TD Wealth

Market News

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Although global capital markets experienced significant volatility in the second quarter of 2016, results for the end of the period showed modest improvement for most asset classes.

Markets were rattled in late June when the British electorate voted in favour of leaving the European Union (EU). The surprise results of the “Brexit” vote caused equity markets to drop, losing an estimated US$3 trillion in value over just a few trading days. The British pound and euro declined, while many investors sought out perceived safe havens, including gold, stable government bonds and currencies such as the U.S. dollar and Japanese yen. However, once the initial shock of the “leave” result had passed, global markets rebounded into the end of the quarter, with equities recouping most of their earlier losses.

Despite the anxiety about the future of Europe, U.S. stocks as measured by the S&P 500 Index finished the three-month period with a 1.9% gain in local currency terms, or 2.2% when expressed in Canadian dollars, while the MSCI World Index rose 1.2% in U.S. dollars, or 1.5% in Canadian dollars. Markets in Germany and France remained down for the quarter as investors weighed the referendum result. London’s FTSE 100 Index, however, experienced a surprising turnaround, adding 6.5% in local currency, or 1.4% in Canadian dollar terms over the quarter. The index was led by multinational companies, which are deemed to have less exposure to the domestic British economy.

The S&P/TSX Composite Index also experienced volatility through the period, but finished with a solid gain. The Canadian market added about 4.23% for the second quarter, and 8.1% for the year-to-date, making it one of the top-performing developed markets worldwide. The index’s materials and energy sectors have benefited from rising prices for oil and many other commodities in 2016. Gold-related companies got an additional boost as the metal’s price increased following the Brexit result.

Developed market bonds registered positive returns for the period, despite very low – and even negative – interest rates offered in some countries. Government bond yields in the U.S. and Canada neared record lows in response to the EU uncertainty, and prices for higher-quality corporate bonds also rose. The FTSE/TMX Canada Universe Bond Index, measuring the total returns of Canadian government and investment-grade bonds, returned 2.6% for the second quarter.

While markets appeared calmer a week after the British referendum, the vote has cast doubt on the future of the EU, and this uncertainty will likely spur more volatility in the weeks and months to come. Nevertheless, the global economy continues to exhibit slow growth, and business conditions in many parts of the world remain supportive. In fact, the Brexit result has increased the likelihood that global interest rates will remain low, encouraging business and diversified investment activity.

The speed with which markets turned downward then recovered following the Brexit vote is a reminder of how sudden market sell-offs can reverse themselves fairly quickly, once the initial panic has passed. Rather than joining the retreat, experienced investors can use such episodes as opportunities to buy high-quality businesses at discounted prices, and to diversify portfolios that may have become concentrated over time.

In closing, I would like to thank you for your business. If you have any questions about your investment portfolio, I would be happy to help – please do not hesitate to call.

Sincerely,

Melinda Burgess
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Sources: CI Investments, Signature Global Asset Management, Cambridge Global Asset Management, Globe and Mail, National Post, Bloomberg, Yahoo Canada Finance, and Trading Economics.