Credential

Market Insights | MONTHLY

Month in Review

For the month ended May 31st, 2018

Overall Highlights

- **TSX higher.** The country's main stock exchange continued on its journey towards its all-time high set in January as strong economic data increased the likelihood of an interest rate hike by the Bank of Canada. But the upside was capped as a NAFTA deadline came and went and the U.S. made true on its promise to slap tariffs on steel and aluminum imports against Canada under the justification of national security. The Composite closed May at 16,061, a 2.9% monthly gain.
- **Dollar falters.** The Canadian buck had a strong gain following the end of first quarter GDP data showing a different picture compared to the start of 2018. Unfortunately, it gave back those gains and then some following the U.S.'s promise to impose tariffs on incoming steel and aluminum imports from Canada, which had an exemption since March. This is on top of ongoing NAFTA negotiations that have stalled on vehicle content, process of dispute resolutions, and sunset clauses. The Loonie closed the month at US77.23 cents for one Canadian dollar, a monthly decrease of 0.9%.
- **Gold tarnishes.** Strength in the U.S. greenback, as the likelihood of a Fed rate hike in June rose, was enough to push the precious metal lower even as Italy installed a new populist government and trade spats flare up amongst global economic trading partners, with the U.S. at the centre of them all. An August contract for gold, a non-yielding asset, ended the month at US$1,304.70, down 0.9% from April's close.
- **Oil slips.** The commodity fell as a trifecta of factors resulted in a monthly loss. Increased U.S. oil inventories, growth in U.S. production, and uncertainty of OPEC's plans for output targets sent crude lower for the first time in four months. A July contract for a barrel of WTI crude ended trading at US$67.04, lower by 2.2% for the month.
- **GDP growth in March.** After a slow start to the year, the economy ended the quarter on a strong note as March GDP growth for the month was 0.3%. The pace was slightly slower than February but remained on par with forecasts as optimism of the economy improved.
- **Bank holds on rates.** As expected for their latest policy meeting, Governor Stephen Poloz and the Bank of Canada (BoC) held its key lending rate at 1.25%, increasing the probability that one will occur at their next meeting in July.
- **Unemployment rate steady.** The country's jobless rate was unchanged in April at 5.8% and posted a net loss of 1,100 jobs as more part-time positions were shed despite 28,800 full time hirings being added.
- **Inflation holds.** Higher costs to fill the gas tank and dine out lifted consumer prices higher in April, while digital and electronic equipment and natural gas placed downward pressure.
- **U.S. Q1 GDP growth revised down.** The U.S. economy grew less than initially thought in Q1.
- **Fed less worried about inflation.** The Fed released its May meeting minutes. It showed that FOMC officials were less worried about inflation rising too quickly and were willing to let inflation stay above the 2% target for the time being.
- **U.S. non-farm payrolls increase less than expected.** The U.S. economy pumped out less jobs than expected in April, according to the Labor Department.
- **Euro-zone GDP growth slows.** Q1 GDP growth slowed within the Euro-zone, according to Eurostat 'flash' estimate.
- **Euro-zone unemployment falls.** Unemployment rate within the 19-member zone fell to its lowest level since 2008 in April.
- **Japan's economy contracts in Q1.** Japan's eight straight quarters of GDP growth was snapped in Q1. Q1 2018 GDP was reported to contract by 0.6% on an annualized basis; economists were expecting a smaller decline of 0.2%.
- **China's CPI slows but PPI up.** Consumer price inflation cooled down in April while producer prices picked up, according to the National Bureau of Statistics.

Index/Commodity/Currency		
Close	**MonthChange**	**YTDChange**
S&P/TSX Composite		
16,061.50	453.6	-147.6
	2.9%	-0.9%
BMO Nesbitt Burns Small Cap		
917.55	20.9	-18.9
	2.3%	-2.0%
Dow Jones Industrial Average		
24,415.84	252.7	-303.4
	1.0%	-1.2%
S&P 500		
2,705.27	57.2	31.7
	2.2%	1.2%
NASDAQ Composite		
7,442.12	375.8	538.7
	5.3%	7.8%
MSCI-EAFE Index		
1,986.17	-57.5	-64.6
	-2.8%	-3.2%
WTI Crude Oil (per barrel, in $US)		
67.04	-1.5	6.9
	-2.2%	11.5%
Gold (per ounce, in US$)		
1,304.70	-11.4	-0.3
	-0.9%	0.0%
Canadian Dollar (¢ per US$)		
77.23	-0.7	-2.5
	-0.9%	-3.1%

Sources: Bloomberg, PC Bond

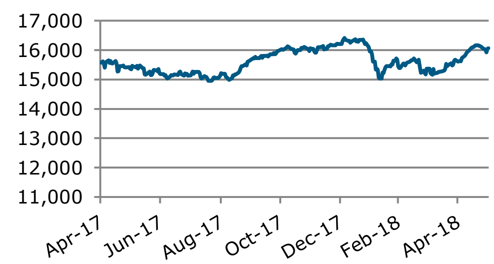
Canadian Markets

- **GDP growth in March.** After a slow start to the year, the economy ended the quarter on a strong note as March GDP growth for the month was 0.3%. The pace was slightly slower than February but remained on par with forecasts as optimism of the economy improved. On an annualized basis, the growth was 1.3% on a seasonally adjusted based, the third straight month of sub-2% gains as the three month period was the slowest quarter in two years. Despite this, the Bank of Canada reported they were pleased the economy was advancing as anticipated suggesting a July hike is still a possibility.
- **Bank holds on rates.** As expected for their latest policy meeting, Governor Stephen Poloz and the Bank of Canada (BoC) held its key lending rate at 1.25%, increasing the probability that one will occur at their next meeting in July. The current odds are at 80% as the central bank's tone appeared more hawkish. Furthermore, despite a soft housing market, as it adjusts to the new mortgage rules, the BoC noted the economy was in good shape on the backs of increased exports, rising wages, and broad global growth, even as trade concerns continue to loom.
- **Unemployment rate steady.** The country's jobless rate was unchanged in April at 5.8% and posted a net loss of 1,100 jobs as more part-time positions were shed despite 28,800 full time hirings being added. The unemployment rate continues to hold at its lowest level since 1976 for a third straight month as jobs were lost in the retail and construction sectors. On a year-over-year basis, employment rose by 278,000, or 1.5%, with the participation rate slipping a notch to 65.4%.
- **Inflation holds.** Higher costs to fill the gas tank and dine out lifted consumer prices higher in April, while digital and electronic equipment and natural gas placed downward pressure. Statistics Canada reported a 0.3% increase, slightly above forecasts, equaling the previous month's rise. On an annual basis, inflation fell a notch to 2.2%, off a four-year high, but still within the Bank of Canada's ideal range for price growth.
- **Producer prices increase.** Higher energy prices pushed input costs of product leaving factories up in April, Statistics Canada reported. This was the fourth straight monthly increase as the Producer Price Index (PPI) gained 0.5% on a 4.5% increase in energy and petroleum products. Of the 21 major groups tracked by the index, seven were higher and 11 were unchanged. The rise in the Canadian dollar had an impact on PPI making electronics and pulp and paper products cheaper.
- **Wholesale sales jump.** Factory trade reversed February's declines on contributions from the auto and parts sectors. In March, wholesales sales receipts tallied $62.8B, a monthly increase of 1.1% as four of the seven sectors followed by Statistics Canada as volumes also rose 0.8%. Food and beverage was one of the big decliners for the month, falling for a second month in a row. For the quarter, wholesales sales increased 0.4% in constant dollar terms compared to Q4, the eighth straight quarterly gain.
- **Manufacturing sales rise.** Factory sales helped brighten the outlook for the economy in March rising 1.4%, better than the 1.2% expected by economists. An increase in demand in the metals and aerospace industries more than offset weakness in auto sales as total sales for the month rose to $57.1B. Growth came in the form of higher prices for goods sold, but also due to an increase in output as volumes rose 0.6%.

S&P/TSX Composite Index
Sector Snapshot

Sector	Month Return	YTD Return	Weight (%)
Energy	2.45	-1.95	19.50
Telecoms	-0.57	-7.66	4.40
Industrials	6.72	6.46	10.30
Consumer Staples	1.53	-6.09	3.40
Utilities	-1.91	-10.36	3.50
Financials	1.27	-3.03	33.80
Consumer Discretionary	4.31	1.82	5.60
Health Care	11.80	-7.03	1.30
Materials	5.47	1.01	11.70
Information Technology	7.77	21.50	4.00
Real Estate	2.86	1.54	2.80

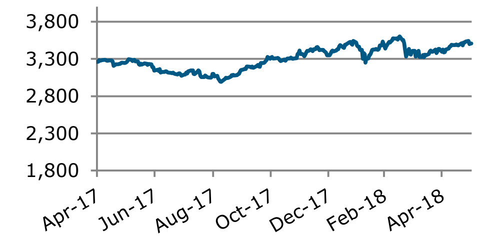
S&P/TSX Composite - 1Y Return



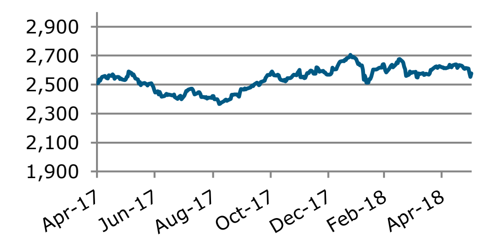
- **Manufacturing PMI slips.** Activity in the manufacturing sector slowed in April due in part to disruptions in the input to factories and capacity limitations. For the month, IHS Markit Canada's manufacturing PMI reading was 55.5, down from 55.7, but still signaled continued expansion in the sector. New business, increased export demand, and a rise in supply inflation helped prop the PMI reading from falling lower.
- **Retail sales higher.** Higher auto sales and parts helped lift retail sales in March to a three-month streak. Total receipts were $50.2B for the month, a 0.6% gain as vehicles cushion declines in the food and beverage sectors and at the pumps. In volume terms, gains were also seen as this measure rose 0.8% in March while for all of Q1, it's down 1%.
- Canada Housing News:
  - **Existing home sales lower.** For a fourth straight month, sales of existing homes fell in April with declines seen in the Fraser Valley, Calgary, and Ottawa. For the month, sales fell 2.9% as the GTA and Vancouver regions also fell. On an annualized basis, not seasonally adjusted, sales were down 13.9%, a seven-year low, which was led by B.C.'s Lower Mainland and Ontario's Greater Golden Horseshoe regions.
  - **Starts lower.** The number of new homes breaking ground slowed in April as higher interest rates and changes to regulations begin to have a slow impact on the housing market. CMHC reported home starts were at 214,379 units on a seasonally-adjusted basis, down when compared to March's 225,459 units with single detached homes falling 9.3%, while multi-unit dwellings declined by 2.7%.
  - **Building permits rise.** Increased demand for apartments and condos helped drive up the total value of building permits in Canada in March. The 3.1% increase for the month topped 2% estimates as residential permit demand rose 2.3%, with multi-unit homes rising 12.2%, and commercial/industrial structures higher by 4.5%. Single family homes were the lone decliner falling 7.9% as interest in the Toronto region fell for a second straight month.
  - **New home prices flat.** Higher prices in the Ottawa region balanced out declines in the Toronto market as prices for a new home were flat in March, on par with expectations. Stricter mortgage rules that came into effect at the beginning of the year helped temper the housing market as 13 markets saw higher prices, while 14 were unchanged or lower. Additional pressure could be placed onto borrowers as the Bank of Canada considers raising rates in the summer time to help cool the housing sector.

U.S. Markets

S&P 500 - 1Y Return (CAD)



MSCI EAFE – 1Y Return (CAD)



- **Nasdaq shines**. The U.S. stock market had a solid month in May despite the ongoing geopolitical uncertainties, with Nasdaq being the best performer for the month. The broad-based S&P 500 index rose 2.2% for the month, ending at 2,705. The Dow Jones Industrial Average advanced 1%, closing the month at 24,416. The tech-heavy Nasdaq shone in May, surging 5.3% for the month, closing at 7,442.
- **U.S. Q1 GDP growth revised down.** The U.S. economy grew less than initially thought in Q1. The Commerce Department revised the Q1 GDP growth rate to 2.2% in its second estimate, instead of the previously reported 2.3% pace. The revision was in line with economists' forecast. The U.S. economy was reported to grow at an annualized rate of 2.9% in Q4 last year.
- **Fed less worried about inflation.** The Fed released its May meeting minutes. It showed that FOMC officials were less worried about inflation rising too quickly and were willing to let inflation stay above the 2% target for the time being. The minutes noted that "a temporary period of inflation modestly above 2 percent would be consistent with the committee's symmetric inflation objective and could be helpful in anchoring longer-run inflation expectations at a level consistent with that objective."
- **U.S. non-farm payrolls increase less than expected.** The U.S. economy pumped out less jobs than expected in April, according to the Labor Department. Non-farm payrolls increased by 164,000 in April, less than economists expected increase of 191,000. Despite the miss, the unemployment rate dropped to 3.9% in April, a level not seen since December 2000. Average hourly earnings increased by 2.6% year-over-year, less than economists' expectation of a 2.7% increase.
- **U.S. CPI rebounds.** Consumer prices rebounded after a small drop in March. The Labor Department reported that its consumer price index (CPI) rose 0.2% in April after a 0.1% decline in March; economists were expecting a 0.3% increase. On a year-over-year basis, CPI rose 2.5% in April, up from the 2.4% pace in March. Core CPI, which excludes energy and food prices, inched up 0.1% on the month and 2.1% on the year, both barely missing economists' forecast.
- **U.S. PPI rises.** Producer prices rose less than expected in April. The Labor Department reported that the producer price index (PPI) edged up 0.1% in April, missing economists' estimate of a 0.2% increase. On a year-over-year basis, PPI rose 2.6%, down from the 3% pace reported in March, also missing economists' expected 2.8% rise.
- **U.S. goods trade deficit shrinks.** The goods trade deficit narrowed for the second straight month. The Census Bureau reported that April's deficit stood at US$68.2B, down from March's figure of US$68.6B. Economists were expecting the deficit to widen to US$71B. Both exports and imports fell 0.5%.
- **U.S. composite PMI rises.** Business activity in U.S. continued to expand in May. May's 'flash' IHS Markit composite purchasing managers' index (PMI) increased from April's final reading of 54.8 to 55.7, beating economists expected reading of 54.8. The manufacturing PMI advanced to 56.6 in May, up slightly from April's final reading of 56.5. The services PMI surged to 55.7, a three-month high, also exceeding forecasts of 54.6.
- **U.S. industrial production rises.** The Federal Reserve reported that industrial production rose 0.7% in April, beating economists' expectations of a 0.6% increase. The utilities index gained 1.9% while manufacturing output and mining output also rose 0.5% and 1.1% respectively. On a year-over-year basis, industrial output was up 3.5% in April.
- **U.S. wholesale inventories rise.** The Commerce Department reported that wholesale inventories rose by 0.3% in March, down from the 0.9% increase reported in February, missing economists' expected increase of 0.5%.
- **U.S. retail sales rise.** The Commerce Department reported that retail sales increased by 0.3% in April, down from the 0.8% increase reported for March, but on par with economists' forecast. On the year, retail sales advanced by 4.7% in April.
- **U.S. consumer sentiment falls.** Consumer sentiment dropped in May, according to a survey by the University of Michigan. The university's consumer sentiment index fell from March's reading of 98.8 to 98.0 in April; economists were expecting the index to stay flat.
- **Housing News:**
    - **U.S. home prices jump.** Home prices climbed in March as inventory remained limited. The S&P CoreLogic Case-Shiller 20-city home price index jumped 6.8% in March when compared to last year; economists were expecting a 6.4% increase. Seattle, Las Vegas, and San Francisco were leading the pack in percentage increases. Limited inventory remained the major push on prices as the number of sales listing dropped 6.3% year-over-year.
    - **U.S. pending home sales drops.** The National Association of Realtors reported that pending home sales fell 1.3% in April compared to March. Economists were expecting pending home sales to rise 0.4% instead. On a year-over-year basis, pending home sales were down 2.1%.
    - **U.S. housing starts drop.** The Commerce Department reported that housing starts fell 3.7% to a seasonally adjusted annual pace of 1.29 million units in April, missing economists' estimate of an annual pace of 1.31M units. Building permits also declined, down 1.8% from March to an annual pace of 1.35M units.
    - **U.S. new home sales fall.** The Commerce Department reported that new home sales fell 1.5% to a seasonally adjusted annual pace of 662,000 units in April, down from March's pace of 672,000 units. Economists were expecting an annual pace of 677,000 units.
    - **U.S existing home sales drop**. Existing home sales declined more than expected in April according to the National Association of Realtors. Sales fell 2.5% to a seasonally adjusted annual pace of 5.46M units, missing economists expected pace of 5.60M units. On a year-over-year basis, existing home sales were down 1.4%.

European Markets

- **Euro-zone GDP growth slows.** Q1 GDP growth slowed within the Euro-zone, according to Eurostat 'flash' estimate. Q1 GDP grew 0.4% quarter-over-quarter within the bloc, in line with economists' estimate, but a slowdown from the previous quarter's pace of 0.7%. It was the first deceleration in quarterly growth since Q2 2016.
- **Euro-zone inflation surges.** Inflation within the Euro-zone had a big jump in May. The 'flash' harmonized index of consumer prices (HICP) rose 1.9% year-over-year in May; that was up from the 1.2% pace reported in April. Economists were expecting an increase of 1.6%. A recent surge in oil prices was the main contributor to the jump. Excluding energy and unprocessed food prices, inflation came in at 1.3% year-over-year.
- **Euro-zone industrial production rises.** Industrial production within the 19-member bloc rebounded in March after February's decline. Output was up 0.5% in March, reversing from a 0.9% decline reported for February. However, it was smaller than economists' expectations of a 0.7% increase. On a year-over-year basis, industrial production was up 3% in March.
- **Euro-zone unemployment falls.** Unemployment rate within the 19-member zone fell to its lowest level since 2008 in April. Eurostat reported that the unemployment rate within the Euro-zone dropped to 8.5% in April from 8.6% in March. April's figure was in line with economists' forecast. Czech Republic had the lowest unemployment rate within the zone, while Greece and Spain had the highest.
- **Euro-zone composite PMI drops.** Business activity within the 19-country region slowed in May. The 'flash' composite purchasing managers' index (PMI) fell to 54.1 from April's final reading of 55.1, much lower than economists' expectations of a small dip to 55.0. It was the lowest reading in 18 months. The manufacturing PMI fell from 56.0 to 55.5, while the services PMI was down from 55.0 to 53.9.
- **Euro-zone economic sentiment falls.** The EU commission reported that the economic sentiment within the 19-member region fell in May. The economic sentiment index dropped from April's reading of 112.7 to 112.5; economists were expecting it to drop further to 112.1. The index had been dropping every month since the start of the year.

Asian Markets

- **Japan's economy contracts in Q1.** Japan's eight straight quarters of GDP growth was snapped in Q1. Q1 2018 GDP was reported to contract by 0.6% on an annualized basis; economists were expecting a smaller decline of 0.2%. On a year-over-year basis, Q1 GDP was up 0.9%. Declines in investment, consumption, and a slowdown in exports contributed to the weakness.
- **Japan CPI slows.** Japan's consumer price inflation slowed in April. The consumer price index (CPI) increased by 0.6% year-over-year in April, down from the 1.1% pace reported in March. The core CPI, which excludes food and energy prices, rose 0.4% on the year, also down from March's pace of a 0.5% increase.
- **Japan manufacturing PMI declines.** Manufacturing activity in Japan cooled to the slowest pace in seven months in May. The Markit/Nikkei Japan Manufacturing Purchasing Managers Index (PMI) fell from April's reading of 53.8 to 52.8 in May. Despite at its seven-month low, the gauge had been above the 50-mark for 21 consecutive months.
- **China's CPI slows but PPI up.** Consumer price inflation cooled down in April while producer prices picked up, according to the National Bureau of Statistics. The consumer prices index (CPI) rose 1.8% year-over-year in April, down from the 2.1% pace reported in March; economists were expecting a 1.9% increase. The producer price index (PPI) edged up 3.4% year-over-year, accelerating from 3.1% in March; economists were expecting a pick up to 3.5%.
- **Economic data out of China.** China reported weaker than expected retail sales in April along with a drop in fixed asset investment. Retail sales were reported to rise 9.4% year-over-year in April, down from March's pace of 10.1%, also missing economists' expected increase of 10.1%. Fixed asset investment rose 7% in January-April from a year earlier, also missing forecasts of a 7.4% increase. One bright spot for April was the increase in industrial production, rising 7% on the year, up from previous month's pace of 6% and beating economists' expectations of 6.5%.
- **China's official PMI rises.** The National Bureau of Statistics reported that the official manufacturing purchasing managers' index (PMI) rose to 51.9 in May, up from April's reading of 51.4. Economists were expecting the gauge to dip to 51.3 in May. On the other hand, the services PMI rose slightly in May from 54.8 to 54.9. On a separate report, the Caixin manufacturing PMI, which has a focus on small- and mid-sized enterprises, remained flat at 51.1 in May.

Key Take-Aways

The Right Time. After a third increase within a year in January, the Bank of Canada (BoC) has taken to the sidelines to assess its effects on the economy. A deceleration at the start of the year brought forth questions of BoC Governor Stephen Poloz's timing to the rate hike, which is designed to slow an economy down by making money more expensive to borrow. Instead, the economy has shown signs of recovering as recent factory and consumer sales data were encouraging and inflation, despite a slight pull-back, was in the BoC's preferred range. More so, the Bank's own three measures of inflation, CPI-Trim, CPI-Median, and CPI-Common, averaged above the 2% target, the point where the BoC believes the economy to be close to capacity, for the first time in six years. With things looking positive, when is the right time for the BoC to act? The Bank's upcoming May policy meeting may be too soon as slowing housing market and uncertainty around NAFTA trade post risks to economic growth. July is looking the most likely time instead.

Inflation from wages. The national jobs numbers were released by Statistics Canada and was weaker than forecasted. With predictions of a gain in April of 17,400 positions, actual data reported a decline of 1,100 jobs mostly of a part-time nature. The loss was not considered significant as the unemployment rate continued to hold steady at a 40-year low of 5.8% for a third consecutive month. The Bank of Canada (BoC) will unlikely raise interest rates at their May 30th policy meeting, but it does increase the probability of them acting at their July meeting. Not considered one of the main factors in a rate hike, the BoC keeps close tabs on the rate of increase in wages, which rose to 3.6% on an annual basis during the month from 3.3% in March. Wage growth, or wage inflation, is important because of its correlation to the broader Consumer Price Index (CPI) and what the central bank wants to control as the labour market tightens. The U.S. Federal Reserve is experiencing a similar situation with wages rising 4.45% annualized in March as its jobless rate fell to a 17-year low of 3.9%. Ironically, central banks consider a healthy economy when consumers are spending, but preferably at a moderate pace.

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