Month in Review

For the month ended July 31st, 2015

Overall Highlights

- **S&P/TSX declines.** A late rally pared off earlier losses on the S&P/TSX Composite Index following an eventful July. On the close, the Index ended at 14,468 for the month, down 85 points or -0.6%. The outcome of the Greek debt crisis, increased volatility in the Chinese equity markets and actions taken by the Bank of Canada contributed to the Index's decline. In addition, strong weakness in commodity and resource prices had many investors moving away from stocks in these sectors towards the safety of the U.S. markets.
- **Loonie falls.** The Bank of Canada's effort in July to keep the Canadian economy above water was at the sacrifice of the dollar. A cut in its key interest rate to 0.5% sent the Loonie plummeting three and 73/100ths of a U.S. cent, to close at US76.40 cents per Canadian dollar, a drop of 4.7%. Weak economic data provided little support as pressure mounted that the dollar will continue to fall further, as global economies soften and the demand for exports begin to decline.
- **Gold dulls.** The yellow metal fell during the month as little direction by the Federal Reserve on its position on interest rates pushed prices to its sixth straight weekly loss. At month's closing, gold shed US$77.10, a decline of 6.6%, to close at US$1095.00 per ounce, which is a low point not seen since 2010. Investors remained sensitive to economic data for any signs of a possible hike that would keep them away from the resource, since it is a no-interest bearing asset.
- **Oil drops.** Supply, supply, and more supply remain the dominant theme for the commodity as oil took a steep tumble during the month. West Texas Intermediate (WTI) traded lower for the month, falling US$12.26, or -20.6%, to end at US$47.14 a barrel. This was WTI's largest decline since October 2008. Also pushing the commodity lower are reports of slowing demand from China, the world's largest consumer of the resource, the addition of new inventory from Iran, a strong U.S. dollar and trimmed forecasts for the price of oil.
- **Bank of Canada drops interest rates.** Poor economic data, despite a rate cut at the beginning of the year, prompted the Bank of Canada (BoC) to lower its prime lending rate by another 25 bps during the week to 0.5%.
- **GDP slips.** For the fifth straight month, Canada's gross domestic product (GDP) contracted in May, falling -0.2% from April, adding to concerns that the economy is failing to recover from oil's decline, despite efforts by the Bank of Canada.
- **Inflation up.** Higher food and housing costs helped boost the consumer price index higher in June but was partially offset by lower energy prices. Compared to the month previous, inflation rose 0.2%, pushing the annual inflation rate to 1%, the low end of the Bank of Canada's target range.
- **Unemployment rate unchanged.** Despite 6,400 jobs lost for the month the unemployment rate held steady at 6.8% for the fifth straight month in June.
- **U.S. 2nd quarter GDP grows at 2.3%.** U.S. economy grew solidly in the second quarter, with reportedly expanding at a 2.3% annual rate, a bit below economists' forecast for a growth of 2.6%.
- **Fed is more optimistic about the economy.** The Fed was more optimistic about the U.S. economy, which could mean a rate hike is forthcoming.
- **Euro-zone inflation remains stable.** Eurostat reported the inflation within the 19-member bloc to be 0.2% year-over-year in July, unchanged from June's figure.
- **Euro-zone unemployment unchanged.** The jobless rate in the 19-member union was steady in June holding at 11.1% for a third consecutive month.
- **China Q2 growth gains.** GDP in the world's second largest economy was reported by the national Bureau of Statistics to be 7.0% annualized in the second quarter.
- **No more easing by BOJ at the moment.** At a recent event in Bangkok, Bank of Japan (BOJ) Governor Haruhiko Kuroda said that no further quantitative easing is needed at the moment as he sees inflation of Japan accelerating in the near future.

Index/Commodity/Currency		
Close	**MonthChange**	**YTDChange**
S&P/TSX Composite		
14,468.44	-84.9	-164.0
	-0.6%	-1.1%
BMO Nesbitt Burns Small Cap		
705.42	-55.6	-48.4
	-7.3%	-6.4%
Dow Jones Industrial Average		
17,689.86	70.4	-133.2
	0.4%	-0.7%
S&P 500		
2,103.84	40.7	44.9
	2.0%	2.2%
NASDAQ Composite		
5,128.28	141.4	392.2
	2.8%	8.3%
MSCI-EAFE Index		
1,879.75	37.3	104.9
	2.0%	5.9%
WTI Crude Oil (per barrel, in $US)		
47.14	-12.3	-6.4
	-20.64%	-12.0%
Gold (per ounce, in US$)		
1,095.00	-77.1	-88.5
	-6.6%	-7.5%
Canadian Dollar (¢ per US$)		
76.40	-3.7	-9.8
	-4.7%	-11.4%

Sources: Bloomberg, PC Bond

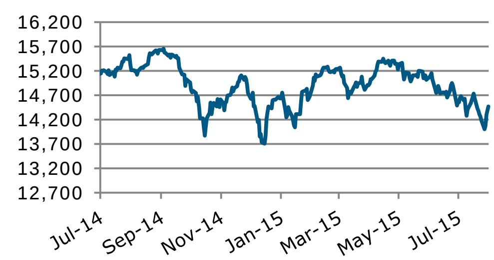
Canadian Markets

- **Bank of Canada drops interest rates.** Poor economic data, despite a rate cut at the beginning of the year, prompted the Bank of Canada (BoC) to lower its prime lending rate by another 25 bps during the week to 0.5%. This was the second reduction in six months. It is hoped that it will revive the weakened Canadian economy and increasing global economic instability. Along with the announcement, BoC bank Governor Stephen Poloz also lowered the central bank's forecast for the economy to 1.1% from their 1.9% estimate in April. Governor Poloz attributed three factors to the downgrade: lower oil prices, a slowing China and their volatile stock markets, and recent muted economic growth in the U.S.
- **GDP slips.** For the fifth straight month, Canada's gross domestic product (GDP) contracted in May, falling -0.2% from April, adding to concerns that the economy is failing to recover from oil's decline, despite efforts by the Bank of Canada. Declines in manufacturing and mining and oil and gas extraction were -1.7% and -0.7%respectively, which contributed to the economy's weakness during the month and placed it on the cusp of technical recession, if second quarter data shows negative GDP numbers.
- **Inflation up.** Higher food and housing costs helped boost the consumer price index higher in June but was partially offset by lower energy prices. Compared to the month previous, inflation rose 0.2%, pushing the annual inflation rate to 1%, the low end of the Bank of Canada's target range. Excluding volatile components, core inflation edged higher as well to 2.3%, greater than in May and economist expectations of 2.2%.
- **Unemployment rate unchanged.** Despite 6,400 jobs lost for the month the unemployment rate held steady at 6.8% for the fifth straight month in June. Part-time positions attributed for all of the losses, removing 71,200, while full-time hires cushioned the impact, by adding 64,800, mainly in the public sector. Compared to a year ago, the economy has added 176,000 people back into the work force. Most of the losses were in Quebec and Newfoundland, in the manufacturing and services sector.
- **Manufacturing PMI rises.** The RBC Manufacturing PMI index rose into expansionary territory, for the first time in five months, ending at 51.3 (up from 49.8) as factories had a busy month in June. A rise in volumes, new business, and manufacturing employment all contributed to the month's gain. As well as a stronger U.S. economy and increased competitiveness of the Loonie all helped drive demand for our goods internationally.
- **Balance of trade falls again.** The economy had another trade deficit in May, as exports fell 0.6% and imports rose 0.2%. The imbalance of $3.34B for the month increased the likelihood of another rate cut by the Bank of Canada, which will be decided at their next meeting in July. Sectors contributing to the month's exporting losses included metallic and non-metallic minerals, while offset by gains in the auto and aerospace sectors.
- **Manufacturing sales higher.** Factory sales rose in May for a second monthly gain in 2015. For the month, airplanes and petroleum and coal products helped increase sales by 0.1% to $49.9B where only six of the 21 industries followed gained. Expectations had called for 0.4% as the weak dollar that was expected to prop up sales and volumes failed to materialize.
- **Wholesale sales fall.** A decline in autos and farm supplies sent wholesale sales lower for the month of May. Following two months of increases, sales fell 1% to $54.5B, disappointing expectations of no changes for the month. Motor vehicles led all declining subsectors falling 3.1%. Had this sector been excluded, sales would have fallen by 0.6%. On a volume basis, it also decreased 1% and may be considered a more accurate measure as it omits the fluctuations of the Canadian dollar.
- **Retail sales climb.** Increased vehicle sales helped push retail sales higher in May to $43B, up 1% from the previous month. Sales were higher in nine of the 11 subsectors tracked with auto sales increasing 2%, while volumes increased by 0.4%. Estimates had called for a monthly increase in sales of 0.6%. Consumer spending still accounts for the majority of economic activity in Canada that has recently had a string of bad news stoking fears of a recession.
- **PPI unchanged.** Canada's producer price index remained unchanged in June holding steady at 0.5%. Expectations had called for a 0.3% increase for the month, but actual numbers came in higher due to increased costs in energy and petroleum goods, which rose 2.0%. Of the 21 sectors tracked, 15 saw increases, including price increases for autos. Adding to the unexpected increase in the PPI was the fall in the value of the Canadian dollar as some index components are priced in U.S. dollars. On an annualized basis, the index improved to -0.9%, up from May's -1.3%.
- **Housing news:**
  - o **Building permits plummet.** May saw a steep decline in building initiatives as permits fell 14.5% to $6.5B in total. Economists had expected only a 5% drop for the month, as official reports saw a 16% decrease in commercial buildings, and a 13.5% dip in residential structures. Toronto and Calgary lead all major markets, with a 46.7% and 35.1% decline, respectively.
  - o **Housing starts increase.** Groundbreakings on new homes rose 3% in June, exceeding economist expectations. The number of homes started, clocked in at an annual pace of 202,818 units, compared to estimates of 190,000, which pushes this to an 11-month high, with multiple unit complexes leading the way. BC (+45.2%) and the Prairies (+27.7%) lead the way, while new construction fell by 30.7% in Ontario.
  - o **New housing price higher.** The price of a new home rose 0.2% in May, more than a forecasted 0.1%, as the housing market in Toronto rose 0.5% for the month. Gains were seen in most markets across the country helping to offset declines in Quebec. On a year-over-year basis, prices were up 1.2% for the month, slightly higher than the 1.1% in April.
  - o **Existing home sales lower.** Declines seen in Ottawa and Montréal sent monthly home sales in June lower in Canada, the CREA reported. For the month, activity fell by 0.8%, but sales levels remain at multi-year highs with actual year-over-year sales up 11%.

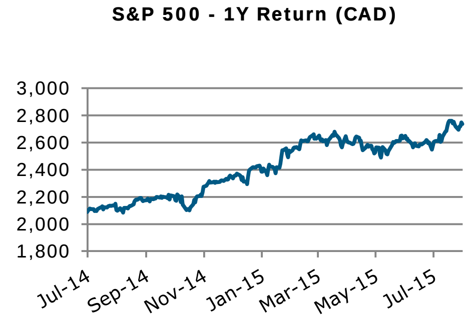
S&P/TSX Composite Index
Sector Snapshot

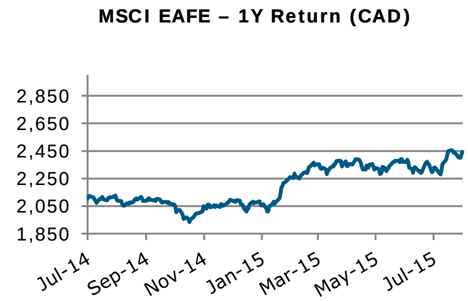
Sector	Month Return	YTD Return	Weight (%)
Energy	-6.59	-13.15	19.40
Telecoms	2.56	2.85	5.10
Industrials	4.95	-4.27	8.30
Consumer Staples	7.34	10.22	4.10
Utilities	2.73	-3.96	2.10
Financials	0.05	-2.04	35.50
Consumer Discretionary	2.85	9.80	7.10
Health Care	18.39	87.40	6.30
Materials	-14.73	-14.98	9.40
Information Technology	8.05	9.64	2.80

S&P/TSX Composite - 1Y Return



U.S. Markets





- **U.S. market rebounds from June.** After a retreat in June, the U.S. stock market had a decent rebound in July. All three major indices posted positive gains. The broad-based S&P 500 gained 2.0% or 41 points, closing at 2,104. The Dow Jones Industrial Average improved by 0.4% or 70 points, ending the month at 17,690. Nasdaq rallied the most among the three indices, gaining 2.8% or 141 points, standing at 5,128 at the end of the month.
- **U.S. 2nd quarter GDP grows at 2.3%.** U.S. economy grew solidly in the second quarter, with reportedly expanding at a 2.3% annual rate, a bit below economists' forecast for a growth of 2.6%. First quarter GDP growth was also revised from -0.2% to a much higher +0.6%. Consumer spending was believed to be propelling the growth; consumer spending grew at a pace of 2.9% in the second quarter, compared to a 1.8% growth rate from the first quarter.
- **Fed is more optimistic about the economy.** The Fed was more optimistic about the U.S. economy, which could mean a rate hike is forthcoming. Following a two-day policy meeting, Fed officials said the economy was "expanding moderately" and had "solid job gains" recently. The positive statement by the officials might strengthen the view that the Fed will announce the first rate hike since 2008, at its September meeting.
- **Inflation drops.** The rising cost of gasoline and food helped increase the CPI for a fifth consecutive month. For June, inflation rose 0.3% following a 0.4% increase in May and provided further fodder for a rate hike by the Federal Reserve in the coming months. On an annual basis, prices rose 0.1% for the month after a flat May. Stripping out energy and food, core CPI rose 0.2% for the month while annualized, it rose 1.8% in June.
- **U.S. job growth slows.**, According to the job report released by the Labor Department, job growth slowed in June. Non-farm payrolls grew 223,000 in June, compared to an increase of 254,000 in May. April payrolls were lower by 60,000 jobs. The unemployment rate fell to 5.3% in June, the lowest figure since April 2008, but it was due to 432,000 being dropped out of the labor force.
- **U.S. manufacturing expands.** The Institute for Supply Management reported that its manufacturing index increased to 53.5 in June, from May's reading of 52.8. Economists forecasted the reading to come in at 53.2. Given relatively weak sales abroad, June's increase could be an indicator that domestic customers were stepping up their spending.
- **Services sector growth slows.** The final services Purchasing Managers Index dropped for the third straight month in June. The gauge for the service sector activities slid from May's reading of 56.2 to 54.8 in June. It also missed economists forecast for a reading of 54.9. Despite recent declines, the gauge was still well above the 50-mark that separates between expansion and contraction.
- **U.S. durable goods orders rises.** New orders for durable goods rose month-over-month to a seasonally adjusted 3.4% in June, the first increase of the gauge since March; economists had forecasted a rise of 2.7%. The so-called core capital goods orders - a closely watched proxy for business investment plans which excludes aircraft sales - rose 0.9% in June, beating economists' forecast for a rise of 0.4%.
- **U.S. consumer sentiment falls.** The University of Michigan's consumer sentiment index came in at 93.1 in July, down from 96.1 in June, an indication that consumer sentiment deteriorated slightly in July. It was also below economists' estimate for a reading of 94.0. Despite the fall, the index was still at a healthy level, especially compared to a reading of 81.8 for the same time period last year.
- **Industrial production rises.** Output from America's factories and mines improved in June rising 0.3% on a seasonally adjusted basis. However, this was not enough to help in the second quarter as output fell 1.4% annualized on lower production of vehicles and metal products. The strong U.S. dollar has been blamed for the softening of export demand as well as stifling domestic consumption due to the prolonged winter.
- **Retail sales fall.** Surprisingly, retailers had fewer receipts due to a dip in sales in June as consumers held back on purchases. For the month, sales decreased 0.3% compared to May as the economy begins to show signs of slowing down. Economists had expected a gain of 0.2%, but a disappointing jobs number and lack of business confidence saw declines in eight of the 13 retail categories tracked.
- **U.S. housing news:**
  - **Starts rise.** Multi-unit structures drove housing starts in June by 9.8% to a seasonally adjusted pace of 1.174M units annually. Multi-family dwellings rose a whopping 29.4% with single family homes rising 0.9% as the rental markets continue to be a big draw for individuals not able to purchase a home.
  - **Permits rise.** Intentions to build rose in June by 7.4% to close to an eight year high. This equated to an annualized pace of 1.34M units of future construction, more than expected by analysts and close to the 1.36M last seen in 2007. More of the permits were multi-unit in nature, which rose 15.3%, and single family buildings rose by 0.9%
  - **Existing home sales surges.** Home resales increased by 3.2% in June to an annual rate of 5.49 million units. Economists forecast home resales to reach an annual pace of 5.40 million units. The June resale number was the highest level since February 2007.
  - **New home sales slow.** In stark contrast to existing home sales, new home sales fell 6.85% in June from the previous month to a seasonally adjusted annual rate of 482,000 units, the lowest level since last November. Economists forecast the sales figure in June to stay flat. Year-over-year, new home sales were up 18.1%.
  - **Pending home sales fall.** Pending home sales fell in June due to limited supply in the market. The National Association of Realtors reported that the seasonally adjusted pending home sales index fell 1.8% to 110.3 in June. It was believed that the fall was attributed to limited home availability in the market. According to the report, the market only had five months of supply, compared to a historical average of six months in a healthy market.

European Markets

- **No interest rate change.** No surprises were given by the European Central Bank as they held their key rate unchanged at 0.05% where it has been since September 2014. The holding of this rate at its record low also kept other rates steady, especially the deposit facility rate, which is set at -0.20%, meaning that banks are essentially charged for holding deposits at the ECB.
- **Euro-zone inflation remains stable.** Eurostat reported the inflation within the 19-member bloc to be 0.2% year-over-year in July, unchanged from June's figure. The so-called core inflation, which excludes effect from energy and unprocessed food, was up 0.9% in July, a slight increase from June's 0.8%. It was believed that the price increases in industrial goods and services were offset by a decline in energy prices.
- **Euro-zone unemployment unchanged.** The jobless rate in the 19-member union was steady in June holding at 11.1% for a third consecutive month. This continues to be the lowest rate since March 2012 and is an optimistic sign that area is beginning to stabilize; however, much work still needs to be done. Economist expectations called for a slight decline to 11%. Greece and Spain lead all countries with the unemployment rate at 25.6% and 22.5%, respectively.
- **Greece approves austerity measures.** Following weeks of global nail-biting and the concerns of the future of the Euro currency, Greece's parliament approved the austerity conditions wanted by its creditors. With the vote and approval by other Eurozone parliaments, Greece becomes eligible for a bridge loan to pay off its immediate bills and opens the door for further negotiations of a third bailout package of approximately €86B over the next three years.
- **Industrial production lower.** Factory output in the Eurozone was lower than anticipated in May despite monetary stimulus added to the system by the ECB. Eurostat reported a 0.4% decrease for the month from April, the third consecutive month of flat or declining growth, where energy and non-durable goods production fell. Economists had predicted a 0.2% gain. On an annual basis, industrial production rose 1.6%, in line with estimates.
- **Euro-zone 'flash' PMI slips.** The 'flash' Euro-zone composite Purchasing Managers' Index (PMI) released by Markit for July dropped from the four-year high reached in June. The gauge for manufacturing and services sectors activities declined to 53.7 in July from June's final reading of 54.2. It was believed that the financial crisis in Greece negatively affected the confidence of the people living in the region.
- **S&P raises Greece credit rating.** Standard & Poor's moved Greece's credit rating two notches up to CCC+ from CCC-, after an initial agreement to start bailout negotiations with its creditors. S&P was the first among the three major credit rating agencies to raise Greece's credit rating.

Asian Markets

- **China Q2 growth gains.** GDP in the world's second largest economy was reported by the national Bureau of Statistics to be 7.0% annualized in the second quarter. This matches the first quarter's performance and can be attributed to efforts by the People's Bank of China to keep additional liquidity in its financial system amid weak economic data pointing to slowdown of the economy. The government pegs growth for 2015 at 7%, below the 24-year low of 7.4% achieved in 2014.
- **China 'flash' PMI drops.** The 'flash' Caixin/Markit China PMI dropped to 48.2 in July from June's final reading of 49.4, the lowest reading since July last year. It was the fifth straight month that the gauge was below the 50-mark separating contraction from expansion. Economists estimated the gauge to come in at 49.7.
- **Japan producer price drops.** The gauge for producer price in Japan, the corporate good price index (CGPI) declined in June. The gauge fell by 2.4% year-over-year in June following a drop of 2.2% in May. It was the third consecutive year-over-year drop. Economists expected the gauge to come in at -2.1% in June. Month-over-month, the CGPI also fell for the first time in four months, dropping 0.2% after a 0.2% increase in May.
- **Japanese industrial production falls.** Factory production slumped in May due to lower production of autos. For the month of April, output fell 2.2%, greater than calls for a 0.8% decline, as weaker exports stalled the country's recovery momentum. Unfortunately, the slowdown could not come at a worst time as its neighboring countries and other global economies begin to falter on the global uncertainty and where predications are for a slow second quarter.
- **No more easing by BOJ at the moment.** At a recent event in Bangkok, Bank of Japan (BOJ) Governor Haruhiko Kuroda said that no further quantitative easing is needed at the moment as he sees inflation of Japan accelerating in the near future. The BOJ expected to meet its 2% inflation target around the first half of next fiscal year, on the assumption that oil prices will recover from last year's sell off. Yen rose against the U.S. dollar immediately following Kuroda's comment.
- **Japan factory output rises.** Japanese factories had a good month in June, posting better than expected growth compared to estimates. Factory production rose 0.8% in June, beating economists' forecast for a rise of 0.3%and comparatively better than the big drop of 2.1% reported in May.

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