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 Q2, in $US, the 18 AM Portfolio's return was 4.46% versus 4.30% for the benchmark. In Q2, the Canadian dollar gained 1.94%, from $0.75 to $0.76 $US. In Canadian dollars, the portfolio's Q2 return was 2.47% versus 2.32% 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 Q2, Tobacco company returns were weak (Philip Morris -9.84%, Altria -16.26%), while Alcohol company returns were mixed, ranging from -5.42% (Molson Coors) to +12.74% (Constellation Brands).

Market Overview

Following the sharp declines in the fourth quarter of 2018, the S&P 500 has staged a broad recovery in first half of 2019. The index added an additional 4.5% in the second quarter to the over 13% generated by the market in Q1. Ultimately the index's resiliency has pushed it to new highs in June despite the persistent media narrative surrounding slowing global growth, worry over the direction Fed policy actions and ongoing global trade tensions between the US and the rest of the world.

Almost 2/3 of stocks in the index had gains in the second quarter, as compared to 90% of stocks in the previous period. In Q2, winning stocks were led by Anadarko Petroleum (energy), up 55.8%, Arconic (engineering) which rose 35.2%, while Total Systems Services (payment solutions provider) was the leading tech company, up 35.1%. Notable losers were Mylan (pharmaceutical), which fell more than 33%, as well as several clothing retail companies, including Gap (-30.7%), Foot Locker (-30.4%) and Nordstrom (-27.3%).

As to industry sectors, 10 of the 11 industry sectors in the S&P 500 experienced gains in Q2. Financials (+8.0%), Information Technology (+6.1%) and Materials (+5.9%) were the top 3 performing sectors. Health Care (+1.3%) and Energy (-2.8%) had the lowest returns in the quarter.

At the mid-point of the year, 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 Q2, 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 19.2 times.

With the strength that the market has exhibited in the first half of 2019, many equity market strategists anticipate a slow down or pause over the second half of the year. While the fundamental profile of the market remains relatively stable, which is supportive of US stocks, the macroeconomic and political environment has the potential to unsettle investors. Having exposure to the entire large cap US universe using a passive approach is a prudent approach to navigating this market.

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.