Credential

Market Insights | MONTHLY

Volatility continues.

A bout of déjà vu hit investors as the markets experienced another sell-off brought on by not one, not two, but three catalytic events.

First, the social media sector was placed under the microscope as news of a data breach at Facebook had regulators and authorities on both sides of the Atlantic investigating how information on 50M users was obtained and potentially used by Cambridge Analytica in the US & Brexit campaigns. This will likely lead to future debates and potential regulatory scrutiny on who owns the data, how it's collected, and how it's allowed to be used and for what purpose. Facebook's stock was sent reeling lower and took down other companies in the tech sector who may or may not similarly gather user data for generating revenue.

Next was Fed day where Jerome Powell, at his first FOMC meeting as Chairman, lifted the benchmark overnight rate by 25 bps to between 1.50-1.75%, as expected. The hike itself appeared to have minimal effect with investors as the expectations in 2018 were for two more rate hikes. An increase in estimates from two to three in 2019 may have had some negative impact on the markets.

Lastly and most importantly, the latest move from President Trump to rein in the U.S. trade deficit sent global indices into a tailspin. Once the pen was lifted on the signed memo to impose up to US$60B on Chinese imports and limiting China's investment in U.S. companies, the first volley between the two largest economies was fired. Fears of global trade wars saw equity markets plummeting close to, or into, correction territory as investors sought a risk-off approach and headed towards the bond market for security. As expected, China returned fire with tariffs of its own, perhaps the first of many to come. When Trump was first elected in November 2016, starting a global trade war was a significant fear, but it is only recently that his actions are reflecting his campaign rhetoric on the topic. Hopefully cooler heads will prevail and the U.S. will relax their protectionist positioning; however, until such time, market volatility is likely to continue.

These events resulted in the Dow Jones Industrial Average Index falling 724 points, or -2.9% on March 22 and effectively erased all of the 2018 gains. The broad-based S&P 500 was down 2.6% for the month, while the Dow Jones Industrial Average dropping 3.5%. The tech-heavy Nasdaq lost 2.9%.

Month in Review

For the month ended March 31st, 2018

Overall Highlights

- **TSX drops.** The S&P/TSX Composite was down 0.5% for the month, closing at 15,367. A rebound in the Energy sector was offset by a weak Financials sector. The uncertainties around NAFTA and the possibility of a global trade war continued to weigh down the market.
- **Dollar dips.** The Canadian dollar continued to fall in March. Bank of Canada's dovish stance on interest rates and the continued uncertainties around the NAFTA negotiations affected our dollar. The Loonie closed the month at US77.56 cents for one Canadian dollar, a monthly decline of 0.7%.
- **Gold climbs.** After posting its first monthly loss since last October in February, the yellow metal regained some ground in March. The possibility of a global trade war stemming from President Trump imposing tariffs on US$60B of Chinese imported goods provided a lift to the safe-haven asset. Gold ended the month at US$1,329.40, up 0.7% from last month.
- **Oil surges.** After plunging in February, oil prices posted a strong rebound in March. The bullish forecast on global oil demand by the International Energy Agency and signs that OPEC will continue curbing production propelled oil prices to reach a two-month high. A May contract for a barrel of WTI crude ended trading at US$64.93, up 5.3% for the month.
- **GDP slips.** Economic growth in Canada fell unexpectedly in January, dragged down by declines in oil production and a slowdown in real estate markets.
- **Rates hold steady.** Fears of global trade battles instigated by tariffs on incoming steel and aluminum into the U.S. was Governor Stephen Poloz's justification to keep the Bank of Canada's benchmark rate at 1.25%
- **Inflation picks up.** Higher prices at the pumps was the primary driver of inflation's rise in February as annual CPI rose to 2.2%, entering the Bank of Canada (BoC)'s target range.
- **U.S. stock market plunges.** Another bad month in the book for the U.S. stock market. Each of the major indices lost more than 2.5% for the month.
- **Fed hikes.** After asserting the economic conditions in the U.S. have improved since the last Federal Reserve interest rate increase in December, Chairman Jerome Powell announced a 25 bps hike.
- **U.S. job creation crushes estimate.** The U.S. economy pumped out way more jobs than expected in February.
- **ECB drops easing language.** In a widely expected decision, the ECB left its benchmark interest rates and asset purchase program unchanged after its March meeting
- **Japan's Q4 GDP grows.** Japan posted its eighth consecutive quarter of economic growth.
- **BOJ stays its course.** In a widely expected decision, the Bank of Japan maintained its stance on the monetary stimulus after its March meeting.

Index/Commodity/Currency		
Close	**Month Change**	**YTD Change**
S&P/TSX Composite		
15,367.29	-75.4	-841.8
	-0.5%	-5.2%
BMO Nesbitt Burns Small Cap		
863.81	-13.7	-72.6
	-1.6%	-7.8%
Dow Jones Industrial Average		
24,161.60	-867.6	-557.6
	-3.5%	-2.3%
S&P 500		
2,642.31	-71.5	-31.3
	-2.6%	-1.2%
NASDAQ Composite		
7,064.43	-208.6	161.0
	-2.9%	2.3%
MSCI-EAFE Index		
2,005.67	-46.1	-45.1
	-2.2%	-2.2%
WTI Crude Oil (per barrel, in $US)		
64.93	3.3	4.8
	5.30%	8.0%
Gold (per ounce, in US$)		
1,329.40	9.2	24.4
	0.7%	1.9%
Canadian Dollar (¢ per US$)		
77.56	-0.5	-2.1
	-0.7%	-2.7%

Sources: Bloomberg, PC Bond

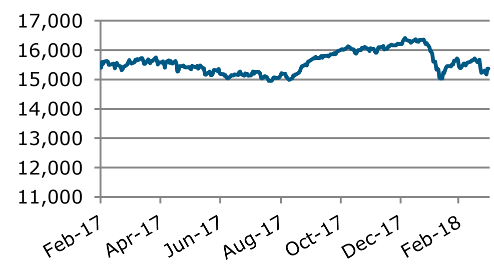
Canadian Markets

- **GDP slips.** Economic growth in Canada fell unexpectedly in January, dragged down by declines in oil production and a slowdown in real estate markets. The -0.1% reading from StatCan was the slowest since May 2016 as the oil and gas extraction sector felt a 3.6% decline during the month - leading to production shutdowns. The month's decline put the economy on course for a third straight quarter of growth below 2%, the slowest pace since 2015. One year ago, growth was at 2.7%.
- **Rates hold steady.** Fears of global trade battles instigated by tariffs on incoming steel and aluminum into the U.S. was Governor Stephen Poloz's justification to keep the Bank of Canada's benchmark rate at 1.25%, after three hikes within the 12 months. Soft GDP numbers coupled with a decline in export sales provided the backdrop for a negative and cautious tone by Mr. Poloz heading into the next central bank policy meeting slated for mid-April. The probability of a hike at that meeting currently stands at 33%.
- **Inflation picks up.** Higher prices at the pumps was the primary driver of inflation's rise in February as annual CPI rose to 2.2%, entering the Bank of Canada (BoC)'s target range. The increase from January's 1.7% was the fastest pace since October 2014 as autos and food also helped push prices higher. With the stronger data, the probability of a rate hike by the BoC rose higher with economists anticipating one sooner than expected, perhaps by the summer.
- **PPI up.** Higher input costs used in the production of vehicles helped push the Product Price Index higher in February as the Canadian dollar's value fell. Had the Loonie remained constant, PPI would have fallen 0.2%. For the month, Statistics Canada's PPI reading was 0.1% higher compared to the previous month as 17 of the 21 commodity groups advanced and two remained unchanged. On an annualized basis, PPI is 1.9% higher, a decline from January's 2.1% gain.
- **Unemployment rate falls.** The national jobless rate fell back to a 40-year low in February as 15,400 jobs were added to the labour market. Unfortunately, the news was overshadowed by a large decline in full time positions, which was offset by 54,700 part time jobs. Of the gains during the month, 50,300 hires were in the public sector as the participation rate held steady at 65.5%.
- **Wholesale sales edge up.** Aided by a 3.1% increase in food, beverage, and tobacco demand, wholesale sales rose 0.1% in January to total receipts of $63.3B. Also helping out was machinery, equipment and supplies, which was 1.6% higher, as four to the seven subsectors tracked by Statistics Canada gained. The volatile auto industry was one of the laggards falling 1.6% to $11.6B, a six-month low.
- **Manufacturing sales fall.** Sales from factories started on a low for the new year, as receipts totaled $54.9B in January. Lower vehicle sales were to blame followed by aerospace and primary metals sectors, where 14 of the 21 industries followed by Statistics Canada's survey were lower for the month. Durable goods sales declined 3.5% as non-durable goods rose 1.7%. On a volume basis, sales were also weaker, falling 1.1%.
- **Retail sales bounce back.** Softer sales in autos held back January retail data in Canada, but was still enough to recover from the previous month's decline. For the month, Statistics Canada reported a 0.3% increase, with seven of the 11 sectors followed seeing gains for total receipts of $49.9B. The reading was lower than the 1.1% forecasted as electronics and general merchandise led all gainers, rising 4% and 2.3%, respectively. Had autos been excluded, retail sales would have risen 0.9%. On an volume basis, sales were higher by 0.1%.
- Canada Housing News:
  - **Housing starts rise.** The number of ground-breaking of homes rose in February on increased demand for multi-unit structures. With forecasts of little change for the month, CMHC reported home start of 229,737 units on an annualized basis driven by rising condo sales in the Toronto and Vancouver regions.
  - **Permits surge.** The value of building permits in January soared to an eight-month high on the coattails of multi-family demand in Ontario. As reported by StatCan, the total value of building permits rose to $8.4B in the first month of the year, a 5.6% increase from December and easily beating expectations of 1.3%. Ontario was the big driver of the gains, up 71% in January. Conversely, industrial buildings and single detached homes lagged, falling 18.6% and 1.3% respectively.
  - **Home sales lower.** CREA's latest February data showed evidence of potential home buyers rushing to purchase before 2018 changes to mortgage rules came into effect. At the end of the month, the housing market saw sales slump 6.5% compared to January, registering back-to-back declines with decreases seen in three-quarters of the markets followed – more so in the Greater Vancouver and Greater Toronto regions. On an annualized basis, sales were down sharply by 16.9%, a five-year low, as national average sales price fell 5% YoY.
  - **New home prices flat.** The price of buying a new home in Canada was unchanged in January for a second month in a row. Prices in Toronto, the country's largest market, fell 0.1% while in Vancouver, they were little changed as provincial legislation and tougher mortgage rules appear to be affecting the housing market. Unfortunately, condominiums and apartments are excluded from this data and are becoming an increasing concern of overheating.

S&P/TSX Composite Index Sector Snapshot

Sector	Month Return	YTD Return	Weight (%)
Energy	1.32	-10.37	18.50
Telecoms	-1.26	-7.76	4.60
Industrials	-2.42	-2.99	9.70
Consumer Staples	-1.72	-6.24	3.70
Utilities	1.60	-6.95	3.70
Financials	-1.24	-4.22	34.80
Consumer Discretionary	0.31	-3.40	5.50
Health Care	0.18	-13.69	0.90
Materials	0.06	-4.57	11.50
Information Technology	-1.30	10.07	3.80
Real Estate	1.67	-0.67	3.00

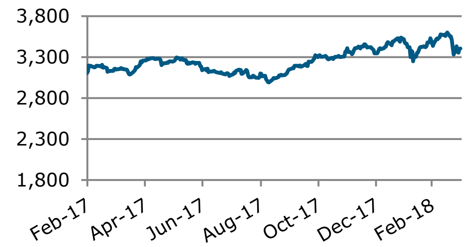
S&P/TSX Composite - 1Y Return



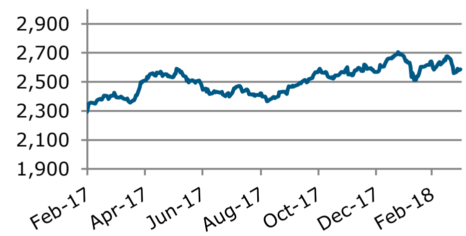
U.S. Markets

- **U.S. stock market plunges.** Another bad month in the book for the U.S. stock market. Each of the major indices lost more than 2.5% for the month. The increased tension on the trade battle between China and U.S,. as well as a technology sector sell-off effected the markets. The broad-based S&P 500 was down 2.6% for the month, closing the month at 2,642. The Dow Jones Industrial Average dropped 3.5%, ending the month below the 25,000-level at 24,162. The tech-heavy Nasdaq lost 2.9%, wrapping up the month at 7,064.
- **U.S. GDP revised up.** The Commerce Department released its final estimate of Q4 GDP growth. It was revised up from the previous estimate of a 2.5% growth pace to 2.9%. Economists were expecting the growth pace to be revised up by only 2.7%. Consumer spending was robust, increasing at a 4% rate in Q4, the quickest pace since Q4 2014.
- **Fed hikes.** After asserting the economic conditions in the U.S. have improved since the last Federal Reserve interest rate increase in December, Chairman Jerome Powell announced a 25 bps hike at the conclusion of the latest FOMC meeting this week. The decision to do so was unanimous amongst all Fed members as forecasts see strong economic growth over the next two years with continued low unemployment. Mr. Powell remained hawkish with future hikes to apply when appropriate, but remained undecided whether there will be two or three more in 2018.
- **U.S. CPI cools.** Consumer prices rose in February but at a slower pace compared to last month. The Labor Department reported that the consumer price index (CPI) rose 0.2% in February, down from January's pace of 0.5%. On a year-over-year basis, CPI rose 2.2%, matching economists' expectations. Core CPI, which excludes food and energy prices, gained 0.2% on the month, matching forecasts. On the year, the core CPI rose 1.8%, slightly lower than economists' expected increase of 1.9%.
- **U.S. job creation crushes estimate.** The U.S. economy pumped out way more jobs than expected in February. The Labor Department reported that non-farm payroll rose by 313,000 in February, handily beating economists' expected increase of 205,000. It was the biggest monthly increase since mid-2016. Unemployment rate remained at 4.1%. Average hourly wages grew 2.6% year-over-year, slowing down from the 2.9% pace reported in January.

S&P 500 - 1Y Return (CAD)



MSCI EAFE – 1Y Return (CAD)



- **U.S. flash PMIs mixed.** Strong employment, increasing inventory build-up, and quickening supply chain delivery times contributed to the rise in March's *manufacturing PMI* estimate. As reported by HIS Markit, the sector continued to expand, rising to a forecast of 55.7 from 55.3 in the previous month, ahead of consensus of 55.5 and the fastest pace in three years. On the *services* side, it's flash PMI reading fell sharply from a six-month high of 55.9 to 54.1 despite high output and continued growth in new business. Collectively, the preliminary *composite PMI* declined to 54.3 from 55.8 in February as business activity weakened during the month despite expanding at a steady pace.
- **U.S. producer prices rises.** Producer prices rose slightly more than expected in February. The Labor Department reported that its producer price index (PPI) moved up 0.2% in February, beating economists' estimate of a 0.1% increase. On a year-over-year basis, PPI rose 2.8% in February, in line with expectations.
- **U.S. durable goods orders surge.** Durable goods orders rebounded more than expected in February. The Commerce Department reported that, after two straight months of decline, durable goods orders rebounded 3.1% in February. The increase was a lot higher than economists expected gain of 1.5%. Core capital goods orders, which exclude the volatile aircraft sector, jumped 1.8%, also exceeding the estimated increase of 0.8%.
- **U.S. industrial output rises**. Industrial output surged in February. The Federal Reserve reported that industrial output jumped 1.1% in February, beating economists' expectation of a 0.3% gain by a wide margin. It was the largest monthly increase in four months and bounced back from a 0.3% decline reported in January.
- **U.S. consumer sentiment surges.** Consumer sentiment in the U.S. soared to its highest level since 2004 in March, according to a survey by the University of Michigan. The university's consumer sentiment index jumped to 101.4 in March from February's reading of 99.7; economists were expecting a slightly higher reading of 102.0.
- **U.S. retail sales drop.** Retail sales in U.S. fell for the third straight month in February. The Commerce Department reported that retail sales slipped 0.1% in February, missing economists' expectations of a 0.3% increase. It was the first time since April 2012 that retail sales declined for three straight months. On a year-over-year basis, retail sales were up 4%.
- U.S. Housing News:
    - **U.S. home prices increase.** Home prices posted another big gain in January. The S&P CoreLogic Case-Shiller national home price index increased by 6.2% year-over-year in January, in line with economists' expectations and nearly matching December's 6.3% increase, which was the fastest annual growth pace in almost three years. Limited supply of homes in the market remained the main driving force of surging prices. Seattle, Las Vegas, and San Francisco were leading the pack in price gains.
    - **U.S. pending home sales rise.** Pending home sales rose in February, according to the National Association of Realtors. The association's pending home sales index increased to a reading of 107.5 in February, up 3.1% from the previous month. Economists were expecting a gain of only 2.1%.
    - **Existing home sales jump.** After declining in the past two months, spring time brought out potential home buyers and sales of existing homes rebounded in February by 3%. For the month, total sales were 5.54M units on a seasonally adjusted basis, more than anticipated despite tight inventory and rising home prices, on a strong jobs market and tax cuts that are making its way through the economy.
    - **New home sales fall.** For a third straight month, sales in new homes fell in the U.S. in February as low inventory, increasing prices, and rising mortgage rates pushed out potential homebuyers. During the month, sales fell 0.6% to 618,000 units, on a seasonally adjusted basis, with declines seen in the Midwest and in the West. Analysts had expected a 4.4% increase on 623,000 units.
    - **U.S. housing starts plunges.** The Commerce Department reported that housing starts declined by 7% in February to a seasonally adjusted annual pace of 1.24M units; economists were expecting an annual pace of 1.29M units. Permits also fell 5.7% during the month to an annual pace of 1.3M units.

European Markets

- **ECB drops easing language.** In a widely expected decision, the ECB left its benchmark interest rates and asset purchase program unchanged after its March meeting; however, it dropped its easing bias in its statement. Up until the last meeting, the central bank had stated that it could increase the size of the asset purchase program if it sees signs of a deteriorating economy. Said ECB's President Mario Draghi to the press, "Incoming information... confirms the strong and broad-based growth momentum in the euro area economy, which is projected to expand in the near-term at a somewhat faster pace than previously expected."
- **Euro-zone GDP grows.** Euro-zone economic growth remained on a stable path in Q4. Eurostat reported that Q4 GDP within the single-currency region grew 0.6% from the previous quarter, matching Q3's pace and economists' expectations. On a year-over-year basis, GDP grew 2.7%, also in line with forecasts.
- **Euro-zone inflation declines.** Euro-zone inflation was slower than the initial estimate in February. Eurostat reported that the final harmonised index of consumer prices (HICP) increased by 1.1% year-over-year in February, a tick lower than the 1.2% increase reported earlier. It was the third straight month of decline and was the lowest year-over-year increase since December 2016.
- **Euro-zone unemployment drops.** Job markets remained robust within the Euro-zone thanks to strong economic growth. Eurostat reported that the unemployment rate within the 19-member region fell to 8.6% in January, the lowest level since December 2008. Last year in January, the unemployment rate stood at 9.6%.
- **Euro-zone economic sentiment declines.** Economic sentiment within the 19-member region dropped for the third straight month. Eurostat reported that the economic sentiment index fell from January's 114.1 to 112.6 in February; economists were expecting a reading of 113.4 in February.
- **Euro flash PMIs lower.** Multiple factors contributed to the overall PMI decline in the Euro-zone in March to a level not seen since early 2017. A strong Euro currency, prolonged cold weather, supply chain disruptions, and geopolitical uncertainty were seen as pessimistic factors by IHS Markit. Manufacturing PMI fell to 56.6 from 58.6, while the services PMI dropped to 54.2 from 55.3. Fortunately, the composite PMI, an overall snapshot of economic health, remained in expansionary territory at 55.3, even though it also declined during the month.
- **Euro-zone industrial output drops.** Industrial production within the Euro-zone declined in January, posting its weakest monthly performance in over a year. Eurostat reported that industrial production dropped 1% in January, falling short of economists' expected decrease of 0.5%. It was the largest monthly decline since late 2016. On the year, industrial production was up 2.7%.

Asian Markets

- **Japan's Q4 GDP grows.** Japan posted its eighth consecutive quarter of economic growth. The world's third largest economy recorded 0.4% quarter-on-quarter growth in Q4 2017, beating economists' expectation of a 0.2% increase. On an annualized basis, Q4 GDP grew 1.6%, also exceeding economists' estimated 0.9% growth pace.
- **BOJ stays its course.** In a widely expected decision, the Bank of Japan maintained its stance on the monetary stimulus after its March meeting. The yield-curve control settings and asset purchase program remained unchanged. "We're not thinking at all about weakening the degree of easing, or changing the current monetary easing policy framework, before we achieve 2 percent," said Governor Haruhiko Kuroda, who is going to begin his new term as Governor starting next month.
- **Japan inflation edges higher.** For the first time since 2014, Japan's core inflation rose above the 1% mark, pushed by rising electricity and gasoline prices. This reading proves to be highly important for the Bank of Japan (BoJ) as it vows to continue with an accommodative monetary policy in its slow climb towards its 2% target. However, the BoJ did keep its options open for a possible rate adjustment if necessary before the target is met. For the month of February, inflation increased 0.1% month over month, while annual inflation rose to 1.5%.
- **Nikkei Flash Manufacturing PMI slows.** Factory activity in Japan slowed in March as its manufacturing PMI fell to 53.2 from 54.1. A decrease in new orders and output were the main reasons for the momentum loss as the reading had back-to-back monthly declines, but remained at about the 50 point threshold for a 19th straight month.
- **China's CPI quickens, but PPI cools.** Consumer inflation and producer inflation went in opposite directions in February. The National Bureau of Statistics reported that the consumer price index (CPI) rose 2.9% year-over-year in February, beating economists' expectation of a 2.5% increase. The producer price index (PPI), on the other hand, declined to a 15-month low pace in February, rising 3.7% on the year. In January, the PPI increased by 4.3% year-over-year. Economists were expecting PPI to rise 3.8% in February.
- **China services PMI declines.** Services sector activity in China softened in February, yet remained robust. The Caixin/Markit's services purchasing managers' index (PMI) dropped to 54.2 from January's reading of 54.7; January's reading was at a 68-month high.

Key Take-Away

Hobbling out of the 2018 gates. The manufacturing sector is a large part of the Canadian economy, and its ups and downs will have an impact on GDP. A recovery and strong data from the sector helped advance our economy at a torrid pace in the first half of 2017; despite having a mediocre Q3 and Q4, it was enough to end the year at 3% growth, more than double the rate of the year prior. However, 2018 is looking to be a different picture as sales from factories stumbled out of the blocks in January. Excess inventory from the previous quarter and the holiday season coupled with ongoing concerns of U.S. protectionism that could spark global trade wars have deferred businesses to place orders at a later date instead of the present. The Loonie fell sharply on the weak news. Ironically, this might be a blessing in disguise as a cheaper Canadian dollar could be a catalyst of higher future sales by foreigners. In addition, massive U.S. tax cuts have yet to fully make their way through the U.S. economy; when they do, they could provide a hidden boom for factories north of the border, carrying on the successes of 2017.