Credential

Market Insights | MONTHLY

Month in Review

For the month ended June 30th, 2017

Overall Highlights

- **TSX lower.** The country's benchmark index fell for the month, dragged lower by heavyweight Energy and Financial sectors. This was the second straight month of decline for the Composite, as investors felt the heat of a potential rate hike by the Bank of Canada in effort to cool down the exceptionally strong growth of the economy. The TSX ended June at 15,182.19, a loss of 1.1%.
- **Dollar surges.** Strong economic data at home sent the Loonie to a four-month high, and prompted an increased hawkish tone by the central bank. Governor Poloz's comments that 2015's rate cuts "have done their job" increase the probability of a rate hike by the BoC in July. On the close, the Loonie ended at US77.06 cents per dollar, a gain of 4.0%.
- **Gold dulls.** The yellow metal had its first monthly decline since March as demand in the non-yielding asset fell on higher global bond yields. In addition, positive economic data and a calmer U.S. dollar sent gold closing lower by 2.1% to end the month at US$1,241.40 per ounce.
- **Oil falls.** The woes of crude continued as OPEC's attempts to stem the global supply glut were countered by increased production by U.S. shale producers, and rising U.S. drilling rig activity. During the month, oil entered bear market territory, falling at least 20% from recent peaks. At month's end, a barrel of WTI ended at US$46.33, down 4.1% from May.

Index/Commodity/Currency		
Close	**MonthChange**	**YTDChange**
S&P/TSX Composite		
15,182.19	-167.7	-105.4
	-1.1%	-0.7%
Dow Jones Industrial Average		
21,349.63	341.0	1,587.0
	1.6%	8.0%
S&P 500		
2,423.41	11.6	184.6
	0.5%	8.2%
NASDAQ Composite		
6,140.42	-58.1	757.3
	-0.9%	14.1%
MSCI-EAFE Index		
1,883.19	-6.9	199.2
	-0.4%	11.8%
WTI Crude Oil (per barrel, in $US)		
46.33	-2.0	-7.5
	-4.10%	-13.9%
Gold (per ounce, in US$)		
1,241.40	-26.7	90.5
	-2.1%	7.9%
Canadian Dollar (¢ per US$)		
77.06	3.0	2.6
	4.0%	3.5%

Sources: Bloomberg, PC Bond

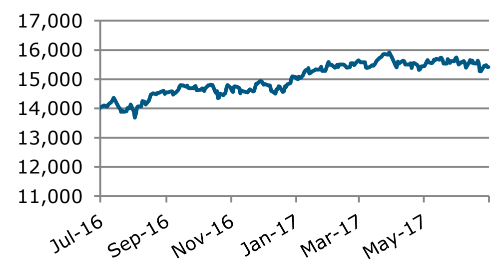
- **GDP up.** Canada's economy continues to remain on solid footing as Statistics Canada reported that April's GDP rose 0.2%, on par with economists' forecasts.
- **Jobless rate rises.** Employers were more confident of the economy in May as 77,000 full-time hirings were added for a net gain of 54,500 jobs during the month.
- **Inflation falls.** Declining prices at the pumps were the big contributor to the month's falling inflation rate, as May's increase compared to April was only 0.1%.
- **Retail sales higher.** Consumer spending rose in April on the backs of building supplies/materials, clothing, and electronics.
- **Fed raises interest rates.** Despite some recent disappointing economic data, the Fed announced after its June meeting that it would raise its benchmark interest rates by a quarter point, making the new target range between 1-1.25%.
- **U.S. Q1 GDP revised up.** The U.S. economy slowed less than initially estimated in Q1.
- **U.S. consumer sentiment drops.** Consumer sentiment fell to a seven-month low in June, according to the report by University of Michigan.
- **Euro-zone Q1 GDP revised up.** Eurostat reported its second estimate of the Q1 GDP growth of the 19-member region.
- **ECB stays its course.** As widely anticipated, the ECB didn't change its stimulus program in its June meeting. The ECB will hold the interest rate at its current level and will continue to buy bonds at a €60B monthly pace.
- **Japan GDP growth revised down.** Government of Japan revised down its estimate of Q1 GDP growth.
- **China's trade surplus widens.** Trade surplus widened in May, and both imports and exports rose more than expected.

Canadian Markets

S&P/TSX Composite Index Sector Snapshot

Sector	Month Return	YTD Return	Weight (%)
Energy	-4.41	-14.70	20.00
Telecoms	-3.67	5.28	4.90
Industrials	0.00	10.85	9.60
Consumer Staples	-3.16	3.73	3.90
Utilities	0.12	7.75	3.30
Financials	2.20	0.74	34.50
Consumer Discretionary	-0.42	11.04	5.40
Health Care	13.48	1.36	0.70
Materials	-4.19	-1.32	11.50
Information Technology	-4.38	9.09	3.30
Real Estate	-1.19	3.32	3.00

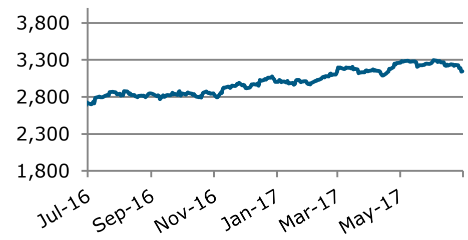
S&P/TSX Composite - 1Y Return



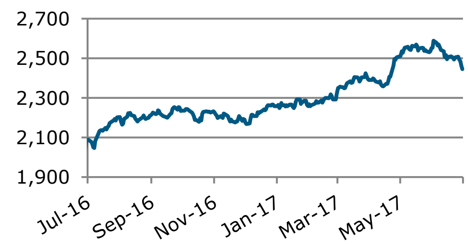
- **GDP up.** Canada's economy continues to remain on solid footing as Statistics Canada reported that April's GDP rose 0.2%, on par with economists' forecasts. This was the sixth straight monthly gain as 14 of the 20 sectors tracking the health of the economy rose, led by mining (+2.7%), and transportation and storage (+1%). On an annualized basis, the economy grew 3.3%, the fastest pace seen since June 2014.
- **Jobless rate rises.** Employers were more confident of the economy in May as 77,000 full-time hirings were added for a net gain of 54,500 jobs during the month. This was the fastest growth in eight months besting forecasts of a 11,000 gain. However, more people entered the labour market looking for work sending the national unemployment rate higher by a notch to 6.6% with participation of eligible workers at 65.8%.
- **Inflation falls.** Declining prices at the pumps were the big contributor to the month's falling inflation rate, as May's increase compared to April was only 0.1%. Also adding to the decline was falling costs in electricity, foods, and other utilities. For the one year period, inflation dropped to 1.3% from 1.6%, while core inflation, a better measure of price growth, fell to 0.9%- the lowest since February 2011.
- **PPI lower.** The cost of input materials into the manufacturing process fell in May, primarily on lower energy and petroleum product prices. In May, the Producer Price Index fell 0.2% after rising 0.6% in April, and was the first monthly decline since August 2016. Of the 21 groups tracked, 17 rose while one was unchanged, as meat, fish, and dairy products, as well as pulp and paper products, advanced 1.7% and 1.9% respectively. Annualized, PPI is higher by 4.9%.
- **Manufacturing sales rise.** For a second consecutive month, the country's factories, especially in the energy sector, touched a new high in sales. In April, manufacturing sales on a seasonally adjusted basis rose 1.1% to $54.4B in receipts. This was higher than expected, and follows a revision upward of March numbers to 0.8%. Of the 21 industries tracked, 13 gained while on the downside, auto sales led laggards falling 3.7% during the month.
- **Wholesale sales climb.** Factory sales beat expectations in April, primarily led by the machinery, supplies, and equipment sectors. For the month, sales rose 1% to $61B, ahead of the 0.5% forecasted by analysts as three of the seven sectors tracked advances. Vehicle sales fell the most during the month, declining 1.7%, and had this sector been omitted, sales would have climbed 1.7%. On a volume basis, sales also rose 0.7%.
- **Retail sales higher.** Consumer spending rose in April on the backs of building supplies/materials, clothing, and electronics. Forecasts had called for a 0.3% monthly increase, but StatCan data showed a rise of 0.8% during the month, increasing possibilities of a rate hike by the Bank of Canada as early as their next meeting in July. Excluding the weakness in the auto sector, retails sales rose 1.5% compared to the previous month.
- Canada housing news:
    - **Existing home sales plummet.** National sales of existing homes fell 6.2% in May attributed to a 25% decline seen in the Greater Toronto area. Annualized, activity is lower by 1.6% on a non-seasonally adjusted basis, as housing policy changes by the Ontario government introduced in April have cooled down in that market from its torrid pace. The Vancouver market continues to have supply and demand finely balanced, while other regions of Canada have excess supply.
    - **Building permits decline.** The number of applications to build fell for a third consecutive month in April mainly due to lower demand for detached homes in Ontario. For the month, permits fell 0.2% as single family homes fell 8.1%, more than offsetting the gains seen in multi-family buildings such as apartments. Residential buildings fell 2.5% nationally while commercial structures rose 4.1%.
    - **Housing starts lower.** Home groundbreakings slipped in May as starts fell in the hot Toronto and Vancouver markets. On a seasonally adjusted rate, starts tallied 194,633 units, lower than April's revised figure and less than the 205,000 units forecasted. The increase in listings into the housing market contributed to lower demand for new homes as starts fell by 43% and 13% in Toronto and Vancouver, respectively.
    - **New home prices rise.** The price of a new home rose 0.8% in April, primarily in Canada's largest city where there is a lack of developed land. Expectations were for a 0.2% rise by Statistics Canada as prices have increased 3.9% on an annualized basis, the biggest move since May 2008. Of the 27 regions tracked, just under half saw gains, while only two fell.

U.S. Markets

S&P 500 - 1Y Return (CAD)



MSCI EAFE – 1Y Return (CAD)



- **Tech sector sells off.** The technology sector was one of the main stories in June. Concerns around hefty valuation in the sector and the doubtful prospect of the economy caused a selloff in technology. As a result of the weakness in that sector, Nasdaq was the worst performer in June, losing 0.9% for the month and ending the month at 6,140. The broad-based S&P 500 index was up slightly, gaining 0.5% for the month and closing at 2,423, while the Dow Jones Industrial Average moved up 1.62% for the month, closing at 21,350.
- **Fed raises interest rates.** Despite some recent disappointing economic data, the Fed announced after its June meeting that it would raise its benchmark interest rates by a quarter point, making the new target range between 1-1.25%. This decision was widely expected by the market. The Fed also provided some details regarding its plan of unwinding its $4.5T balance sheet, which was hugely inflated by the asset buying program during the financial crisis. No specific date of the unwinding was provided by the Fed.
- **U.S. Q1 GDP revised up.** The U.S. economy slowed less than initially estimated in Q1. The Commerce Department reported its third estimate of Q1's GDP growth. It was revised and increased from the second estimate of 1.2% annualized growth to 1.4%. Economists were expecting the third estimate to remain at 1.2%. Upward revision of consumer spending and exports helped push up the growth pace.
- **U.S. creates fewer jobs than expected.** Job creation in U.S. slowed down in May. The Labor Department reported that 138,000 new positions were created in May, falling short of economists' expectation of 185,000 of new jobs. However, the unemployment rate dropped from 4.4% to 4.3% as fewer people were looking for work. Average hourly earnings grew 2.5% year-over-year in May, compared to the 2.7% pace reported in April.
- **U.S. CPI falls.** Consumer prices unexpectedly fell in May, a potential sign of softening domestic demand. The Labor Department reported that the consumer price index (CPI) dropped 0.1% in May, while economists expected a flat reading. On a year-over-year basis, CPI was up 1.9%, down slightly from the 2.2% reported in April, the smallest annual increase since last November.
- **U.S. PPI unchanged.** U.S. producer prices stayed flat in May as energy prices fell. The Labor Department reported that the producer price index (PPI) remained unchanged in May after a 0.5% increase in April, while economists were expecting a small increase of 0.1%. A 3% decline in energy prices offset increase in other areas. On a year-over-year basis, PPI was up 2.4%, slower than the 2.5% pace reported in April.
- **U.S. 'flash' composite PMI falls.** The 'flash' HIS Markit composite purchasing managers' index (PMI) declined to a 3-month low in June. The 'flash' PMI dropped to 53.0 from May's final reading of 53.6, while economists were expecting a small increase to 53.8. The manufacturing PMI moved down to 52.1 from May's final reading of 52.7, while the services sector PMI fell to 53.0 from May's 53.6. Overall, both figures disappointed economists' forecast.
- **U.S retail sales drops.** U.S. retail sales posted its worst decline in over a year. The Commerce Department reported that retail sales fell 0.3% in May, missing economists' estimate of a 0.1% increase. May's decline was the biggest percentage drop since January 2016. Core retail sales, which exclude autos, gasoline, building materials, and food services, were unchanged from April.
- **U.S. consumer sentiment drops.** Consumer sentiment fell to a seven-month low in June, according to the report by University of Michigan. The university's consumer sentiment index for June was reported to be 95.1, dropping from the previous month's final reading of 97.1. Economists were expecting the gauge to drop further to 94.5. The index was at its lowest level since the U.S. election last November.
- **U.S. consumer spending rises but inflation cools.** The Commerce Department reported that consumer spending rose 0.1% in May, matching economists' estimate. On the same report, it was reported that the core personal consumption expenditures (PCE) price index fell slightly to 1.4% year-over-year, falling short of economists' expected 1.5%. The core PCE price index, which excludes food and energy prices, was the Fed's preferred gauge of inflation.
- U.S. housing news:
  - **New home sales rise.** The Commerce Department reported that new home sales in U.S. rose 2.9% to a seasonally adjusted pace of 610,000 units. Economists were expecting an increase to a 600,000 unit pace. On a year-over-year basis, new home sales were up 8.9%.
  - **Existing home sales rise.** Existing home sales unexpectedly rose in the U.S. The National Association of Realtors reported that home resales increased 1.1% in May to a seasonally adjusted pace of 5.62M units. This increase surprised economists who expected sales to decline 0.5% in May. On a year-over-year basis, sales were up 2.7%.
  - **Housing starts continue to fall.** Housing starts in U.S. declined for the third straight month in May. The Commerce Department reported that the number of starts dropped 5.5% to a seasonally adjusted annual pace of 1.09M units, missing economists' expected pace of 1.22M units by a wide margin. It was the lowest level since September 2016. Building permits also fell 4.9% to an annual pace of 1.17M units, the lowest level since April 2016.
  - **Home prices rises.** Home prices in the U.S. continued to rise, according to the S&P CoreLogic Case-Shiller U.S. National Home Price Index. National home prices rose 5.5% year-over-year in April, a small step back from the 5.8% pace reported in March, while economists were expecting a rise of 5.9% in April. The 20-city index rose 5.7% in April, also slowing down from March's 5.9% gain. Seattle, Portland, Oregon, and Dallas were leading the pack, all reporting the highest year-over-year gains in April.

European Markets

- **British Conservative party loses majority.** The latest British general election resulted in a hung parliament. Theresa May's Conservative Party lost 12 seats and their majority in parliament, while the opposition Labour Party gained 31 seats. Neither side would have enough votes for control in parliament. The election result added more uncertainties to the Brexit negotiations scheduled to begin on June 19.
- **Euro-zone Q1 GDP revised up.** Eurostat reported its second estimate of the Q1 GDP growth of the 19-member region. Q1 GDP growth was upgraded from the preliminary reading of 0.5% to 0.6%; it was the fastest quarterly growth pace since 2015. On a year-over-year basis, Q1 GDP growth was revised to 1.9%, also higher than the initial estimate of 1.7%.
- **ECB stays its course.** As widely anticipated, the ECB didn't change its stimulus program in its June meeting. The ECB will hold the interest rate at its current level and will continue to buy bonds at a €60B monthly pace. Despite the non-action, ECB president Mario Draghi sounded more optimistic in his comment. Mr. Draghi said "the risks surrounding the euro area growth outlook are considered to be broadly balanced". It contrasted to his statement in April which said the risk to growth was "tilted to the downside".
- **Euro-zone inflation decelerates.** Inflation in the 19-member region continued to slide in June. Eurostat reported that the flash harmonized index of consumer prices (HICP) of the Euro-zone rose 1.3% year-over-year in June, decelerating from 1.4% in May and 1.9% in April. However, the figure was higher than economists' estimated pace of 1.2%. Core inflation, which excludes food and energy prices, rose to 1.2% in June, also higher than economists' estimated of 1%.
- **Robust labor market in Euro-zone.** Employment within the 19-member region hit record high in Q1 2017. Eurostat reported that 154.8M people were employed in the first quarter, a rise of 0.4% from the previous quarter. May's employment level broke the previous record set back in the first quarter of 2008.

Asian Markets

- **Japan GDP growth revised down.** Government of Japan revised down its estimate of Q1 GDP growth. On a quarter-over-quarter basis, Q1 GDP was reported to grow 0.3%, less than the preliminary estimate of 0.5%. In annualized terms, Q1 GDP growth was slashed down to 1% from the preliminary estimate of 2.2%.
- **Japan's CPI rises.** Japan's core consumer prices rose for the fifth consecutive month. The headline consumer price index (CPI) increased by 0.4% year-over-year in May, on par with economists' forecast. Core CPI, which excludes food prices, also advanced by 0.4%, making June the fifth straight month of gains. The gauge which excludes food and energy prices remained flat in May.
- **BOJ continues its course.** Bank of Japan (BOJ)'s Governor Haruhiko Kuroda confirmed that despite improvement in the economy, BOJ will maintain its easy monetary stimulus, as price level remained well below its target. "Our economy is on firmer footing, but we are still distant from our 2 percent inflation target," Kuroda said. The central bank will continue its annual target of buying ¥80T of government bonds, contradicting speculation before Kuroda's statement that BOJ is planning to slow down the pace of bond buying.
- **China's trade surplus widens.** Trade surplus widened in May, and both imports and exports rose more than expected. May's trade surplus increased from April's US$38.1B to US$40.81B. Economists were expecting the trade surplus widened to US$46.3B. Exports and imports rose 8.7% and 14.8% year-over-year respectively, both surpassing economists' expectation. The politically sensitive U.S.-China trade surplus ballooned to US$22.0B from April's US$21.3B.
- **China's manufacturing activity accelerates.** China's manufacturing activity was surprisingly on the positive side, according to the official manufacturing PMI. The official purchasing managers' index (PMI), which has a bias toward state-owned enterprises, was reported to be 51.7 in June, up from May's reading of 51.2, and beating economists' estimated reading of 51.0. On the other hand, services sector PMI also rose from May's 54.5 to 54.9.

Key Take-Aways

No fear. The much anticipated secret became a reality on June 14, as Chairwoman Janet Yellen of the Federal Reserve raised U.S. interest rate by 25 basis points, to a target range of 1.25%. This occurred despite inflation that remains below the Fed's target 2%, and amidst some signs of a cooling economy. The results of this increase will have an effect on adjustable rates and revolving debt held by consumer and businesses, and will likely curtail consumption and spending, which will ultimately cool the economy down from overheating. In Canada, the U.S. rate hike will likely have some implications on long-term rates, increasing the cost of borrowing by banks, who in turn will pass these added costs down to consumers. Canadian interest rates won't immediately follow the Fed's lead, but the days of cheap money is nearing the end as the Bank of Canada mulls its own hike sooner rather than later.

Got job? The latest Canadian jobs number of people that found work in May surged past early predictions. Most of the hirings added were attributable to a spike in full-time positions providing a stronger infrastructure to the labour market as employers appear more optimistic of the economy. The professional services sector was the big gainer for the month adding 26,000 jobs, while factories and manufacturing sectors continued to see gains in recovery with 25,300 hires. Of all the information reported by StatCan, two data points were of interest. The increase in youth employment was positive news for a demographic that has seen difficulties in getting traction and wage growth, which should raise domestic consumption and drive economic expansion. However, as with all good news, there's typically a downside, namely a heightened probability of the Bank of Canada hiking rates to cool things down.

This commentary is brought to you by

Credential®

Talk to your Credential Investment Professional