Credential

Market Insights | MONTHLY

Month in Review

For the month ended June 30th, 2018

Overall Highlights

- **TSX rises.** It was a record run for the S&P/TSX Composite, posting an all-time high on June 20 before settling back down at month's end. Strong gains in energy helped backstop gains on the index but the up-and-coming cannabis sector provided some strong support as the federal government passed legislation legalizing it by Fall 2018. The end of the second quarter was the strongest the TSX has experienced since the last quarter of 2013. The Composite closed June at 16,278, a 1.3% monthly gain.
- **Dollar falls.** Trade risk continued to press on investors' minds directly from U.S. tariffs and ongoing NAFTA talks. In fact, the Loonie was one of the worst performers in 2018 compared to its global counterparts. However, surprise late month GDP data helped prop up our sagging currency as the possibility of a Bank of Canada rate hike in July churned pending the release of key metrics in the coming weeks. In June, the Loonie ended at US75.94 cents for one Canadian dollar, a monthly decline of 1.7%.
- **Gold dulls.** It was all because of the high flying U.S. dollar that the yellow metal posted a loss in June. Inflation data falling within the Federal Reserve's 2% stoked rumours of a higher interest rate path by the U.S. central bank, which added pressure to the non-yielding haven asset. With the month's decline, gold fell 5.5% in Q2 and is off 4% for the year. An August contact for gold closed the month at US$1,254.20, a decrease of 3.9%.
- **Oil gushes.** A trio of events helped the commodity to a big gain in June. Firstly, continued efforts by OPEC and non-OPEC countries to keep output at controlled levels even though at a recent meeting, production was increased by up to 1M barrels per day. Secondly, robust global growth has kept demand rising and, lastly, supply disruptions from major producers. These factors all combined to give oil a strong month, quarter and first half of 2018. An August contract for a barrel of WTI crude ended trading at US$74.25, a 10.7% gain for the month.
- **GDP higher.** The economy fared better than economists expected rising 0.1% in April, beating forecasts of flat growth.
- **Unemployment unchanged.** The nation's jobless rate held steady for a fourth straight month at a 42-year low in May.
- **Inflation up.** The Consumer Price Index (CPI) rose slightly in May but well below expectations led by declines in telephone services and autos.
- **U.S. Q1 GDP growth revised lower.** The Commerce Department released its third estimate of Q1 GDP growth.
- **Fed increases interest rates.** The Federal Reserve raised its benchmark interest rates by 0.25% after its two-day June meeting.
- **U.S. consumer sentiment gains.** Consumer sentiment in U.S. improved slightly in June, according to a survey by the University of Michigan.
- **Euro-zone Q1 GDP rises.** The Eurostat reported that Q1 GDP within the single-currency bloc rose 0.4% quarter-over-quarter.
- **ECB will end QE.** The ECB announced after its June meeting that it will end its massive bond purchase program by the end of this year
- **Japan Q1 GDP contracts.** The world's third largest economy contracted in Q1. Japan's Q1 GDP dropped an annualized 0.6%
- **BOJ keeps monetary policy steady.** As a widely expected decision, Japan's central bank maintained its current monetary policy in place.

Index/Commodity/Currency		
Close	**MonthChange**	**YTDChange**
S&P/TSX Composite		
16,277.73	216.2	68.6
	1.3%	0.4%
Dow Jones Industrial Average		
24,271.41	-144.4	-447.8
	-0.6%	-1.8%
S&P 500		
2,718.37	13.1	44.8
	0.5%	1.7%
NASDAQ Composite		
7,510.30	68.2	606.9
	0.9%	8.8%
MSCI-EAFE Index		
1,958.64	-27.5	-92.2
	-1.4%	-4.5%
WTI Crude Oil (per barrel, in $US)		
74.25	7.2	14.2
	10.75%	23.5%
Gold (per ounce, in US$)		
1,254.20	-50.5	-50.8
	-3.9%	-3.9%
Canadian Dollar (¢ per US$)		
75.94	-1.3	-3.8
	-1.7%	-4.8%

Sources: Bloomberg, PC Bond

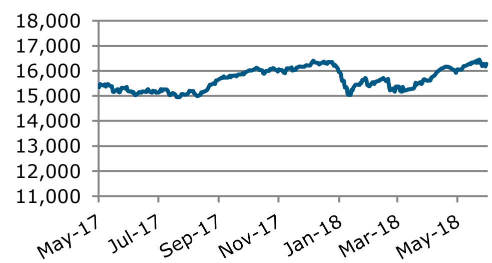
Canadian Markets

- **GDP higher.** The economy fared better than economists expected rising 0.1% in April, beating forecasts of flat growth. Although the slowest pace in the last three months, it had markets believing it was enough to push the Bank of Canada to instill a rate hike at their July meeting. Despite weakness in the manufacturing and retail sectors, other sectors were more than enough to compensate for gains during the month.
- **Unemployment unchanged.** The nation's jobless rate held steady for a fourth straight month at a 42-year low in May. Despite losing 7,500 jobs where expectations were for a gain of 17,500, the unemployment rate held at 5.8% as declines in full-time positions were offset by part-time jobs. Average hourly wages are up 3.9% from a year ago as the data provided fodder for a Bank of Canada rate hike expected next month. The participation rate for the month slipped a notch to 65.3%.
- **Inflation up.** The Consumer Price Index (CPI) rose slightly in May but well below expectations led by declines in telephone services and autos. Inflation was reported at a 0.1% gain as forecasts had called for a 0.4% increase for the month. Of the eight components used by Statistics Canada for their measure, all were higher with half growing at a slower pace than in April. On an annual basis, the inflation rate remained unchanged at 2.2%, while core inflation fell to 1.3% from 1.5%
- **PPI up.** As StatCan's measure of the input costs by producers, the Producer Price Index rose 1% in May, on rising energy and petroleum product costs. This was the fifth straight month of gains and the strongest in six months as 17 of the 21 major groups tracked by the index rose, while only one declined. Price increases in lumber, metals, and raw materials all contributed to the rise from April's reading of 0.4%. Compared to the same period last year, prices are 3.1%.
- **Wholesale sales edge higher.** Factory sales managed a gain in April, as reported by StatCan, on increased demand in the machinery, equipment, food, and beverage sectors. For the month, sales rose 0.1% to a total of $63.1B with three of the seven sectors tracked seeing gains. Motor vehicles and parts subsectors was the big decliner falling 4%. On a volume basis, it was unchanged during the month.
- **Manufacturing sales plummet.** Factory sales fell sharply in April compared to the previous month surprising economists who subsequently cut growth forecasts. Total receipts were $56.2B, a 1.3% decline from March and snapping two months of back-to-back gains. Estimates called for 0.6% increase. Petroleum and coal products and the transportation equipment sectors led decliners as 10 of 21 industries were lower. On a volume basis, things were no better, slipping 1.9% as oil refineries shut down for regular maintenance.

S&P/TSX Composite Index
Sector Snapshot

Sector	Month Return	YTD Return	Weight (%)
Energy	4.84	2.80	20.20
Telecoms	0.55	-7.15	4.40
Industrials	-0.65	5.77	10.00
Consumer Staples	3.02	-3.26	3.50
Utilities	2.12	-8.46	3.50
Financials	-0.23	-3.26	33.20
Consumer Discretionary	0.59	2.42	5.50
Health Care	5.90	-1.55	1.30
Materials	1.60	2.62	11.70
Information Technology	0.43	22.02	3.90
Real Estate	1.23	2.79	2.80

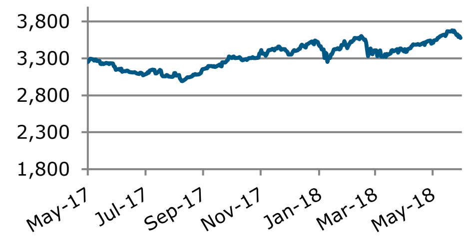
S&P/TSX Composite - 1Y Return



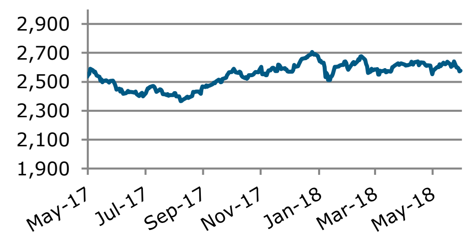
- **Retail sales slip**. Consumers were in less of a spending mood in April as retail sales fell for the first time in four months. For the month, total receipts fell 1.2% to $49.5B as 8 of the 11 subsectors followed declined, led by autos and parts dealers. This was the biggest decline in two years as weather was partly to blame as well. Removing the influence of autos, retail sales would have fallen only 0.1%. On a 12-month basis, sales fell sharply from 3.9% to 1.6% in April.
- Canada housing news:
  - **New home prices flat.** New mortgage rules and rising interest rates tempered the price of new homes, excluding condominiums and apartments, across Canada. For the month of April, prices were unchanged from the previous month for a second consecutive time as prices in eight markets rose while the remainder were either flat or lower, as reported by Statistics Canada. On an annualized basis, prices were higher by 1.6%, down from 2.4% in March.
  - **Existing home sales down.** The sales of pre-existing homes across the country fell in May by 0.1% as new mortgage regulations, rising rates, and provincial efforts to cool-down the markets are having more of an impact than anticipated. On a non-seasonally adjusted annual basis, sales have fallen 16.2%, while prices, determined by the MLS Home Price Index, have risen the slowest in nine years gaining 1% for the same period.
  - **Permits fall.** Applications for construction had its largest decline in five months as building permits fell 4.6% in May. Both residential and industrial sectors were weak due to a drop in multi-family dwellings, falling 4.3% and 5.2% respectively. The total value of permits issued was $7.8B, with British Columbia leading the decrease in five provinces.
  - **Starts lower.** There were fewer home ground-breakings across Canada, which surprised economist forecasts. For the month, there were 195,613 starts, on an annually seasonally adjusted basis, that fell short of the 218,000 units expected and a decline from April's revised 216,775 units. This can mainly be attributed to a drop in Toronto townhouses and apartments as government legislation to cool the housing market in that region begins to take its toll.

U.S. Markets

S&P 500 - 1Y Return (CAD)



MSCI EAFE – 1Y Return (CAD)



- **U.S. market flat.** After a strong month in May, the U.S. stock market closed the month flat, climbing from beginning to mid-month but then declined by month's end as fears of possible global trade wars haunted the market. The broad-based S&P 500 index was up 0.5% for the month, closing at 2,718, while the Dow Jones Industrial Average fell 0.6% to 24,271. The tech-heavy Nasdaq was the outperformer for the second straight month, up 0.9% in June, closing at 7,510.
- **U.S. Q1 GDP growth revised lower.** The Commerce Department released its third estimate of Q1 GDP growth. The growth pace was revised down from the previously reported annualized rate of 2.2% to 2%. The downgrade was due to weaker than estimated consumer spending and smaller inventory build.
- **U.S. non-farm payrolls rise.** The U.S. economy pumped out more jobs than expected in May. The Labor Department reported that non-farm payrolls increased by 223,000, beating economists' estimate of 190,000 job. Unemployment rate fell a tick to 3.8% to the lowest level since April 2000. Average hourly earnings rose 2.7% YoY, also exceeding expectations.
- **Fed increases interest rates.** The Federal Reserve raised its benchmark interest rates by 0.25% after its two-day June meeting. That pushed the funds rate target to 1.75%-2%. Most market participants had expected the 0.25% increase so the focus was more on the view by the FOMC on the economy and the path of future rate hikes. "The Committee expects that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective over the medium term," the FOMC said in its statement.
- **U.S. CPI rises.** Consumer prices rose slightly in May, but rose to its highest level in more than six years on a year-over-year basis. The Labor Department reported that its consumer price index (CPI) advanced by 0.2% in May, matching forecasts. On a year-over-year basis, the headline CPI rose 2.8%, the biggest increase since February 2012. The core CPI, which excludes food and energy prices, rose 0.2% on the month and 2.2% on the year, both in line with economists' estimates.
- **U.S. PPI rises.** Producer prices in the U.S. increased more than expected in May. The Labor Department reported that its producer price index (PPI) rose 0.5% in May, higher than economists' expected 0.3% increase. On a year-over-year basis, PPI rose 3.1%, the fastest pace since January 2012.
- **U.S. 'flash' composite PMI rises.** U.S. business activity accelerated slightly in June. The 'flash' IHS Markit composite purchasing managers' index (PMI) rose to 56.0 in June from May's final reading of 55.7; economists were expecting a reading of 56.3. Growth in the services sector was offset by a slowdown in manufacturing. The services PMI rose from previous month's reading of 55.7 to 56.5 while the manufacturing PMI dropped from 56.6 to 54.6. The manufacturing PMI was at its lowest level in seven months.
- **U.S. consumer sentiment gains.** Consumer sentiment in U.S. improved slightly in June, according to a survey by the University of Michigan. The university's consumer sentiment index rose from May's reading of 98.0 to 98.2 in June; economists were expecting a higher reading of 99.2. Many participants of the survey expressed concerns about the ongoing trade tensions between U.S. and other countries.
- **U.S. retail sales jump.** Retail sales in U.S. rose more than expected in May. The Commerce Department reported that retail sales increased by 0.8% in May, beating economists' expected increase of 0.4%. It was also the biggest gain in six months. On a year-over-year basis, retail sales were up 5.9%.
- U.S. Housing News:
  - **U.S. new home sales jump.** The Commerce Department reported that new home sales surged 6.7% in May to a seasonally adjusted annual rate of 689,000 units, much higher than economists' expected pace of 667,000 units. May's pace was at the highest level since November 2017. On a year-over-year basis, new home sales were 14.1% higher.
  - **U.S. pending home sales drop.** The National Association of Realtors reported that pending home sales fell 0.5% in May; economists were expecting sales to rise 0.5% in May. On a year-over-year basis, pending home sales were down 2.2%. It was the fifth straight month that pending home sales recorded year-over-year decline.
  - **U.S. home prices continue to increase.** Home prices in major U.S. cities continued to go higher in April despite missing forecasts. The S&P CoreLogic Case-Shiller 20-city index rose 0.2% in April, missing economists' expected increase of 0.5%. On a year-over-year basis, prices increased by 6.6%. Seattle, San Francisco and Las Vegas lead the pack in percentage increases. Limited supply in the housing market had been a major factor pushing prices up.
  - **U.S. housing starts surge.** U.S. housing starts jumped to near an 11-year high in May. The Commerce Department reported that housing starts rose 5% to a seasonally adjusted annual pace of 1.35 million units in May; economists were expecting housing starts to rise at a pace of 1.31 million units only. It was the highest level since July 2007. Building permits, however, fell 4.6% to an annual pace of 1.30 million units, the lowest level since last September.

European Markets

- **Euro-zone Q1 GDP rises.** The Eurostat reported that Q1 GDP within the single-currency bloc rose 0.4% quarter-over-quarter, down from the 0.7% pace reported in Q4 2017, in line with economists' forecast. On a year-over-year basis, GDP grew by 2.5%, also on par with estimates. Increase in household consumption was the biggest contributor to Q1 growth.
- **ECB will end QE.** The ECB announced after its June meeting that it will end its massive bond purchase program by the end of this year. However, it signaled that any interest rate hike is still distant. The central bank will have its bond purchase from €30B to €15B starting in October, then will shut the program at the end of the year. In the statement, the ECB stated that interest rates will remain steady "at least through the summer of 2019".
- **Euro-zone inflation rises.** Euro-zone's inflation hit the ECB's inflation target in June. The 'flash' harmonised index of consumer prices (HICP) increased to 2% on a year-over-year basis, matching economists' expectations. Rising energy costs was the major factor pushing up the price level. The core measure, which excludes food and energy prices, dropped from May's pace of 1.3% to 1.2% in June though.
- **Euro-zone economic sentiment falls.** Economic sentiment within the 19-member bloc slipped in June. The European Commission reported that its economic sentiment index fell slightly from 112.5 the previous month to 112.3 in June. The reading was better than economists' expected 112.0.

Asian Markets

- **Japan Q1 GDP contracts.** The world's third largest economy contracted in Q1. Japan's Q1 GDP dropped an annualized 0.6%, worse than economists' expected 0.4% decline. On a quarter-over-quarter basis, Q1 GDP contracted by 0.2%, also worse than forecast.
- **BOJ keeps monetary policy steady.** As a widely expected decision, Japan's central bank maintained its current monetary policy in place. Bank of Japan (BOJ) announced that it will keep its short-term interest rate target at -0.1% and also maintain 10-year government bond yields around zero. After ECB announced its intention to end its bond purchase program by the end of the year, the BOJ remained the only major central bank without a plan to end monetary stimulus which was put in place to fight the financial crisis back in 2008.
- **Japan's inflation remains sluggish.** Government's data showed that Japanese inflation remained stagnant in May. The consumer price index (CPI) rose 0.7% year over-year in May, same pace as the previous month's, but still a far cry from the central bank's inflation target of 2%. The core measures, which strips out food and energy prices, rose even less, just 0.3% when compared to last year.
- **Economic data out of China.** Weaker than expected economic data was reported out of China in May. Fixed asset investment rose 6.1% year-over-year for the first five months, missing economists' expectations of a 7% increase. Industrial production was up 6.8% year-over-year in May, slightly lower than consensus of 6.9%. Retail sales advanced by 8.5% on the year, also missing forecasts of a 9.6% increase.
- **China PPI picks up, CPI steady.** Producer prices in China rose for the second month in a row while consumer prices remained stable. The National Bureau of Statistics reported that its producer price index (PPI) advanced by 4.1% in May on the year, up from the 3.4% pace reported in April; economists were expecting PPI to rise 3.9% year-over-year. The increase was buoyed by stronger commodity prices. The consumer price index (CPI) increased by 1.8% year-over-year, same pace as previous month and in line with forecast.
- **China services PMI remained steady.** China's services sector continued to expand at a steady pace in May. May's Caixin/Markit services purchasing managers' index (PMI) remained unchanged at 52.9. China's services sector currently accounts for more than half of the country's economy.

Key Take-Aways

Birds Flock Together Until…. During the Financial Crisis of 2007-08, it took a coordinated effort by the world's central banks to stave off a global economic collapse not seen since the Great Depression eight decades earlier. Almost ten years later, the same central banks have begun to take different monetary paths contingent upon the health of their respective economies. The Bank of Canada in late May opted to hold rates for a third straight month after multiple increases, while the U.S. Federal Reserve just recently increased rates for a second time this year with two more expected to come. European Central Bank president Mario Draghi has decided the central bank for the single currency will shutter its monthly bond buying program at the end of 2018. Over the course of the three years of stimulus, the ECB has purchased over €2.5T in debt instruments and will soon face the task of getting if off their balance sheets. Lastly, the Bank of Japan, maintained an ultra-easy monetary policy as its economy, despite some improvements, continues to lack consistent growth momentum. BOJ Governor Haruhiko Kuroda provided no indication of when he would stop the stimulus, but it will not likely be for some time. After years of flying along the same path, some central banks have taken to head in a different direction.

Paving the Way. For a second month in a row, the economy had a net loss of jobs, albeit a small number, but a decline nonetheless. In May, 7,500 positions were lost, mainly of a full-time nature, and coupled with the 1,500 in April it poses the question: 'Why?'. One reason is the possibility of global trade wars initiated by U.S. protectionist measures that are forcing the hand of employers in attempts to position themselves for potential slowdowns in new orders and work. By shifting jobs from full-time to part-time, employers can quickly to changing business conditions. Another reason is wage inflation or how fast wages have risen over a period of time. Reported on an annual basis, the latest reading by Statistics Canada showed a 3.9% increase YoY, the largest since April 2009. The data supports the fact that the labour market continues to tighten and the economy is operating at capacity utilization of 86.1% in Q1, a 12-year high. With unemployment at a four decade low of 5.8%, static for the past four month, the path is clear and the probability is high for the Bank of Canada to announce a rate hike at their next policy meeting in July.