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 Q1, in $US, the 18 AM Portfolio's return was 13.54% versus 13.65% for the benchmark. In Q1, the Canadian dollar gained 2.18%, from $0.73 to $0.75 $US. In Canadian dollars, the portfolio's Q1 return was 11.10% versus 11.21% for the S&P 500. The portfolio's zero exposure to Alcohol and Tobacco stocks had a slight negative effect on the return. During Q1, Alcohol and Tobacco company returns were strong, ranging from 6.9% (Molson Coors) to 34.1% (Philip Morris Brands).

Market Overview

After dropping 19% from a peak in October 2018 to a low in December, the S&P 500 has since rebounded strongly to end the first quarter within sight of the 2018 peak. Several factors contributed to the US market turning point, most notable for its timing was the change in sentiment by the Fed over the pace and necessity of interest rate increases. The rally occurred despite ongoing trade tensions between the US and China, a record-breaking US government shutdown over the border wall dispute and ongoing narratives surrounding indicators of a slowdown in global growth. As to stocks, over 90% of stocks in the index had Q1 gains. Only 9% had negative returns. In Q1, winning stocks were led by Coty Inc. (cosmetics), which was up 77.3% on takeover news. Chipotle Mexican Grill (restaurants) rose 64.5%, while Xerox (print and digital document services) was the leading tech company, up 63.1%. Notable losers were PG&E (utility), which fell more than 75% due to its role in the devastating California wildfires before being removed from the S&P500 index, and Kraft Heinz (food and beverage) which was down 23.2%.

As to industry sectors, all 11 industry sectors in the S&P 500 experienced gains in Q1. Information Technology (+19.9%), Real Estate (+17.5%) and Industrials (+17.2%) were the top 3 performing sectors. Health Care (+6.6%) and Financials (+8.6%) had the lowest returns in the quarter.

Mainstream media narrative is underscoring that a global economic slowdown is currently underway. The volatile market swings of the past two quarters and the unpredictable outcomes of global political events such as Brexit and US/Global trade policy discussions are contributing to investor uncertainty. Market watchers will be paying close attention to the imminent release of Q1 2019 earnings results to provide evidence as to the direction of the markets for 2019. At the current point in time, 2019 earnings are expected to grow by 12.1% year over year. This is lower than the 2018 growth rate of 21.7%, however remains in a healthy range.

As of the end of Q1, the S&P 500 was trading at a price to earnings ("PE") multiple of 19.0 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 18.9 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.