Credential

Market Insights | MONTHLY

Month in Review

For the month ended August 31st, 2019

Overall Highlights

- **TSX higher.** The S&P/TSX Composite and other global markets began the month on a down note but wound up posting an increase after a month of volatility. The ongoing trade war between the U.S. and China fueled the market declines; however, paradoxically, it also provided the boost to prop them higher whenever there was optimistic news. As well, surprisingly strong GDP growth helped push the Index higher. On the close, the TSX ended at 16,442, up 0.2% for the month and 14.8% year-to-date.
- **Loonie dips lower.** The Loonie, despite being down on worries over growth, managed to recover much of its losses yet still ended in the red. Better-than-expected GDP numbers for the second quarter helped prop our Dollar higher as investors flocked to the U.S. Greenback for safety. Adding to some nervousness towards the Loonie was speculation on what the Bank of Canada will do to overnight rates at their next meeting in October. At the close, the Loonie finished at 75.22 U.S. cents, a decrease of 1.1%.
- **Gold shines.** With the volatility experienced in August, there was little doubt that the yellow metal would be the go-to haven asset for investors. For a fourth consecutive month, driven by trade tensions and slowing global growth, gold was driven higher as the market's appetite moved out of equities towards more risk-off options. At month's end, gold closed at US$1,520.38 an ounce for a December contract, an advance of 7.5%.
- **Oil slips.** Slowing global growth was the catalyst driving crude lower in August as trade tensions that shook equities spilled into oil markets. Despite the efforts by OPEC and other countries to cut production, it may not be enough to help draw down the persistent supply glut. Also adding to inventory problems was Russia, one of the signatories of the lower production deal, missing its output cut levels for the month. At the end of August, an October delivery on a barrel of WTI crude settled at US$55.10, a drop of 5.9%.
- **GDP for June rises.** The economy continued to grow for the month rising 0.2%, the same as in May, and doubling forecasts by economists.
- **Inflation higher.** Consumer prices were higher on a monthly basis in July gaining 0.5% compared to June's 0.2% retreat as costs for durable goods rose, which was offset by prices paid for services.
- **Unemployment rises.** A decline in wholesale and retail positions, as well as in transportation, pushed the national jobless rate higher in July to 5.7%, up from June's 5.5%.
- **Retail sales flat.** Consumers were indifferent to make purchases or not in June as the latest StatCan reading for June was unchanged compared to the previous month.
- **U.S. Q2 GDP revised down.** The U.S. economy grew a bit slower than initially forecast according to the second estimate released by the Commerce Department.
- **U.S. CPI rises.** Consumer prices rose faster in July, according to the consumer price index (CPI). The Labor Department reported that July's CPI increased by 0.3% after edging up 0.1% for two straight months; economists were expecting a monthly rise of 0.2%.
- **U.S. consumer sentiment falls.** Consumer sentiment plummeted in July amid a bitter trade war between U.S. and China.
- **Eurozone unemployment rate stays steady.** Eurostat reported that the unemployment rate within the Eurozone stayed unchanged at 7.5% in July, the lowest level since July 2008.
- **Japan Q2 GDP grows more than expected.** Japan's economy expanded more than expected in Q2. Government data showed that the world's third largest economy's GDP grew by 0.4% in Q2
- **China increasing tariffs on U.S. goods.** In a surprising move, China announced that it will increase tariffs on some U.S. goods as a retaliation of additional tariffs Donald Trump announced earlier.

Index/Commodity/Currency		
Close	**Month Change**	**YTD Change**
S&P/TSX Composite		
16,442.07	35.5	2,119.2
	0.2%	14.8%
Dow Jones Industrial Average		
26,403.28	-461.0	3,075.8
	-1.7%	13.2%
S&P 500		
2,926.46	-53.9	419.6
	-1.8%	16.7%
NASDAQ Composite		
7,962.88	-212.5	1,327.6
	-2.6%	20.0%
MSCI EAFE Index		
1,842.58	-54.5	122.7
	-2.9%	7.1%
WTI Crude Oil (per barrel, in $US)		
55.10	-3.5	9.7
	-5.9%	21.3%
Gold (per ounce, in US$)		
1,520.38	106.6	237.9
	7.5%	18.5%
Canadian Dollar (¢ per US$)		
75.22	-0.8	1.9
	-1.1%	2.6%

Source: Bloomberg

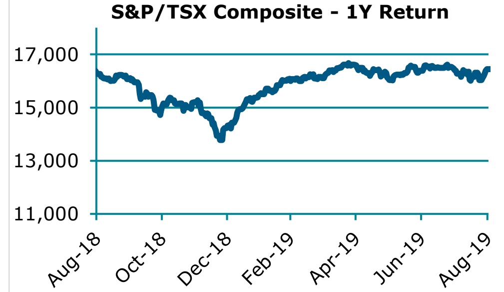
Canadian Markets

- **GDP for June rises.** The economy continued to grow for the month rising 0.2%, the same as in May, and doubling forecasts by economists. Growth was due to a 0.3% increase in the services-producing industries as the manufacturing sector fell 0.2%. This capped off a very good second quarter of growth amidst global trade uncertainty and weakening demand. For the three months, GDP advanced 0.9%, its strongest since 2017, led by a rebound in exports. And when annualized, posted a 3.7% pace, besting Q1's 2.1%.
- **Inflation higher.** Consumer prices were higher on a monthly basis in July gaining 0.5% compared to June's 0.2% retreat as costs for durable goods rose, which was offset by prices paid for services. Other leaders and laggers that affected CPI was an almost 19% increase in fresh vegetables and 4.6% in air fare while gasoline declined 6.9%, all measures compared to a year ago. Annualized, the inflation rate was unchanged from last month at 2%, the mid-point of the BoC's target range, with core also holding at 2% for a second straight month.
- **IPPI lower.** The cost of goods sold by producers from their factories fell in July as meat, fish, and dairy fell for a second straight month. An improvement over June's 1.4% decline, the Industrial Product Price Index (IPPI) was lower by 0.3%, missing expectations of a 0.3% increase. Helping temper further decline, energy and petroleum costs rose 1.2%. Fifteen of the 21 major groups tracked by Statistics Canada were lower, with two unchanged. On an annualized basis, IPPI is lower by 1.7% due primarily to the lower energy costs.
- **Unemployment rises.** A decline in wholesale and retail positions, as well as in transportation, pushed the national jobless rate higher in July to 5.7%, up from June's 5.5%. This is the highest the reading has been since April. The economy shed 24,200 jobs during the month led by a decrease in both part-time and full-time jobs by 12,600 and 11,600, respectively. Geographically, noticeable changes had declines in Alberta (-14,000) and Nova Scotia (-6,200), while gains were posted in Québec (+17,000) and P.E.I (+1,000). The participation rate fell a notch to 65.6% for the month.
- **Manufacturing sales drop.** Factory sales fell 1.2% in June to $58B but beat earlier forecasts of a 1.7% decline as the economy's strength continued to surprise in the second quarter. Sixteen of 21 industries monitored by Statistics Canada were lower, led by petroleum and coal products followed by the food sector. On a volume basis, sales fell 0.2% compared with a 1.7% increase in May. For Q2, manufacturing sales rose 1.7% with volumes for the same period up 1.8%.
- **Wholesale sales rise.** Sales between factories and end-users were higher in June after a sharp decline in May. For the month, wholesale sales rose 0.6%, besting predictions of a 0.3% increase and reversing the 1.9% decline in the previous month. The miscellaneous category led four out of the seven sectors advancing with a 3.5% increase, followed by machinery, equipment and food. For the quarter, sales were higher by 1.3% for its thirteenth straight quarter gain, while by volume numbers, sales rose 0.6% as well.

S&P/TSX Composite Index
Sector Snapshot

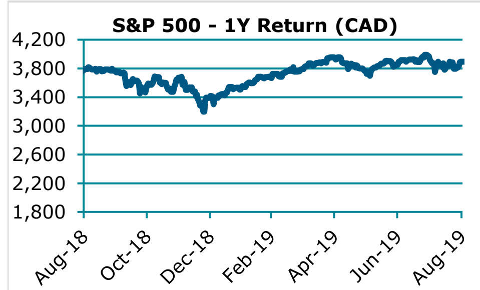
Sector	Month Return	YTD Return	Weight (%)
Consumer Discretionary	0.12	17.86	4.30
Consumer Staples	4.34	18.32	4.10
Energy	-0.88	4.58	16.20
Financials	-2.72	9.66	31.20
Health Care	-13.01	1.76	1.50
Industrials	-1.21	20.86	11.40
Information Technology	7.65	58.91	5.60
Materials	5.73	22.92	11.80
Real Estate	2.57	18.31	3.60
Communication Services	1.89	8.19	5.60
Utilities	4.19	26.62	4.60

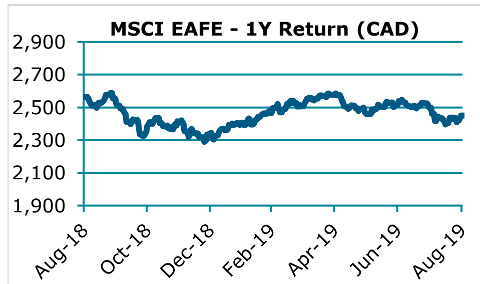
S&P/TSX Composite - 1Y Return



- **Retail sales flat.** Consumers were indifferent to make purchases or not in June as the latest StatCan reading for June was unchanged compared to the previous month. Lower sales in vehicles were offset by advances in other sectors with four of 11 subsectors tracked declining for the month. Expectations were for a 0.3% drop. Excluding gas and car sales, receipts were higher by 1.7%, helped by the frenzy of the Raptors playoff championship run. In volume terms, retail sales were up by 0.4%.
- Canada housing news:
    - **Existing home sales rise.** For a fifth straight month, data of existing home sales showed another month-over-month increase in July. National sales rose 3.5% from June led by advances in the Greater Vancouver and GTA regions, and stand about 15% above February's six-year low. On an annual, but not seasonally adjusted basis, sales were up 12.6%. However, despite the month's reading, activity is roughly 10% below 2016 and 2017 highs and the number of listings are down 0.4% from the previous month as national inventory fell to 4.7 months, the lowest since December 2017.
    - **New home prices lower.** The price of a new home fell 0.1% in June for a second consecutive month of declines, missing forecasts of no change, as blame was placed on a softening housing market. Prices were higher in the Gatineau (+1%), Hamilton (+0.7%), and Ottawa (+0.6%) regions due to higher construction and labour cost but were down 1% in Calgary. On a year-over-year basis, new housing prices are down 0.2%, below expectations of a 0.1% drop.
    - **Housing starts fall.** A decline in multi-unit dwellings befell housing start data in July compared to the previous month. On an annualized basis, 222,013 units broke ground, down 9.6% from June but ahead of forecasts of 203,500 units. Apartments and condominium starts fell 12% while detached homes dropped 4.6%.
    - **Building permits drop.** Less interest in future construction saw the value of building permits decline 3.7% to $8B in June. Expectations were for a 1.5% increase as demand for multi-unit complexes (-6.7%) and commercial structures (-1.1%) fell, as reported by Statistics Canada. Provincially, Alberta led six provinces that fell during the month responsible for over 30% of the declines. For Q2, permits are up by 5.8% from the previous quarter and 4.1% higher compared to Q2 2018.

U.S. Markets





- **A wild August in the U.S. market.** Volatility was the main theme in the U.S. stock market in August. Recession fears and escalation of the epic trade war between China and U.S. caused shockwaves in the market throughout the month. The broad-based S&P 500 index fell 1.8%, closing the month at 2,926. The Dow Jones Industrial Average dropped 1.7%, ending the month at 26,403. The tech-heavy Nasdaq was the underperformer for the month, losing 2.6% to close the month at 7,963.
- **U.S. Q2 GDP revised down.** The U.S. economy grew a bit slower than initially forecast according to the second estimate released by the Commerce Department. Q2 GDP was reported to grow at an annualized pace of 2%, in line with economists' expectations. It was revised down from the 2.1% annualized pace reported last month. Strong consumer spending was offset by declining exports and smaller inventory build.
- **U.S. CPI rises.** Consumer prices rose faster in July, according to the consumer price index (CPI). The Labor Department reported that July's CPI increased by 0.3% after edging up 0.1% for two straight months; economists were expecting a monthly rise of 0.2%. On a year-over-year basis, CPI was up 1.8%. The core CPI, which excludes food and energy prices, advanced by 0.3% on the month and by 2.2% on the year.
- **U.S. producer prices rise.** The Labor Department reported that the producer price index (PPI) increased by 0.2% in July, in line with forecasts. On the year-over-year basis, PPI increased by 1.7%, also on par with expectations.
- **U.S. nonfarm payrolls increase**. The Labor Department reported that nonfarm payrolls increased by 164,000 in July, in line with economists' estimate. Unemployment rate held at a multi-decade low of 3.7%. Average hourly wages rose 3.2% from a year earlier, up slightly from previous month's pace and higher than economists' expected pace of 3.1%.
- **U.S. 'flash' composite PMI falls.** Business activity in the U.S. slowed down amid the trade war with China and other countries. Preliminary reading of the IHS Markit composite purchasing managers' index (PMI) for August fell from July's 51.6 to 50.9, missing economists' expectation of a small increase to 51.9. The manufacturing PMI dropped below the 50-division mark to 49.9, missing economists' estimate of 50.2; it was also the first time the manufacturing gauge went below the 50-mark since August 2009. Services sector PMI also dropped, down from 52.2 to 50.9, widely missing economists' forecast of 52.3.
- **U.S. industrial production falls.** The Federal Reserve reported that industrial production dropped 0.2% in July, missing economists' forecast of a 0.1% growth. Strength in the utilities segment, which rose 3.1%, was offset by weakness in manufacturing and mining, which declined 0.4% and 1.8% respectively.
- **PCE price index rises.** The Commerce Department reported that the personal consumption expenditures (PCE) price index rose 0.2% in July, in line with economists' estimate; on a year-over-year basis, the PCE price index was up 1.4%. The core PCE price index, which excludes food and energy components, rose 0.2% on the month and 1.6% on the year.
- **U.S. retail sales jump.** The Commerce Department reported that retail sales climbed 0.7% in July, the biggest jump in 4 months; economists were expecting a 0.3% increase for July. It was the fifth straight monthly increase in retail sales. The report gave the market some breathing room as recession fears had been looming.
- **U.S. consumer sentiment falls.** Consumer sentiment plummeted in July amid a bitter trade war between U.S. and China. The University of Michigan's consumer sentiment index fell to 89.8 in August, down from July's reading of 98.4. It was the largest monthly decline since December 2012. August's reading was also the lowest reading since October 2016.
- U.S. housing news:
    - **U.S. pending home sales fall.** Despite falling mortgage rates, pending home sales tumbled in July according to the National Association of Realtors (NAR). The NAR's pending home sales index fell 2.5% to 105.6 in July, widely missing economists' estimate of a flat reading. On a year-over-year basis, pending home sales were down 0.3% in July.
    - **U.S. home prices rise.** Home prices rose at a slower pace in June, according to the S&P Corelogic Case-Shiller Home Price Index (HPI). The 20-city HPI rose 2.2% in June, down from the 2.4% pace reported in May; economists were expecting an annual pace of 2.3%. Phoenix, Las Vegas, and Tampa reported the highest annual percentage gains
    - **U.S. existing home sales rise.** The National Association of Realtors reported that July's existing home sales rose 2.5% to a seasonally adjusted annual pace of 5.42M units, stronger than economists expected annual pace of 5.39M. Falling mortgage rates were believed to be supporting sales.
    - **U.S. new home sales fall.** New home sales dropped sharply in July, according to the Commerce Department. Sales were reported to fall 12.8% to a seasonally adjusted annual pace of 635,000 units in July, the biggest monthly decline since July 2013. Economists were expecting an annual pace of 649,000 units.
    - **U.S. housing starts falls.** Homebuilding in U.S. fell for the third straight month in July, according to the Commerce Department. Housing starts dropped 4% to a to a seasonally adjusted annual rate of 1.19 million units; economists were expecting the pace would edge up to 1.26 million. Building permits jumped though, up 8.4% from the previous month.

European Markets

- **Eurozone unemployment rate stays steady.** Eurostat reported that the unemployment rate within the Eurozone stayed unchanged at 7.5% in July, the lowest level since July 2008. Economists were expecting the same. Amongst the largest countries within the bloc, unemployment rate fell in Germany and Spain while rising in Italy.
- **Eurozone inflation falls.** Inflation within the 19-member region remained sluggish in August. Preliminary reading of the harmonized index of consumer prices (HICP) rose 1% year-over-year, down from the 1.1% annual pace reported in July; economists were expecting the same increase. The core measure, which excludes energy, food, alcohol and tobacco components, remained steady, rising 0.9% on the year.
- **Eurozone 'flash' composite PMI rises.** Business activity within the Eurozone improved slightly in August, but the manufacturing sector remained weak. Preliminary reading of the IHS Markit composite purchasing managers' index (PMI) for August nudged up slightly to 51.8, up from July's final reading of 51.5; economists were expecting a reading of 51.2. The manufacturing PMI, despite rising from July's 46.4 to 47.0, remained below the 50-mark separating contraction from expansion. The services sector PMI rose slightly to 53.4, beating forecasts of 53.0.

Asian Markets

- **Japan Q2 GDP grows more than expected.** Japan's economy expanded more than expected in Q2. Government data showed that the world's third largest economy's GDP grew by 0.4% in Q2, beating economists' expectation of 0.1% growth. On an annualized basis, Q2 GDP grew by 1.8%. Some economists said that the better than expected growth in Q2 would give Prime Minster Abe the confidence to increase the consumption tax from 8% to 10% in October.
- **Japan core CPI rises**. The Internal Affairs and Communications Ministry reported that Japan's core consumer price index (CPI) rose 0.1% in July; on a year-over-year basis, the core CPI rose 0.6%, matching economists' expectations. The so-called core-core measure, which excludes both fresh food and energy components, also rose 0.6% on the year, up a tick from June's pace of 0.5%.
- **Japan 'flash' composite PMI rises.** Business activity improved in Japan, but the manufacturing sector remained sluggish. Preliminary reading of the Jibun Bank composite purchasing managers' index (PMI) for August increased from July's 50.6 to 51.7. That's in large part due to the strength in the services sector; services sector PMI rose from 51.8 to 53.4. The manufacturing sector, however, stayed in contraction territory with the manufacturing PMI rising slightly from 49.4 to 49.5.
- **China's consumer inflation rises.** A surge in food prices pushed up consumer inflation in China. The National Bureau of Statistics reported that the consumer price index (CPI) rose 2.8% in July on a year-over-year basis; economists were expecting an increase of 2.7%. A 9.1% jump in food prices was the major driver of the increase. In the same report, the producer price index fell 0.3% on the year, compared to the 0.1% decline expected by economists.
- **China increasing tariffs on U.S. goods.** In a surprising move, China announced that it will increase tariffs on some U.S. goods as a retaliation of additional tariffs Donald Trump announced earlier. China will place additional tariffs of 5% or 10% on U.S. imports starting September 1, and will also resume tariffs on U.S. imports of automobiles and automobile parts in December. U.S. President Donald Trump responded by increasing the tariff rates from 25% to 30% on $250B worth of Chinese goods and from 10% to 15% on the remaining $300B.

Key Take-Aways

Nowhere to hide. Investors scrambled to find comfort from the worst sell-off of the year in North American equity markets, but safety was nowhere to be found. A trifecta of continued trade worries, economic concerns, and renewed recessionary fears sent bond investors flocking towards long-term U.S. treasuries. This pushed yields below two-year rates for the first time since 2007, just before the Financial Crisis of 2007-2008. This inversion of the yield curve is significant as an indicator of bearish sentiment in markets and rightfully so as the U.S. economy shows signs of slowing and production output in China falls, both consequences of their trade dispute. In Europe, the front-running German economy teeters on the cusp of a recession, as defined by back-to-back quarters of GDP contraction, and the next largest in the United Kingdom continues to find an acceptable solution to its Brexit divorce. With so many economies slowing, its assumed that the demand for oil would also slip with repercussions felt by nations that supply the global appetite, or eventual lack thereof. After the chaos was over, the market liquidation sent the broad-based S&P 500 index down by 2.9% and its sister exchanges, the Dow Jones and tech Nasdaq, faring worse by 3.1% and 3%, respectively on August 14. At home, the S&P/TSX's closing bell rang down 1.9% led by Financials and Energy sectors on the same day. Markets are precariously pushing the record Bull run into history with every closing day, but when the Bears do return, as was just experienced, there will be few safe places to run and hide.

Round Three. With no warning, the truce between the U.S. and China during their ongoing trade battle was over as the Trump Administration announced another round of tariffs on Chinese imports on August 1. At stake is the remaining US$300B of goods that will be subject to a 10% levy effective September 1; that is in addition to the US$250B with 25% tax already imposed. Not one to sit idly by, China retaliated by reportedly suspending tariff exemptions on U.S. agricultural imports and instructed state-owned companies to stop purchasing U.S. farm products. However, even more concerning is China's willingness to let its currency fall below the psychological seven yuan per U.S. dollar level—immediately making Chinese goods cheaper to purchase—for the first time in almost a decade. Global markets reacted as expected and reeled lower on the news as the bilateral trade dispute continued to have collateral disruption in surrounding regions and weakening global economic growth, which is already seen in Eurozone and, ironically, in the U.S. and China. For the first five trading days in August, the broad S&P 500 index was down 3.3%, with oil falling harder dropping 12.8%. In Canada, the impact was not as severe, perhaps buffered by the Civic Holiday, with the S&P/TSX Composite dropping 0.9% and our dollar dipping only 1.2%. Calm should return to the markets as it has in the past, but the dynamics of the global trade environment has changed to the point where there are no winners.