Credential

Market Insights | MONTHLY

Month in Review

For the month ended May 31st, 2017

Overall Highlights

- **TSX falls.** The S&P/TSX Composite was the weakest performer relative to other developed market indices, despite positive economic news at home. The heavyweight sectors of Energy, Materials, and Financials dragged the Composite lower as commodities and resource valuations fell, and troubles with one of Canada's alternative lenders sent shockwaves throughout that sector. The Index closed at 15,350, a loss of 1.5%.
- **Dollar gains.** The Loonie ended higher in May following upbeat data on the improving health of Canada's economy, and a pullback of the U.S. dollar as its economic numbers were weaker than expected. Our dollar's future gains look uncertain, as the process formally began with the U.S. initiating the renegotiation of the NAFTA treaty, which has the potential to benefit or disadvantage Canada. The Loonie closed at US74.07 cents per Canadian dollar, a 1.2% rise.
- **Gold slips.** Geopolitical tension provided the lift for the yellow metal touching a one-month high in May. However, increasing prospects of a rate hike in June pressured gold lower, eventually ending in the red. Gold fell 0.1% for the month to close at US$1,268.10 per ounce.
- **Oil lower.** The reduction of global supply glut appears to be in a holding pattern, as efforts by OPEC to stem output by its members were offset by increased production in the U.S., Canada, and non-OPEC members. Steps taken by OPEC were considered inadequate by Investors, sending the commodity lower as the number of oil rigs brought online in the U.S. continues to rise. A barrel of West Texas Intermediate closed at US$48.31 per barrel, a monthly decline of 1.8%
- **GDP higher.** Economic growth increased in March, adding for a strong first quarter pace.
- **BoC holds.** At their latest monetary meeting, the central bank held the benchmark overnight rate at 0.5%, maintaining its accommodative policy for its 15th straight hold.
- **Inflation up.** The cost of a notional basket of goods rose in April on higher energy cost that offset lower food prices.
- **Unemployment falls.** The national jobless rate fell in April but was still well below expectations.

- **U.S. Q1 GDP revised higher.** The Commerce Department issued its second estimate of the Q1 economic growth.
- **U.S. CPI rises.** Consumer prices in U.S. rebounded in April. The Labor Department reported that the consumer price index (CPI) moved up 0.2% after dipping 0.3% in March.
- **U.S. consumer sentiment up.** The University of Michigan reported the final reading of consumer sentiment for May.
- **Euro-zone unemployment rate falls.** Labor market within the Euro-zone continued to strengthen in April.
- **French election result.** As widely expected, centrist candidate Emmanuel Macron was elected as the country's youngest president in the country's history.
- **Japan's GDP continues to grow.** Japan's economy expanded for the fifth month in a row, the longest stretch in a decade.
- **Moody downgrades China.** Moody's Investors Service downgraded China's credit ratings for the first time in 30 years.

Index/Commodity/Currency		
Close	**MonthChange**	**YTDChange**
S&P/TSX Composite		
15,349.91	-236.2	62.3
	-1.5%	0.4%
BMO Nesbitt Burns Small Cap		
869.53	-18.4	-10.7
	-2.1%	-1.2%
Dow Jones Industrial Average		
21,008.65	68.1	1,246.1
	0.3%	6.3%
S&P 500		
2,411.80	27.6	173.0
	1.2%	7.7%
NASDAQ Composite		
6,198.52	150.9	815.4
	2.5%	15.1%
MSCI-EAFE Index		
1,890.06	56.4	206.1
	3.1%	12.2%
WTI Crude Oil (per barrel, in $US)		
48.31	-0.9	-5.5
	-1.77%	-10.3%
Gold (per ounce, in US$)		
1,268.10	-1.4	117.2
	-0.1%	10.2%
Canadian Dollar (¢ per US$)		
74.07	0.9	-0.4
	1.2%	-0.5%

Sources: Bloomberg, PC Bond

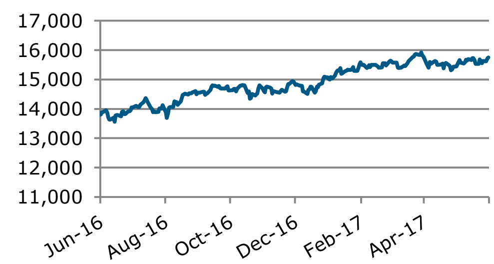
Canadian Markets

- **GDP higher.** Economic growth increased in March, adding for a strong first quarter pace. For the month, GDP grew at 0.5%, more than the 0.1% forecasted, while the annualized rate for Q1 was 3.7%, slightly below the Bank of Canada's estimates of 3.8%. Exports was the down factor falling 1.3%, but consumer spending picked up the slack and more, rising 4.3% with both numbers on an annual basis.
- **BoC holds.** At their latest monetary meeting, the central bank held the benchmark overnight rate at 0.5%, maintaining its accommodative policy for its 15th straight hold. However, increasing concerns of rising household debt and a soaring housing market have stoked the fires of a possible rate hike to cool things down.
- **Inflation up.** The cost of a notional basket of goods rose in April on higher energy cost that offset lower food prices. For the month, gasoline at the pumps rose 9.5% as refineries transition for the summer, while food prices declined for a seventh consecutive month, this time by 1.1%. There was little change in the annual inflation rate, which stood at 1.6% and caused little concern that the economy was overheating. Core inflation drifted lower to 1.1% annually, with the Bank of Canada heading into a rate policy meeting in the coming week.
- **Unemployment falls.** The national jobless rate fell in April but was still well below expectations. For the month, the unemployment rate dropped to 6.5% from 6.7%, the lowest rate since the Financial Crisis, as fewer young people looked for work. However, only 3,200 jobs were added, and mainly of a part-time nature, which offset declines in full-time hires.
- **Wholesale sales higher.** Higher lumber exports sent Canada's wholesale sales receipts over the $60B monthly level for the first time ever. Increased demand in building materials and supplies led the four subsectors that saw gains for the month, as wholesale sales rose 0.9% in March and 3.6% higher from Q4 2016. Autos and heavy industries led all decliners for the same period.
- **Manufacturing sales rise.** Increased demand in the auto and food sectors saw monthly manufacturing sales rise by 1%, below the 1.3% economists forecasted. Of the 21 industries tracked, 16 were higher as the food industry rose by 2.6%, followed transportation by 2.1% for total receipts of $53.9B in March. On volume terms, factory sales rose slightly by 0.2% during the month.
- **Manufacturing PMI higher.** Canada's factories were more active in April as Markit's Manufacturing PMI climbed to 55.9 from 55.6. This was the highest level seen in six years as the increase in output volumes supported a rise in new work and higher employment. Improving business conditions helped push the PMI higher as the economy continued to rebound from 2014's crude price shock.
- **Retail sales higher.** Consumer spending rose more than expected in March spurred by increased sales in vehicles and in electronic goods. For the month, Statistics Canada reported a 0.7% gain, exceeding analyst estimates of 0.4%, as the auto and parts sector rose 3.2%. Excluding this sector, sales would have fallen 0.2% for the month.
- Canada Housing News:
  - **Existing home sales lower.** It was a sellers' market in April as fewer existing homes changed hands while the number of listings increased nationally by 10%. For the month, sales were lower by 1.7% where most of the declines were seen in Ontario and Quebec. Expectations are for increased softness in the real estate market, albeit temporary, once government policy and tax changes come into effect.
  - **Housing starts lower.** Ground-breakings in the housing market were lower in April, but finished above economist expectations. For the month, housing starts were 214,098 units, considerably lower than the revised 252,305 in March, yet still hovered near a five year high. Most of the activity was in multi-units, which fell 16.7% from the month previous, while single-detached homes fell 12.1% for the same period.
  - **Building permits fall.** The value of building permits issued in Canada fell in March for a second straight month, with fewer apartment intentions in Ontario and B.C. Forecasts predicted a 5.5% gain during the month; however, Statistics Canada reported an unexpected 5.8% decline while revising February's numbers from -2.5% to -2.8%. Residential permits fell 8.4% while commercial & industrial permits slipped by 0.5%.
  - **Existing housing prices rise.** Canadian home prices rose again in April, lifted higher by climbing prices in Toronto and neighbouring Hamilton. Reported by Teranet-National Bank, eight of the 11 metro markets surveyed posted gains, with the national average rising 1.2% month-over-month. On an annualized basis, prices are higher by 13.4%, the 15th straight month, with the average home price at $597,496.
  - **New home prices up.** The price of a new home continues to rise as the housing market moves into uncertain territory. In the month of March, prices rose 0.2%, on par with analyst estimates. Toronto matched that mark, while Vancouver increased 0.5%. On an annual basis, prices have risen 3.3%, largely due to the strength in Toronto's market, which is driven partly by speculation and short-term purchasers.

S&P/TSX Composite Index
Sector Snapshot

Sector	Month Return	YTD Return	Weight (%)
Energy	-4.62	-10.76	20.70
Telecoms	-0.37	9.29	5.10
Industrials	3.16	10.85	9.60
Consumer Staples	-0.52	7.11	4.00
Utilities	1.49	7.62	3.30
Financials	-2.12	-1.43	33.50
Consumer Discretionary	0.84	11.50	5.40
Health Care	7.52	-10.68	0.60
Materials	-2.30	3.00	11.90
Information Technology	3.08	14.08	3.10
Real Estate	0.31	4.57	3.00

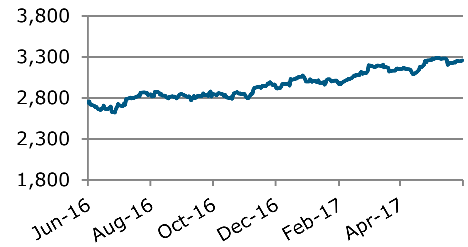
S&P/TSX Composite - 1Y Return



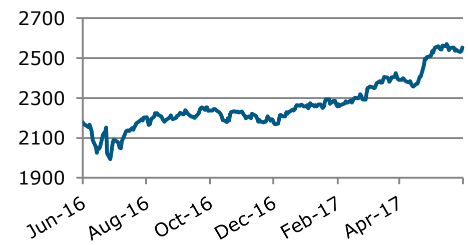
U.S. Markets

- **Nasdaq shines in May.** U.S. stock market continued to climb in May, with Nasdaq being the best performer among the three major indices. The broad-based S&P 500 index moved up 1.2% for the month, ending the month at 2,412. The Dow Jones Industrial Average rose 0.3%, closing the month at 21,009. Nasdaq shined in May, climbing up 2.5%, and wrapping up the month at 6,199. Nasdaq was also the frontrunner YTD, up more than 15% since its end of 2016 close of 4,948.
- **U.S. Q1 GDP revised higher.** The Commerce Department issued its second estimate of the Q1 economic growth. Q1 GDP was revised, and has increased to an annualized 1.2% from the first estimate of 0.7%. Economists were expecting an upward revision to 0.9%. Q1 2017's GDP growth was the weakest since Q1 2016.
- **Fed may tighten monetary policy soon.** The Fed released the minutes of its May meeting, in which it is stated that most officials believed "it would soon be appropriate" to tighten monetary policy if the economic condition is in line with their expectation, signaling a potential rate hike in its June meeting. Policy makers also supported a plan to unwind its US$4.5T portfolio later this year, which accumulated during the era of quantitative easing.
- **U.S. CPI rises.** Consumer prices in U.S. rebounded in April. The Labor Department reported that the consumer price index (CPI) moved up 0.2% after dipping 0.3% in March. The rise was on par with Economists' estimate. Core CPI, which excludes food and energy prices, rose 0.1%, less than economists' expectation of a 0.2% increase. On a year-over-year basis, CPI and core CPI rose 2.2% and 1.9% respectively.
- **U.S. economy pumps out more jobs than expected.** After a disappointing month in March, job creation rebounded in April. The U.S. economy pumped out 211,000 jobs in April, compared to 98,000 created in March, beating economists' expectation of 185,000 by a large margin. The unemployment rate fell to 4.4%, the lowest level since May 2007.
- **U.S. 'flash' composite PMI rises.** Businesses in U.S. gained some momentum in May, according to the 'flash' composite PMI. IHS Markit reported that the 'flash' composite purchasing managers' index (PMI) climbed to 53.9 from April's reading of 53.2, surpassing expectation of 53.2. The services sector gave the composite figure a lift, moving up from April's 53.1 to 54.0, a 4-month high. May's 'flash' manufacturing PMI dipped slightly from April's 52.8 to 52.5.

S&P 500 - 1Y Return (CAD)



MSCI EAFE – 1Y Return (CAD)



- **U.S. industrial production rises.** Manufacturing in U.S. picked up steam in April. Industrial production expanded 1% in April, handily beating economists' forecast of a 0.4% rise. A 5% jump in the production of autos and parts was the main contributor to the solid increase.
- **U.S. PPI rises.** Producer prices rebounded in April. The Labor Department reported that the producer price index (PPI) increased by 0.5% in April, higher than economists' expectation of a 0.2% rise. On a year-over-year basis, PPI rose 2.5%, also surpassing economists' forecast of 2.2%.
- **U.S. factory orders slow.** The Commerce Department reported that factory orders increased by 0.2% in March, a significant decline from February's pace of 1.2%. Economists were expecting a gain of 0.4%. Year-over-year, factory goods orders were up 5.2% in March.
- **U.S. wholesale inventories rises.** Wholesale inventories increased in March despite flat sales. The Commerce Department reported that wholesale inventories rose 0.2% in March, matching economists' prediction. Sales at wholesalers were flat in March after advancing 0.7% in February. At March's pace, it would take wholesalers 1.28 months to clear the inventories.
- **U.S. consumer sentiment up.** The University of Michigan reported the final reading of consumer sentiment for May. The sentiment index dropped from the preliminary reading of 97.7 released early May to 97.1, although it was up slightly from April's final reading of 97.0. Economists were expecting a final reading of 97.5 in May.
- **U.S. retail sales grow.** Retail sales improved in April but were less than expected. The Commerce Department reported that retail sales increased by 0.4% in April, after ticking up 0.1% in March. Economists were expecting a rise of 0.6%.
- US Housing:
  - **U.S. new home sales drop.** New home sales took a tumble in April, after reaching near a 9-1/2 year high in the previous month. The Commerce Department reported that new home sales fell 11.4% to a seasonally adjusted annual pace of 569,000 units in April, while economists were expecting a much smaller drop of 1.5%. March's sales pace was at its highest level since October 2007.
  - **U.S. pending home sales decline.** Pending home sales were down for the second straight month in April. The National Association of Realtors reported that pending home sales fell 1.3% in April, widely missing expectation of a 0.5% rise. Limited new listings in the market were one of the major contributors to the decline.
  - **U.S. housing starts drop.** Housing starts dropped to its lowest level in five months. The Commerce Department reported that the number of housing starts in April fell 2.6% to a seasonally adjusted annual pace of 1.17M units, compared to 1.20M units reported in March. Building permits lowered to 1.2M units as economists were expecting an annual pace of 1.26M units. Multi-family housing starts had declined for four straight months.

European Markets

- **Euro-zone 'flash' GDP grows.** Initial estimate by Eurostat indicated that the Euro-zone economy grew at the same pace as the previous quarter. The 'flash' GDP growth for Q1 2017 was reported to be at 0.5%, matching last quarter's and economists' estimate. On a year-over-year basis, GDP grew at 1.7%, also matching forecast.
- **Euro-zone inflation falls.** Inflation within the 19-member region dropped more than expected in May. The 'flash' harmonized index of consumer prices (HICP) was reported to rise 1.4% year-over-year in May, down from 1.9% reported in April. Economists were expecting the index to rise 1.5%.
- **Euro-zone unemployment rate falls.** Labor market within the Euro-zone continued to strengthen in April. The latest unemployment rate was reported to be 9.3%, down from April's 9.4%, and better than the expected 9.5%. April's unemployment rate was the lowest reading since 2008/09. Despite a robust headline number, employment gap between countries remained huge. Germany enjoyed the lowest unemployment rate at 3.9% within the zone, while Greece and Spain still posted unemployment rates of 23.2% and 17.8% respectively.
- **French election result.** As widely expected, centrist candidate Emmanuel Macron was elected as the country's youngest president in the country's history. Macron defeated extremist candidate Marine Le Pen by a wide margin, winning 66% of the total votes. Macron's victory is expected to alleviate concerns around the unity of the Euro-zone for the time being, as the French election was seen as one of the major barometers of the populist movement in Europe.
- **Euro-zone 'flash' composite PMI remains at high level.** Businesses maintained momentum within the 19-member region in May, according to the 'flash' PMI. IHS Markit reported that the 'flash' composite purchasing managers' index (PMI) in May matched April's reading of 56.8, the highest reading since April 2011. Economists were expecting a slight dip to 56.6. 'Flash' manufacturing PMI rose from April's reading of 56.7 to 57.0, exceeding expectations of 56.5. Services PMI dropped slightly from 56.4 to 56.2.
- **Euro-zone industrial production drops.** Industrial production within the 19-member bloc unexpectedly dipped in March. Eurostat reported that industrial output fell 0.1% for the month, missing economists' forecast of a 0.3% increase. A 3.2% decline in energy production in March was the main contributor to the fall. On a year-over-year basis, industrial production was up 1.9% in March.

Asian Markets

- **Moody downgrades China.** Moody's Investors Service downgraded China's credit ratings for the first time in 30 years. The downgrade moved China's debt rating from Aa3 to A1. The rating agency stated that "The downgrade reflects Moody's expectation that China's financial strength will erode somewhat over the coming years, with economy-wide debt continuing to rise as potential growth slows."
- **China's manufacturing PMI declines.** Manufacturing activity in China showed some regression in April. The Caixin/Markit manufacturing purchasing managers' index (PMI) for April fell from March's reading of 51.2 to 50.3, missing economists' forecast of 51.0. The official manufacturing PMI, which skews toward state-owned enterprises, also fell from March's reading of 55.1 to 54.0.
- **China's services sector slows.** Growth in China's services sector cooled down in April. The Caixin/Markit services purchasing managers' index (PMI) declined from March's 52.2 to 51.5 in April, the fourth consecutive drop in a row. The gauge was at its lowest level since May 2016.
- **Japan's GDP continues to grow.** Japan's economy expanded for the fifth month in a row, the longest stretch in a decade. Q1 2017 GDP grew 0.5% on a quarter-over-quarter basis, beating economists' estimate of a 0.4% growth. On the year, GDP was reported to grow at an annualized pace of 2.2% compared to the 1.4% pace in the previous quarter; economists were expecting a 1.7% growth.
- **Japan's CPI rises.** Japan's headline consumer price index (CPI) rose 0.4% year-over-year in April, primarily driven by a rebound in energy prices. CPI excluding fresh food prices rose 0.3% in April, surpassing the 0.2% pace reported in March. Stripping away food and energy prices, CPI was flat in April.
- **Japan 'flash' manufacturing PMI falls.** Manufacturing activity in Japan slowed down in May, according to the Nikkei 'flash' manufacturing PMI. The 'flash' manufacturing purchasing managers' index (PMI) fell to 52.0 in May from April's final reading of 52.7, the lowest in six months. Despite the slowdown, the gauge was above the 50-mark for the ninth consecutive month.
- **Japan's PPI rises.** Japan's producer prices increased for the fourth straight month in April. The Bank of Japan (BOJ) reported that the producer price index (PPI) advanced 2.1% year-over-year in April, the fastest pace since November 2014. Economists were expecting a rise of 1.8%. On a month-over-month basis, PPI increased by 0.2%, also beating economists' estimate of a 0.1% contraction.

Key Take-Aways

This time it's different. Under the stewardship of its governors, Mark Carney (former governor) and Stephen Poloz, the Bank of Canada navigated the rough seas of the Financial Crisis of 2007-08, Great Recession, and other global events, remaining unscathed at the envy of other central banks globally. Only after the plunge in oil prices did the central bank see a threat to the economy, and exercise two interest rate cuts to stimulate growth. Recently, the BoC held rates again at their latest policy meeting; however, their overall tone was slightly hawkish, suggesting the possibly of a rate hike. Muted inflation, surprise economic growth, record household debt, and a skyrocketing real estate market are all factors that would cause the BoC and Governor Poloz to place a rate increase or two on the table, as the current environment is not what it was 10 years ago.

In a holding pattern. Tepid U.S. economic growth in the first quarter helped the Federal Reserve to hold off on any interest rate hike in May. Stating the factors used to determine rate changes "remained solid", they kept the possibility of two more hikes in 2017 open, with one coming as early as their next meeting in June. Case in point: the surprising U.S. jobs growth that sent the unemployment rate falling to a 10 year low and April payrolls surging past forecasts. The story in Canada is similar. A slowdown in Q1 compared to the previous two quarters, coupled with disappointing jobs data prompted the Bank of Canada to also stand down on any interest rate action. Adding another level of complexity is the recent growth in the housing market, which will likely have some impact on any decision to hike rates.