18 AM US Passive Ethical Equity Highlights

The 18 AM US Passive Ethical Equity Portfolio provides clients the S&P 500 return +/- the return of stocks prohibited by the client's Investment Policy Statement. The portfolio is customized, using a separate account, to each client's specific ethical prohibitions. This report highlights the portfolio's representative account, which prohibits exposure to Alcohol and Tobacco stocks.

For Q3, in $US, the 18 AM Portfolio's return was 1.74% versus 1.70% for the benchmark. In Q3, the Canadian dollar lost ground against the US dollar, moving from $0.764 to $0.755 $US. Consequently, the portfolio's Q3 return, in Canadian dollars, was 2.90% versus 2.86% for the S&P 500. Overall, the portfolio's zero exposure to Alcohol and Tobacco stocks had a slight positive effect on the return. During Q3, Tobacco company returns were weak (Philip Morris -1.73%, Altria -11.90%), while Alcohol company had market-beating gains, ranging from 3.83% (Molson Coors) to +13.57% (Brown-Forman Corp).

Market Overview

Despite a variety of negative factors (civil unrest in Hong Kong, the US's escalating trade war with China, drone attacks on Saudi oilfields and continued White House turmoil), the US Equity market has remained resilient. With its Q3 gain, the S&P 500 is up 20.55% (in USD) YTD in 2019.

The percentage of S&P 500 stocks with positive returns during Q3 was 57%. While winners exceeded losers, the numbers of winners in Q3 was lower than each of the prior two quarters, reflective of the modest overall gain for the index. In Q3, winning stocks were led by KLA Group (semi-conductor industry service provider), up 35.7%, Western Digital Corp (hard disk drive maker) which rose 25.4%, while Target Corp (department store retailer) was up 24.4%. Notable losers were Nektar Therapeutics (bio-pharmaceuticals), falling more than 48%, DXC Technology Co (Technology Services) down 46% and Concho Resources (Oil & Gas exploration) dropping by 34%.

As to industry sectors, 9 of the 11 industry sectors in the S&P 500 experienced gains in Q3. Utilities (+9.3%), Real Estate (+7.7%) and Consumer Staples (+6.1%) were the top 3 performing sectors. Energy (-6.3%) and Health Care (-2.2%) were the only sectors with negative returns in the quarter.

For six quarters in a row, ending last fall, newly reported earnings represented an historical record for quarterly S&P 500 earnings. Since then, earnings have moderated from record-setting levels. However, they remain robust. Expected 2019 earnings of $161.15 represent a 6.4% growth rate over earnings reported in 2018. 2020 earnings are expected to grow by 11.7% over 2019's estimated earnings level. These growth rates are lower than the 2018 growth rate of 21.7%. However, earnings growth remains in a healthy range. As of the end of Q3, the S&P 500 was trading at a price to earnings ("PE") multiple of 18.5 times using 2019 expected earnings. These valuation levels are in line with the average PE for the S&P 500 over the past 20 years of 19.2 times.

Performance is shown gross of all fees. Performance data is historical and not indicative of future performance. Returns are annualized for periods greater than 1 year. The benchmark for the fund is the S&P 500 Total Return Index. This document is for information purposes only. Data sources: Thomson Reuters, Standard and Poors and 18 AM.