MIND Quarterly Commentary

Q2, 2019

Market Review

Global markets advanced almost 2% in Canadian terms in the second quarter (Q2 – the three-month period ending June 30, 2019). The fears from the end of 2018 were completely erased in 2019 and the market has continued to make new highs. Although the global market had a quite severe correction in May, falling 5%, it bounced-back somewhat in June by rising more than 3%. The tariff war led by president Trump and geopolitical tensions around the world were major reasons for increased volatility in the market. At the G20 summit, the leaders of the U.S. and China agreed to resume trade negotiations, and this rejuvenated the prospects for economic growth among investors. The Fed and its committee members also changed their views about their domestic economy and officially admitted that there are voices for rate cuts during the course of the year. At the same time, the central banks of other major economies also continued to be dovish and expansionary.

The strong performance over the quarter was led by North America ("NA"), Europe ("EU"), and Emerging Markets ("EM"). The only region with negative return was Asia Pacific ("AP") while all other regions ended the period with positive numbers. The expansion led by the Developed Markets continued in Q2 while some of the EM countries, such as Russia and Greece, showing strong turnarounds.

The Canadian dollar ("CAD") strengthened against the U.S. dollar ("USD") for the quarter as its economy expanded at a more-than-anticipated rate, with a rosier outlook in the coming months from the corporate side. Due to the solid economy, the views that Bank of Canada would cut interest rates have decreased. Also, the price of oil spiked in June as the conflicts in the Gulf region intensified when two oil tankers were damaged by unidentified attackers.

Portfolio Review

MIND had anticipated a strong market in April and May as it further lowered its cash ratio to 2% of its assets. In April, the market advanced as it was forecasted but the momentum had reversed in May as the global market fell and MIND fell 6%. As MIND moved into June, it had increased its cash ratio up to 29% and prepared for the remaining uncertainties. However, the market rebounded quickly and recovered from the selloff from the prior month. MIND ended the quarter slightly down 0.35% being overly defensive.

Throughout the quarter, MIND did not show clear preference over the regions. In April, it only over-weighted EM while other regions had slightly lower weights compared to their composition in the benchmark. In May, MIND remained confident in EM and continued its sizeable allocation in the NA region. As MIND geared up for downside protection in June, it remained positive only in the EU and turned defensive in all other regions.

In terms of foreign currency exposure, MIND was cautious for the first two months and hedged less than half of its USD exposures. In June, the USD started to deteriorate as crude oil prices spiked. MIND geared up for the bullish CAD and increased its hedging positions to protect against a falling USD currency rate. As a result, MIND ended June with an above average hedging ratio while the USD/CAD foreign exchange rate fell more than 3% in its favour.

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