Credential

Market Insights | MONTHLY

Month in Review

For the month ended September 30th, 2017

Index/Commodity/Currency		
Close	Month Change	YTD Change
S&P/TSX Composite		
15,634.94	423.1	347.3
	2.8%	2.3%
Dow Jones Industrial Average		
22,405.09	457.0	2,642.5
	2.1%	13.4%
S&P 500		
2,519.36	47.7	280.5
	1.9%	12.5%
NASDAQ Composite		
6,495.96	67.3	1,112.8
	1.0%	20.7%
MSCI-EAFE Index		
1,973.81	43.0	289.8
	2.2%	17.2%
WTI Crude Oil (per barrel, in $US)		
51.58	4.5	-2.3
	9.6%	-4.2%
Gold (per ounce, in US$)		
1,283.10	-44.0	132.2
	-3.3%	11.5%
Canadian Dollar (¢ per US$)		
80.13	0.4	5.7
	0.5%	7.6%

Sources: Bloomberg, PC Bond

Overall Highlights

- **TSX climbs.** Canada's main equity index rose in September, shrugging off global tensions in the Korean peninsula early in the month. Investors returned to risk-on investing as positive economic data and gains in crude prices pushed the TSX higher, nearing its record high set earlier in the year. The Composite closed at 15,635, a 2.8% monthly gain.
- **Dollar flies higher.** The Loonie posted a gain in September. After assessing the effects of the second increase announced mid-month, the Bank of Canada governor dashed hopes of further rate hikes for this year, resulting in a slight cooling of the Loonie towards the end of the month. Normalization of economic data and a stronger U.S. greenback contributed to the Dollar's slight increase of 0.5%. At month's end, our currency ended at US80.13 cents for one Canadian dollar.
- **Gold loses luster.** Investors retreated from the safe-haven asset as the U.S. Federal Reserve remained hawkishly positioned, economic data from the U.S. continued to be positive, and optimism of Trump's tax reforms may soon be announced. These all added to the yellow metal's woes as it fell during the month to US$1,283.10, a loss of 3.3%.
- **Oil surges.** Crude has its first quarterly gain for the year and a strong monthly increase in September as U.S. reports pointed to a decline in crude supplies on top of existing output cutbacks by OPEC and non-OPEC members. Oil production continues to slowly recover following devastating hurricanes that forced drilling activities off-line. A barrel of WTI crude ended trading at US$51.58, a 9.6% gain for the month.
- **BoC raises rates and warns of possible future surprises.** Catching some investors by surprise, the Bank of Canada raised its key interest rate by 25bps to 1%
- **Canada's GDP growth remained flat in July.** GDP growth was stalled in July, according to Statistic Canada.
- **Unemployment rate drops.** The national jobless rate fell in August as the number of jobs added topped expectations.
- **Inflation rises.** The nation's consumer price index heated up in August posting a monthly gain of 0.1%, but it was the jump from July's 1.2% to 1.4% that people were more focused on as it nears the Bank of Canada's 2% target.
- **Fed keeps rates unchanged but confirms unwinding of balance sheet.** The Federal Reserve acted as expected by most market participants, maintaining its benchmark interest rates at the current level after its September meeting.
- **Trump's tax plan revealed.** U.S. President Donald Trump revealed details about the much anticipated tax reform plan.
- **U.S. Q2 GDP growth revised up**. The U.S. economy grew faster than initially thought as the Commerce Department reported its final estimate of second quarter economic growth.
- **ECB stays its course.** The ECB left its benchmark interest rate at 0% at its September meeting, and maintained that the bond purchase program will continue until the end of the year at least.
- **Euro-zone Q2 GDP grows.** Q2 GDP growth of the Euro-zone was in line with the original estimate according to Eurostat. Q2 GDP within the single-currency bloc was reported to grow 0.6% from the previous quarter, matching the initial estimate and economists' expectations.
- **BOJ stays its course.** Bank of Japan (BOJ) announced after its September meeting that it will leave its benchmark interest rates and asset purchase program unchanged, a widely expected decision by market participants.
- **Japan's Q2 GDP revised down.** Japan's Q2 GDP growth was revised down from the preliminary reading of 1% to 0.6%; economists were expecting a downward revision to 0.7%.

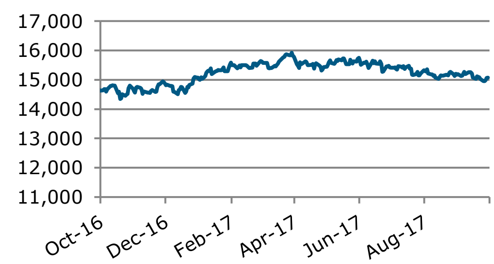
Canadian Markets

- **BoC raises rates and warns of possible future surprises.** Catching some investors by surprise, the Bank of Canada raised its key interest rate by 25bps to 1%. The pace of the economic growth prompted the central bank to take action to cool the economy down with the rate hike – the second in three months. The head of the Bank of Canada (BoC), Governor Stephen Poloz, warned the market that there is "no predetermined path" in terms of rate hikes and that the benchmark interest rates could go either direction in future. The head of the central bank pointed out that future decisions on interest rate movement will be data dependent**.**
- **Canada's GDP growth remained flat in July.** GDP growth was stalled in July, according to Statistic Canada. No growth in GDP was reported for the month of July compared to the 0.3% growth reported in June; economists were expecting a small gain of 0.1%. On a year-over-year basis, July's GDP grew 3.8% compared to June's pace of 4.4%.
- **Unemployment rate drops.** The national jobless rate fell in August as the number of jobs added topped expectations. During the month, the economy added 22,200 jobs (mainly of a part-time nature), helping to push the unemployment rate to 6.2%, its lowest since October 2008. The participation rate remained unchanged at 65.7%.
- **Inflation rises.** The nation's consumer price index heated up in August posting a monthly gain of 0.1%, but it was the jump from July's 1.2% to 1.4% that people were more focused on as it nears the Bank of Canada's 2% target. Led by higher costs in fuel, housing, and travel, the increase in prices will likely keep the central bank in a holding pattern for any future rate hikes in 2017. Core inflation was unchanged at 0.9%.
- **Canada producer price rises**. Producer prices in Canada climbed in August, driven by the strength in energy products. Statistic Canada reported that the industrial product price index (IPPI) moved up 0.3% in August after a 1.6% decline reported in July; economists were expecting a rise of 0.5%. Prices of energy and petroleum products were up 2.8% on the month. IPPI was up 1.9% year-over-year.
- **Wholesale sales climb.** Strength in the building materials and supplies sector and food, beverage, and tobacco industries sent wholesale sales high in July. For the month, Statistics Canada reported sales rising 1.5% to $62.4B as five of the seven sectors tracked increased. In volume term, the gauge rose 2.1%, its largest gain since the end of 2016.
- **Retail sale higher.** Consumers were more open to spending, especially on cars, food, and alcohol as retail sales rose in July. Easily topping economist expectations of 0.1% for the month, retail data increased 0.4%; however, on a volume basis, which excludes the effect of price volatility, it declined 0.2%. Annualized, retails sales remain strong at 7.8%, higher than June's year-over-year reading of 7.2%.
- Canada Housing News:
  - **Building permits fall.** In contrast with forecasts, building permits fell nationally in July, as the number of plans to build declined. For the month, permits fell 3.5%, more than the 1.5% expected led by a 5.7% drop in non-residential building. Residential intentions also declined by 2.2%, with multi-unit buildings' fall of 7.4% offsetting a 3.6% increase in single detached homes.
  - **Housing starts up.** While economists anticipated a decline, such was not the case in August as housing starts rose. For the month, the number of intentions to build rose to 223,232 units on an annual adjusted basis, a slight increase from July's 221,974 units. Ontario contributed 95,000 units leading all provinces as the monthly pace was the fastest since 2012.
  - **New home prices rise.** The cost to purchase a new home in Canada increased 0.4% from the previous month on increased demand in the Vancouver market. The Statistics Canada reading was on par with expectations for detached, semi-detached, and row homes. For the last 12-months, prices have risen 3.8% on average nationally.
  - **Existing home sales higher.** After falling for the past four months, sales of existing homes bounced back in August due mainly in part to a 14.3% rise in activity in the GTA region. Other markets in the country were little changed. During the month, the national pace, as reported by CREA, was 1.3% higher than July, while on an annual basis, sales are down 9.9%.

S&P/TSX Composite Index
Sector Snapshot

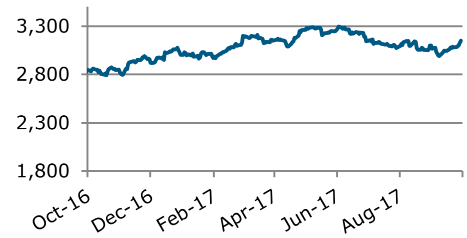
Sector	Month Return	YTD Return	Weight (%)
Energy	7.35	-9.87	20.40
Telecoms	-1.33	6.55	4.80
Industrials	3.43	13.38	9.50
Consumer Staples	-0.32	0.51	3.60
Utilities	-2.30	4.45	3.80
Financials	3.77	4.49	34.40
Consumer Discretionary	5.50	15.68	5.40
Health Care	5.23	-9.32	0.60
Materials	-4.01	1.59	11.50
Information Technology	2.79	12.49	3.30
Real Estate	-0.48	-0.48	2.80

S&P/TSX Composite - 1Y Return

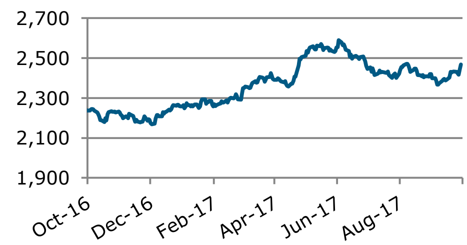


U.S. Markets

S&P 500 - 1Y Return (CAD)



MSCI EAFE – 1Y Return (CAD)



- **U.S. market continues to push higher.** Another positive month in the U.S. stock market. All three major indices reached their record highs in September. The broad-based S&P 500 gained 1.9% for the month, closing at 2,519. The Dow Jones Industrial Average, the best performer among the three major indices, rose 2.1%, ending the month at 22,405. The tech-heavy Nasdaq continued to strengthen, moving up 1%, wrapping up the month at 6,496.
- **Fed keeps rates unchanged but confirms unwinding of balance sheet.** The Federal Reserve acted as expected by most market participants, maintaining its benchmark interest rates at the current level after its September meeting. However, the central bank hinted that one more rate hike is likely to happen before the end of 2017. The Fed also confirmed that, starting in October, it will gradually unwind its $4.5 trillion balance sheet resulting from the asset purchases of quantitative easing following the 2008 financial crisis.
- **Trump's tax plan revealed.** U.S. President Donald Trump revealed details about the much anticipated tax reform plan. Some highlights of the plan included lowering the corporate tax rate from 35% to 20%, bringing down the rate for pass-through businesses to 25%, reducing the number of personal tax brackets from seven to three, and cutting top individual tax rate from 39.6% to 35%. Unlike the dragging involved in the repealing of Obamacare, the tax reform plan seemed to receive general support from the Republicans. However, the plan will still have to go through Congress, and there have not been any details as to how the plan can be revenue-neutral with all these reductions. It was, however, enough to boost the US stock market to new highs.
- **U.S. Q2 GDP growth revised up**. The U.S. economy grew faster than initially thought as the Commerce Department reported its final estimate of second quarter economic growth. Q2 GDP grew at an annualized rate of 3.1%, a tick higher than the previous estimate of 3.0%; economists were expecting the final estimate to stay the same. Q2 economic growth expanded at its quickest pace since the first quarter of 2015.
- **U.S. CPI rises.** U.S. consumer prices moved up faster in August, propelling a surge in gasoline prices. The Labor Department reported that the consumer price index (CPI) climbed 0.4% in August after moving up 0.1% in July; economists were expecting a 0.3% rise. Gasoline prices surged 6.3% during the month. On the year, the CPI was up 1.9% in August, in line with estimate. Core CPI, which excludes food and energy components, moved up 0.2% on the month and 1.7% on the year.
- **U.S. PPI increases.** Producer prices rebounded in August due to a surge in gas prices. The Labor Department reported that its producer price index (PPI) rose 0.2% in August, missing economists' estimated increase of 0.3%. Cost of gasoline surged 9.5% during August, which helped push up the PPI. On the year, PPI was up 2.4% in August, slightly lower than consensus increase of 2.5%.
- **U.S. 'flash' composite PMI declines.** September's IHS Markit 'flash' composite purchasing managers' index (PMI) reported a drop to 54.6 from August's reading of 56.0, missing economists' expected reading of 54.9. The manufacturing PMI, despite the disruptions caused by hurricanes Harvey and Irma, rose from 52.5 to 53.0. On the other hand, the service sector PMI tumbled from August's reading of 56.9 to 55.1.
- **U.S. retail sales fall.** Retail sales unexpectedly fell in August likely due to the effect of Hurricane Harvey. The Commerce Department reported that retail sales declined 0.2% in August compared to a 0.3% rise reported in July; economists were expecting an increase of 0.1%. Auto sales tumbled 1.6% for the month, likely depressed by the chaos caused by Hurricane Harvey.
- **U.S. services sector expands.** The Institute for Supply Management (ISM) reported that its non-manufacturing index rebounded from July's reading of 53.9 to 55.3 in August, matching economists' estimates. Fifteen of the seventeen industries surveyed reported growth in August.
- **U.S. consumer sentiment declines.** Consumer confidence slipped in September, according to a report by the University of Michigan. The preliminary reading of the university's consumer sentiment index for September dropped from August's seven-month high reading of 97.6 to 95.3; economists were expecting a reading of 94.5.
- U.S. housing news:
  - **U.S. housing starts fall.** Homebuilding slipped for the second straight month in August, according to the report by the Commerce Department. Housing starts reported a decrease of 0.8% to a seasonally adjusted annual pace of 1.18 million units, slightly higher than economists' expectation of a 1.17 million-unit pace. In contrast, the number of housing permits rose 5.7% in August to a seven-month high.
  - **U.S. home prices rise**. Home prices rose in July as inventories remained tight in the real estate market. The S&P CoreLogic Case-Shiller home price index rose 5.9 percent in July year-over-year, higher than economists' expected 5.7% increase. The 20-city composite was up 5.8%, also beating economists' estimate of a 5.7% rise. Seattle, Portland, Oregon and Las Vegas saw the largest increases among the major cities.
  - **U.S. new home sales decline**. New home sales in U.S. dropped to an eight-month low in August, according to a report by the Commerce Department. Sales declined by 3.4% in August to a seasonally adjusted annual rate of 560,000 units, the lowest level since December 2016; economists were expecting an increase to a pace of 588,000 units. Sales figures in the coming months are expected to be distorted by the impact of the hurricanes.
  - **U.S. pending home sales fall**. The National Association of Realtors reported that pending home sales dropped in August to their lowest level in 1-1/2 years. Pending home sales fell by 2.6% in August, missing economists' expectation of a much smaller 0.5% drop by a wide margin. It was the fifth time in the last six months that pending home sales had declined. Pending home sales were down 2.6% when compared to a year ago.

European Markets

- **ECB stays its course.** The ECB left its benchmark interest rate at 0% at its September meeting, and maintained that the bond purchase program will continue until the end of the year at least. "The Governing Council confirms that the net asset purchases, at the current monthly pace of 60 billion euro, are intended to run until the end of December 2017, or beyond, if necessary," Draghi said in the press conference. Mr. Draghi also noted that a decision around the future of the bond purchase program will be made in October's meeting.
- **Euro-zone Q2 GDP grows.** Q2 GDP growth of the Euro-zone was in line with the original estimate according to Eurostat. Q2 GDP within the single-currency bloc was reported to grow 0.6% from the previous quarter, matching the initial estimate and economists' expectations. Household consumption was up 0.5% in the second quarter, helping propel Q2's growth. On the other hand, exports growth slowed with a stronger euro. On a YoY basis, Q2 GDP growth was revised up from the initial estimate of 2.2% to 2.3%.
- **Euro-zone inflation stayed flat**. Inflation within the 19-member bloc remained unchanged in September, according to Eurostat. September's 'flash' harmonised index of consumer prices (HICP) reported a rise of 1.5% year-over-year, matching last month's pace, but slightly lower than economists' expected annual increase of 1.6%.
- **Euro-zone PPI stable.** Producer prices within the Euro-zone remained stable in July. The producer price index (PPI) was flat in July, missing economists' forecast of a 0.1% rise. On a year-over-year basis, product prices were up 2%, slower than the 2.4% pace reported in June and below economists' estimates of a 2.1% growth.
- **Euro-zone composite PMI slips.** Business activity within the 19-member economic bloc slowed down slightly in August as the strength in the manufacturing sector was offset by a slowdown in the service sector. August's composite purchasing managers' index was reported to be 55.8, down from 55.7 reported in July. The manufacturing PMI moved up from July's reading of 56.6 to 57.4. However, the service sector PMI eased from July's 55.4 to 54.7, touching the lowest level in seven months.
- **Euro-zone 'flash' composite PMI rises.** The Euro-zone economy continued to show strength in September, according to the 'flash' PMI released by IHS Markit. The 'flash' composite purchasing managers' index (PMI) for September advanced to 56.7 from August's 55.8, beating economists' forecast of 55.6. The manufacturing PMI moved up to 58.2, reaching its highest level in 79 months. Services PMI also comfortably beat economists' expectation of 54.7, increasing to 55.6 from August's reading of 54.9.
- **Euro-zone economic sentiment improves**. Economic sentiment within the 19-member region jumped to a 10-year high in September. The European Commission reported that its economic sentiment index advanced to 113.0 from August's reading of 111.9; economists were expecting a reading of 112.0. It was the highest reading since July 2007.

Asian Markets

- **BOJ stays its course.** Bank of Japan (BOJ) announced after its September meeting that it will leave its benchmark interest rates and asset purchase program unchanged, a widely expected decision by market participants. Despite large-scale asset purchases by the central bank attempting to revive the sluggish economy, Japan's inflation rate is still far away from the BOJ's target of 2%. BOJ's balance sheet is currently near the size of Japan's economy as a result of the asset purchase program.
- **Japan's Q2 GDP revised down.** Japan's Q2 GDP growth was revised down from the preliminary reading of 1% to 0.6%; economists were expecting a downward revision to 0.7%. The annualized growth rate was also revised down sharply from the original estimate of 4% to 2.5%, also missing economists' expected revision to 2.9%. A slowdown in capital spending was believed to account for the downward revision.
- **Japan's CPI rises.** Consumer prices in Japan rose in August, amid a tight labour market. The core consumer price index (CPI), which excludes fresh food prices, rose 0.7% year over year in August, matching economists' expectations. The labor market continued to be tight with a 2.8% unemployment rate.
- **Japan's composite PMI rises.** Overall business activity in Japan improved slightly in August, according to the Markit/Nikkei composite PMI. August's composite purchasing managers' index (PMI) rose from July's reading of 51.8 to 51.9. The manufacturing PMI inched up to 52.2 while the service PMI declined from July's reading of 52.0 to 51.6.
- **China's PPI and CPI rise.** China's producer prices and consumer prices both rose more than expected in August. The National Bureau of Statistics reported that China's producer price index (PPI) was up 6.3% year-over-year in August, beating economists' estimated rise of 5.6%. The consumer price index (CPI) also increased more than expected, rising 1.8%, higher than economists expected rise of 1.6%.
- **China's services sector grows.** China's services sector expanded at a faster pace in August. The Caixin/Markit services purchasing managers' index (PMI) rose from July's reading of 51.5 to 52.7 in August, the highest reading in three months.

Key Take-Away

Following different paths. The world's central banks all suffered similar fates during the Great Recession. However, since then they have each diverged along different paths. The exceptional growth of the Canadian economy so far this year puts our country at the top of G7 nations, pushing the Bank of Canada to become more hawkish. In the U.S., the Federal Reserve raised its rates for the first time in almost a decade in December 2015, and followed up with three more hikes. The Feds have since taken a wait-and-see approach as the U.S. economy showed signs of slowing. In their latest announcement, the ECB continues to be accommodative, but with their asset purchase program expiring at year's end, they may begin winding down the stimulus that has supported its economy for over eight years.

Fear the Bears. U.S. indices continue to reach new records on the coattails of the so-called "Trump Rally" that began shortly after U.S. President Trump's election. Early on, markets and investors alike saw an opportunity for change with a Republican-dominated Congress and a new Republican president. Most importantly, however, were the hopes of a new healthcare plan, tax reform, and regulatory reform that Trump promised would put more dollars in U.S. taxpayers' pockets and make it easier to do business with the U.S. Today, President Trump is finding it difficult to fulfill his promises as his health bill failed to garner enough support and his proposed tax policies are still pending. Regardless, the Bulls continue to push markets ever higher and making investors more complacent. After an 8½ year run, one of the longest in history, an inevitable change will occur. It's just not known when that will be.

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