

PERSPECTIVES

For the 12-month period beginning July 1, 2019

“Monetary stimulus efforts now being deployed are truly global and that is comforting. Not too long ago, the most important central bank in the developed world—the U.S. Federal Reserve—was still in tightening mode. By shifting policy into easy territory, the Fed will be providing much needed liquidity relief across the globe.”

Doing whatever they can

The number of countries on the trade war’s casualty list is growing quickly. For the first time in more than a decade we are projecting a pronounced global growth slowdown, with world real GDP growth falling below 3% over the next twelve months. While global investors were relieved to hear that central bankers are taking a dovish turn, market jitters have not completely disappeared.

Asset class highlights

Fixed Income vs. Equity: For a longer-term investment horizon, equities have a more attractive risk premium than bonds. But the path from the short term to the long term may be quite volatile. In this challenging environment, we are also turning to non-traditional asset classes like gold and emerging markets local-currency debt.

Equity: Canadian equity valuation is slightly less attractive than international equities, but Canada does not face the same structural slow growth. With low interest rates, U.S. equity valuation is expensive but not excessive.

Fixed Income: U.S. Treasury 10-year yields will most likely hover in a range of 2-2.50% over the next 12 months, with an increasing probability of yields below 2% if the global slowdown lingers.

Currencies: The Canadian dollar remains more fundamentally challenged than most developed market currencies.

Multi-asset outlook

Asset class	Current June 30, 2019	Most likely minimum of range for next 12 months	Most likely maximum of range for next 12 months
Canada 3-month T-Bills rate	1.75%	1.25%	1.75%
Canada 2-year government bond yield	1.48%	1.05%	1.60%
Canada 10-year government bond yield	1.47%	1.25%	1.85%
U.S. 10-year government bond yield	2.00%	1.75%	2.50%
Germany 10-year government bond yield	-0.32%	-0.50%	0.25%
Japan 10-year government bond yield	-0.16%	-0.25%	0.30%
Canada 10-year real-return government bond yield	0.32%	0.15%	0.35%
Canada investment grade corporate spreads	1.10%	0.95%	1.45%
U.S. high yield corporate spreads	4.14%	3.75%	4.75%
Emerging market sovereign (USD dominated) bond spreads	365	290	500
S&P/TSX price index	16,382	15,900	17,300
S&P 500 price index	2,942	2,750	3,025
Euro Stoxx 50 price index	3,474	3,250	3,590
Japan Topix price index	1,551	1,460	1,600
MSCI Emerging Markets	58,072	56,300	61,600
U.S. Dollar/Canadian Dollar	1.3068	1.25	1.43
Euro/U.S. Dollar	1.1388	1.10	1.24
U.S. Dollar/Japanese Yen	107.74	100.0	115.0
U.S. Dollar/Offshore Chinese Yuan	6.87	6.50	7.30
Gold	1,412	1,350	1,500
Oil price, WTI (West Texas Intermediate)	58.20	50	60

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