Market review

Global stocks endured a volatile quarter to end with a modest advance that saw several key indexes hit record highs. Hopes of a resolution to the U.S.-China trade dispute lifted shares early in the quarter. But trade tensions returned in May, with the U.S. and China lodging tariffs and threats to further restrict trade, leading to a broad reversal for equities. The selloff accelerated in late May as the U.S. threatened tariffs against Mexico over immigration policies. Markets recovered in June, boosted by supportive comments from central bankers globally.

U.S. stocks recorded solid gains as company earnings in general beat forecasts. Materials companies rallied strongly, as did the information technology sector, although semiconductor companies lagged on concerns over heightened trade tensions with China. Financials stocks also delivered robust gains, but more defensive sectors, such as utilities, lagged.

European stocks advanced, with sentiment lifted by signs that the European Central Bank stood ready to reinstate quantitative easing if the eurozone’s inflation outlook does not improve. Political risks remained a concern with Italy’s higher spending proposals leading to confrontation with the European Union. U.K. shares delivered positive returns, although the British pound weakened. The Brexit deadline was postponed until October 31 and the country waits to see whether a new prime minister can find a way out of the parliamentary impasse.

Japanese stocks slipped modestly over the quarter, although a stronger yen meant returns were positive for U.S. investors. Japan’s economy expanded at an annualized pace of 2.2% in the first quarter of the year. The stronger-than-forecast data means that the government will likely press ahead with a planned consumption tax increase in October. Australia was the standout market in the Asia-Pacific region, helped by a cut in interest rates from the Reserve Bank of Australia and an unexpected victory for the ruling coalition government. In contrast, Hong Kong lagged, undermined by mass protests against an extradition bill and weak Chinese stocks.

Emerging markets stocks delivered mixed returns. Chinese shares were pressured by the re-escalation of the country’s trade dispute with the U.S. In contrast, Russian stocks surged as investors reacted positively to the absence of new sanctions and higher dividend payouts for state-owned companies. Brazilian stocks also generated strong gains, boosted by optimism over much-needed pension reform.

Global income securities rallied over the quarter as investors fled to the safety of government bonds. Additionally, with momentum in the U.S. economy slowing, and subdued economic activity outside of the U.S., speculation grew that central banks would reinstate some of the measures used to provide support in the wake of the financial crisis.

Portfolio review

Holdings of tobacco companies weighed on returns in the consumer staples sector. Imperial Brands, British American Tobacco, Altria and Philip Morris International were among the largest detractors amid signs of accelerating decline in U.S. cigarette sales and the ongoing challenging regulatory environment.

Larger investments in energy companies hindered results. The sector retreated through the quarter, owing to a sharp decline in oil prices as rising U.S. output and higher stockpiles outweighed rising geopolitical tensions in the Middle East.

The selection of investments in the communication services sector hindered relative returns.

Quarter highlights

- Holdings of tobacco companies weighed on returns in the consumer staples sector, with Imperial Brands, British American Tobacco, Altria and Philip Morris International among the largest detractors.
- Larger investments in energy companies hindered results. The sector retreated through the quarter, owing to a sharp decline in oil prices.
- The selection of investments in the communication services sector hindered relative returns.
- At the individual security level, industrial gas manufacturer Taiyo Nippon Sanso was the top contributor to results.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

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Taiyo Nippon Sanso was the top contributor to results. Shares of the Japan-based multinational industrial gas manufacturer were boosted by a report indicating robust growth in the global industrial gases market through 2024 on account of the rising demand from the chemical & petrochemical, metal fabrication & production, automotive, health care & pharmaceuticals and food & beverage industries. Additionally, Taiyo Nippon Sanso signed a strategic partnership with Chinese hydrogen gas generator manufacturer Ally Hi-Tech that will enable it to expand its product portfolio by leveraging Ally Hi-Tech’s hydrogen generator.

Long-term perspective

The fund invests primarily in stocks and investment-grade (BBB/Baa and above) fixed income securities from around the world, in both developed and developing countries. With a relatively conservative mix of stocks and bonds, the fund seeks to capture the potential growth of companies that the fund’s portfolio managers believe have strong prospects over time, while preserving principal and providing income. The fund aims to be a buffer against periods of market weakness; the allocation to fixed income can act as a partial offset during stock market declines.