

July 2019

Monthly Overview

Volatility returned to stock markets in the second quarter of the year as risks of trade war escalation led to an up and down period. Stocks continued to rally at the start of Q2, however, the trade dispute between China and the U.S. in mid-May led to an abrupt pullback. Equity markets then rebounded in June, leading up to the trade summit between Presidents Trump and Xi on June 29th, in the hopes of a trade truce.

The S&P/TSX Composite eked out a quarterly gain of 1.7%, which was aided by a 2.1% upswing in June. The Canadian benchmark's quarterly gain topped all of the major equity indices we follow. The most meaningful gain for the benchmark for the quarter came from Technology, up 14.2% in Q2. Materials, which represents 11% of the index, was higher by 5.0%. Energy stocks, which account for 17% of the index, fell 3.9% during the quarter.

The loonie picked up another 2% versus the greenback in Q2, and for the year is up 4.2%. The strength of the currency did, however, put a damper on the returns from foreign markets when translated back to Canadian dollar terms. Note that all returns noted in the following paragraphs are in CAD terms. U.S. stocks, as measured by the S&P 500 finished the quarter 1.7% higher. Financials, information technology, and industrials led the way in Q2 gaining 5.2%, 3.6% and 3.5%, respectively. The energy sector had the biggest drop, falling 5.7% during the quarter.

International stocks, as measured by the MSCI EAFE index, managed a gain of 0.4% in Q2. Trade-related concerns pressured emerging markets stocks during the period, with the MSCI EM index falling 2.4%.

Volatile equity markets and risk averse investors resulted in higher bond prices and lower yields in Q2. The Canadian investment grade bond index provided a total return of 2.5% during the second quarter. Global high yield issues showed a similar gain over the period, while global investment grade bonds climbed 3.3% in Q2.

Turning to commodities, the price of a barrel of oil rebounded in June, up 9.3% after plummeting 16% the month prior. For the quarter, oil prices shed 3%, while natural gas prices were lower by 13% during the period. The price of gold rallied in June, advancing above US\$1400 an ounce, a 6-year high. The precious metal ended Q2 9.3% higher as investors sought safer assets during the tension-filled quarter.

Canada's inflation rate jumped 2.4% from a year earlier, the highest annual rate since last October. All eight major components of the index rose compared with a year ago. The nation's gross domestic product grew 0.3% in April, higher than economists had expected. Canada's unemployment rate fell to 5.4% in May, the lowest in four decades, as the labour market continues to support the Canadian economy.

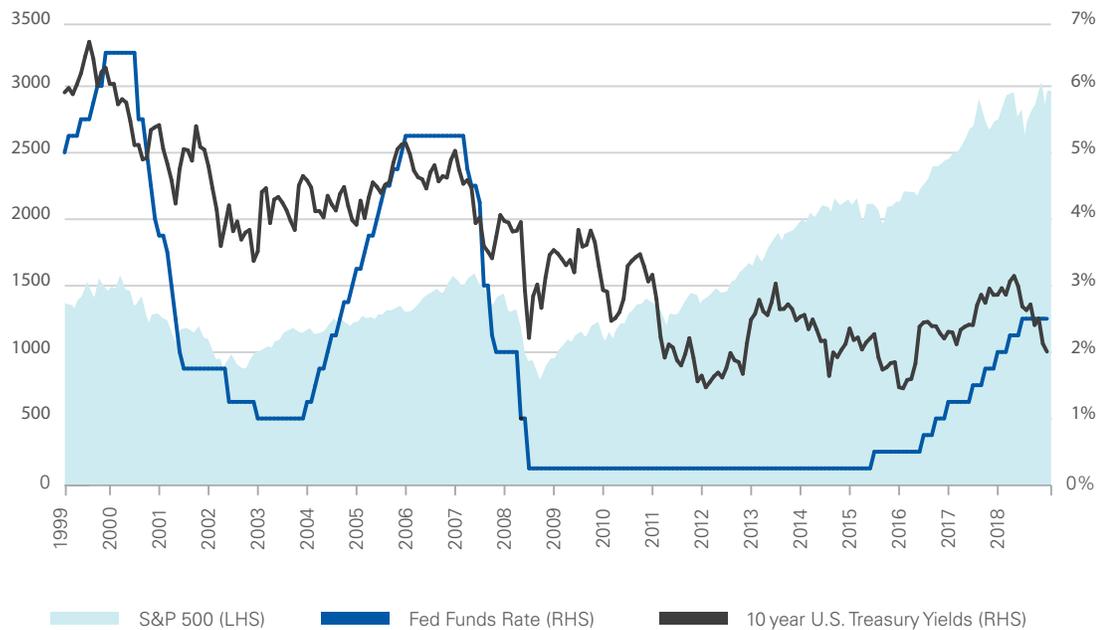
The U.S. Federal Reserve kept rates steady in Q2 but opened the door for a rate cut in the future. Despite the cautious wording from the central bank, futures markets are pricing in Fed cuts, as soon as July. U.S. 10-year Treasury yields hit multiyear lows upon the news, falling below 2%, as the Fed's accommodative approach spurred a global bond rally.

Monthly Market Statistics

Data to June 28, 2019, unless otherwise indicated

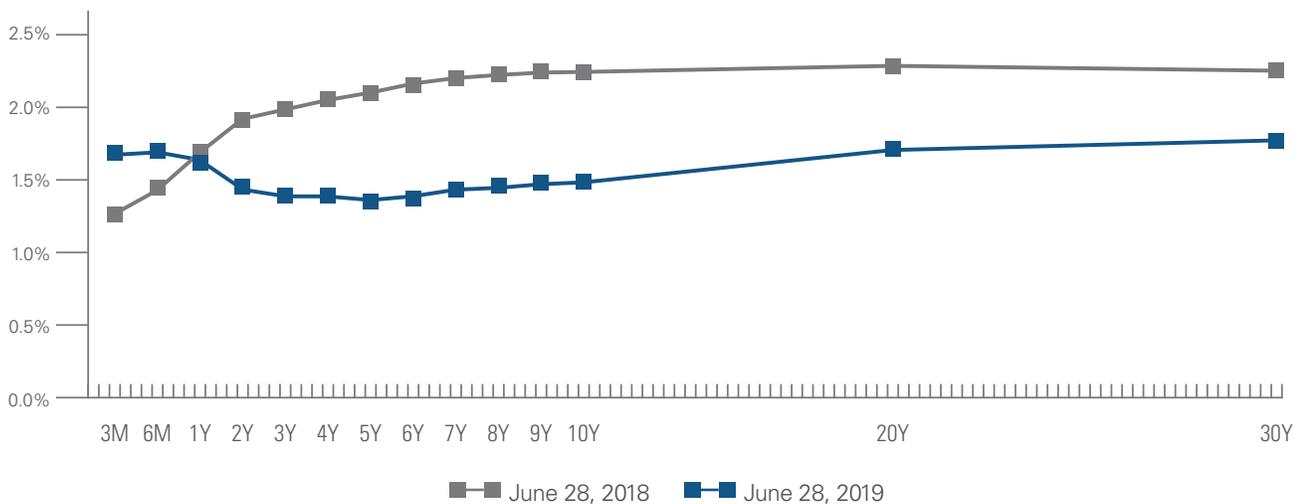
At the end of June, U.S. 10-year Treasury yields dropped to 2%, while the U.S. stock market stood close to a record high. The last time Treasury yields were this low was in 2016 as the U.S. economy hit a soft patch, pushing the Fed to back off from a forecast of four rate hikes. The Fed eventually started raising rates again in December 2016. At the most recent Federal Open Market Committee in June, the central bank left the door open to future rate cuts amid an outlook which cited slower growth and escalating trade tensions. The last time the Fed cut rates was in 2007, just prior to the global financial crisis. Rates ultimately were slashed from 5.25% to 0.25% in a span of 14 months. Although federal funds futures contracts are implying a 100% probability cut on July 31st, it will be interesting to see what the Fed does given the record highs in the stock market, the strong employment numbers and signs of U.S. inflation picking up.

Chart of the Month: Rates, Bonds & Equities



Source: Bloomberg

Canadian Sovereign Yield Curve



Source: Bloomberg

Monthly Market Statistics

Data to June 28, 2019, unless otherwise indicated

Equity Index Returns (% in CAD)

Index	1 Mo	3 Mo	6 Mo	YTD	1Yr	3Yr	5Yr	3Yr Std Dev
S&P/TSX Composite	2.1	1.7	14.4	14.4	0.6	5.2	1.6	9.1
S&P/TSX Small Cap	4.0	-1.0	9.0	9.0	-10.5	-2.3	-4.1	11.2
S&P 500	3.5	1.7	12.8	12.8	7.8	12.2	13.0	12.2
MSCI EAFE	2.4	0.4	7.4	7.4	-2.2	6.4	3.7	11.2
MSCI World	3.1	1.2	11.1	11.1	3.8	10.0	8.9	11.4
MSCI World Small Cap	2.3	-0.7	10.4	10.4	-4.7	9.2	8.5	13.4
MSCI Europe	2.7	0.6	8.3	8.3	-1.8	6.4	2.5	14.3
MSCI EM	2.3	-2.4	5.0	5.0	-1.8	8.5	4.3	13.8
MSCI AC Asia	1.7	-1.9	4.8	4.8	-4.0	7.8	6.2	11.8

Source: Bloomberg

Fixed Income Returns (% in CAD)

Index	1 Mo	3 Mo	6 Mo	YTD	1Yr	3Yr	5Yr	3Yr Std Dev
FTSE TMX Canada Universe Bond	0.9	2.5	6.5	6.5	7.4	2.7	3.9	3.7
Barclays Global Agg	2.2	3.3	5.6	5.6	5.8	1.6	1.2	4.5
Barclays High Yield Very Liquid Index	2.6	2.5	10.8	10.8	8.2	7.1	4.0	4.8

Source: Bloomberg

Commodity Prices (Prices and Returns in USD)

Commodity	06/28/2019 Price (\$)	MoM Change (%)	YoY Change (%)
WTI Crude Oil/BBL	58.47	9.3	-21.1
Natural Gas/mmBTU	2.31	-5.9	-21.1
Copper/pound	2.71	2.5	-8.3
Silver/oz	15.25	4.7	-5.3
Gold/oz	1413.70	8.3	12.7

Source: Bloomberg

Economic Data

Canada	
Real GDP - Q1 (q/q ann. % change)	0.4
Consumer Prices June (y/y % change)	2.4
Unemployment Rate, June 2019	5.4
United States	
Real GDP - Q1 (q/q ann. % change)	3.1
Consumer Prices June (y/y % change)	1.8
Unemployment Rate, June 2019	3.6

Source: Bloomberg, Stats Canada

One Month Sector Returns (% in CAD)

Sector	S&P/TSX Composite returns	S&P 500 returns
Consumer Discretionary	6.6	4.2
Consumer Staples	-1.9	1.5
Energy	-2.3	5.6
Financials	2.5	3.2
Health Care	3.0	3.1
Industrials	1.4	4.3
Info Tech	2.9	5.6
Materials	12.7	7.9
Real Estate	0.6	-2.0
Telecom Services	-2.2	-0.9
Utilities	1.0	-0.2

Source: Bloomberg

Exchange Rates

Cross	2019-06-28	6 Mos Ago	1Yr Ago
USD/CAD	1.31	1.36	1.31
EUR/CAD	1.49	1.56	1.53
GBP/CAD	1.66	1.74	1.73
CAD/JPY	82.32	80.41	84.33

Source: Bloomberg

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