[2]	Local	CAD	Local	CAD
S&P 500	-1.8%	-0.7%	16.7%	14.0%
MSCI EAFE	-2.7%	-1.8%	9.1%	4.6%
MSCI Emerging Markets	-2.7%	-4.0%	4.2%	-0.5%

Currencies and Commodities (in USD)	Level	Month	YTD
CDN $	$0.751	-0.9%	2.5%
Oil (West Texas)	$55.10	-5.9%	21.3%
Gold	$1,523.10	6.9%	18.8%
Reuters/Jeffries CRB Index	$170.36	-4.6%	0.3%

Canadian Sector Performance[2]	Month	YTD
Energy	-0.9%	4.6%
Materials	5.7%	22.9%
Industrials	-1.2%	20.9%
Cons. Disc.	0.1%	17.9%
Info Tech	7.7%	58.9%
Health Care	-13.0%	1.8%
Financials	-2.7%	9.7%
Cons. Staples	4.3%	18.3%
Comm. Services	1.9%	8.2%
Utilities	4.2%	26.6%
Real Estate	2.6%	18.3%

Local currency unless otherwise stated.
[1]Total return [2]Price only return
Source: Bloomberg

we currently see the forward-looking risk and return tradeoff offered by the bond market, particularly from a capital gains perspective, to be out of line with many traditional views of fixed-income returns. Sizable monthly and year-to-date gains of 8.7% (at the end of August) are not the norms, and some giveback should be expected in the coming months.

Canadian stock market leads in August, propped up by gold

The Canadian equity market outperformed its U.S. (S&P 500), global developed (MSCI World Index) and emerging market (MSCI Emerging Index) counterparts – with the only bragging point being that the Canadian market remained in positive return territory for the month (up by a mere 0.2%), while the others suffered more meaningful losses of 2.0%, 2.7% and 2.7% respectively (local currency). Seven out of 11 Canadian sectors posted positive returns. The Materials sector (consisting of almost 12% of the S&P/TSX market weight) was a bright spot for Canadian investors, a result of increasing gold prices (up 7.1% on the month to $1,529.31) as investors sought out safe-haven assets. Smaller sectors like Consumer Staples (i.e., food retail), Information Technology (Shopify was up over 20%) and the yield-oriented Utilities sector posted solid single-digit positive returns on the month to contribute to S&P/TSX performance. The declines that weighed on the Canadian market for the period came from the three heavyweight sectors. The Energy and Industrials sectors were down mostly due to dropping oil prices, while transportation industries (specifically plane, train and automobile manufacturing) saw significant stock price declines. Financials were highlighted in the news cycle because of mixed reporting results and some missed earnings growth targets that led to a -2.7% net change. In looking at the big banks specifically, National Bank and Bank of Nova Scotia beat earnings estimates, BMO missed theirs and TD reported in-line results. Bank share prices reacted accordingly at the news, with strong gains of 4.6% and 3.5% by Scotia and National respectively, and a sizable drop for BMO shares to bring down the average. The good news for investors was that RBC, Scotiabank and CIBC chose to increase dividends. Cannabis stocks within the Health Care sector continued their roller-coaster ride, giving back returns from earlier in the year just as quickly as they were gained, and causing the sector to be the laggard, with a -13.0% return on the month.

The U.S. equity market gave back much of the gains that came earlier in the summer. Three influential voices gave equity markets ample reason to swoon: U.S. Federal Reserve Chair Powell's comments fell short of market expectations for more rate cuts and Presidents Trump and Xi engaged in tit-for-tat protectionist trade responses. Never wishing to be left out, Europe's own political tensions continued to impact markets. European equities struggled to put in strong weekly showings throughout a month where Brexit developments put an unwelcome twist on G7 meetings and U.K. equities.

A desired return to normalcy

The end of summer means a return to routine – the children go back to school and parents go back to work. It's comforting to get back to a familiar situation. While markets may swoon amid political policies debated via twitter (or the tendency for media to focus on sensational doom and gloom market scenarios), investor confidence can continue to grow. By knowing their professionally managed investment plans are positioned to withstand market fluctuations, investors can reap the long-term benefits of being well-diversified and aligned with personal risk and time horizons.

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