Credential

Market Insights | MONTHLY

Month in Review

For the month ended April 30th, 2017

Index/Commodity/Currency		
Close	**MonthChange**	**YTDChange**
S&P/TSX Composite		
15,586.13	38.4	298.5
	0.2%	2.0%
BMO Nesbitt Burns Small Cap		
887.96	-20.9	7.7
	-2.3%	0.9%
Dow Jones Industrial Average		
20,940.51	277.3	1,177.9
	1.3%	6.0%
S&P 500		
2,384.20	21.5	145.4
	0.9%	6.5%
NASDAQ Composite		
6,047.61	135.9	664.5
	2.3%	12.3%
MSCI-EAFE Index		
1,833.70	40.7	149.7
	2.3%	8.9%
WTI Crude Oil (per barrel, in $US)		
49.18	-1.6	-4.7
	-3.2%	-8.6%
Gold (per ounce, in US$)		
1,269.50	22.7	118.6
	1.8%	10.3%
Canadian Dollar (¢ per US$)		
73.20	-1.9	1.3
	-2.5%	-1.7%

Sources: Bloomberg, PC Bond

Overall Highlights

- **TSX gains slightly.** A late month sell-off erased most of the month's gains as the S&P/TSX Composite managed to stay in the black in April. Financials were shaken as the real estate markets continued to be a growing concern, prompting recent actions by the Ontario government to help cool the surging housing sector. Weaker economic data pointed to the slowing of the country's economy amidst backlash from the U.S. on trade between the two countries and NAFTA. The Index closed at 15,586, a gain of 0.2%.
- **Dollar weakens.** The Loonie ended April at a 14-month low as growing trade protectionism in the U.S. clouded the country's trade outlook. U.S. President Trump's comments against the Canadian soft-wood lumber and dairy industry and his determination to re-negotiate the North American Free Trade Agreement placed pressure on our dollar all month – a trend that will likely continue in the foreseeable future. The Loonie closed at US73.20 cents per Canadian dollar, a 2.5% decline.
- **Gold up.** Weak U.S. GDP data helped the yellow metal climb higher in April and the U.S. dollar fell on the news. With their economy slowing, the chances of a Federal Reserve rate hike in the coming months are lessened. In addition, continued tensions between the U.S. and North Korea added instability and investors flocked to the safe-haven asset. Gold rose 1.8% for the month to close at US$1,269.50 per ounce.
- **Oil lower.** The commodity's future looked bleak as the U.S., not affected by the OPEC production cuts, saw another rise in oil rigs, a 15th consecutive week of increases. As the price of oil remains high, more oil and gas wells are expected to be tapped, adding to the ever-persisting problem of global over-supply. A barrel of West Texas Intermediate closed at US$49.18 per barrel, a monthly decline of 3.2%.
- **GDP flat.** With a strong finish to 2016 and an impressive start to the year, Canada's economy cooled in February as many economists had forecasted.
- **Inflation higher**. The price of a notional basket of goods rose in March by 0.2%, the same as the previous month.
- **Unemployment rate higher.** The national jobless rate edged higher in March despite the addition of 19,400 new jobs into the economy.
- **Bank of Canada holds.** BoC governor Stephen Poloz announced no change to its benchmark rate in the central bank's latest monetary report citing improvements to the economy's outlook for the balance of this year and into 2018 and 2019.
- **U.S. GDP growth weakens.** The U.S. economy posted its weakest growth rate in three years. The Commerce Department reported that GDP was growing at an annualized rate of 0.7% in Q1 2017, much softer than the 1.2% projected by economists.
- **U.S. non-farm payroll gains slow.** U.S. non-farm payroll gains in March slowed significantly from the previous month. The Labor Department reported that the economy pumped out 98,000 jobs in March after an increase of 219,000 reported in February.
- **ECB keep interest rates unchanged.** The ECB left its monetary policy unchanged, but President Mario Draghi recognized economic recovery within the 19-member zone.
- **BOJ keeps policy steady.** The Bank of Japan (BOJ) became more optimistic about the economy but decided to stay its course on monetary policy.
- **China's exports rise.** China's exports accelerated at the fastest pace in more than two years in March, according to customs data.

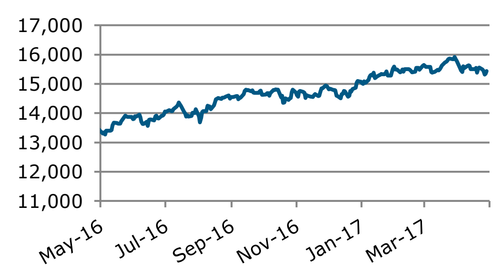
Canadian Markets

- **GDP flat.** With a strong finish to 2016 and an impressive start to the year, Canada's economy cooled in February as many economists had forecasted. For the month, GDP growth was unchanged as declines in the manufacturing sector were offset by gains in the services industries. Despite this data, expectations are for consistent and stable economic expansion for the year.
- **Inflation higher**. The price of a notional basket of goods rose in March by 0.2%, the same as the previous month. However, a drop in food prices sent the annual inflation rate below the Bank of Canada's target range prompting talk of interest rate actions by the central bank. Food prices fell 1.9% on a year-over-year basis as annual inflation fell to 1.6% from 2% in February. Core common was unchanged at 1.3%.
- **Unemployment rate higher.** The national jobless rate edged higher in March despite the addition of 19,400 new jobs into the economy. After touching a low in February that had not seen since October 2008, the unemployment rate pushed to 6.7%. The number of jobs added surged past estimates on increased manufacturing positions and Albertans finding work.
- **Bank of Canada holds.** BoC governor Stephen Poloz announced no change to its benchmark rate in the central bank's latest monetary report citing improvements to the economy's outlook for the balance of this year and into 2018 and 2019. The report noted there is insufficient data to conclude the economy is on a "sustainable growth path"; performance has improved but is not consistently stable.
- **PPI higher.** The cost of goods leaving factories rose in March on higher metal prices and auto expenses. As reported by Statistics Canada, their Industrial Product Price Index rose 0.8%, ahead of estimates of a 0.3% monthly gain. With the exception of raw materials that fell 1.6%, the remaining 20 commodities tracked for the index saw month-over-month gains. On an annual basis, IPPI has risen 5.1%, the most since November 2011.
- **Manufacturing sales drop.** Sales from factories slipped in February as motor vehicle and petroleum and coal products saw declines. Monthly receipts tallied $53.6B as sales fell 0.2% from January, better than the 0.7% forecasted by analysts. Sales were lower in 10 of the 21 industries tracked but on a volume basis, were higher by 0.1% month-over-month.
- **Manufacturing PMI rises.** An indication of the health of the manufacturing sector, the latest PMI expanded to 55.5 in March from 54.7 a month earlier. This marked the fastest rate of expansion in the sector since October 2013 and the sixth consecutive rise as output and new orders continued to grow.
- **Wholesale sales fall.** After rising for four straight months, wholesale sales in February fell 0.2%, better than analysts' predictions of a 1% decline. Total sales dropped to $58.9B as demand was lower in personal and household goods, food, beverage, and tobacco products. Four of the seven sectors tracked dropped during the month. In terms of volume, wholesale sales fell 0.4%.
- **Retail sales drop.** Consumers spent less in February as retail sales fell on fewer automobile purchases and cheaper gas at the pumps, leading to decreases in five of the 11 sectors followed. Sales were down 0.6%, more than the 0.1% decline forecasted by Statistics Canada; however, January's numbers were revised higher by 0.1% to 2.3%. The strong sales seen at the beginning of the year places the economy on track for a 3% growth in the first quarter.
- Canada housing news:
  - **Building permits fall.** Declines in plans for single family dwellings, schools, and industrial buildings sent the value of building permits lower in February to $7.5B. During the month, building intentions fell 2.5%, contrasting January's revised 5.8% increase as homes fell 5.4%, mainly in Ontario. Multi-unit complexes, on the other hand, rose for a second straight month by 3%.
  - **Home sales rise.** On a month-over-month basis, CREA's index of national home sales rose in March by 1.1% led by Vancouver, London (ON), and Montreal. Helping feed this demand was an increase in newly listed homes by 2.5% for the same period. Sales activity remained strong, rising 6.6% on an annualized, unadjusted basis, with ¾ of all regional markets posting gains. The country's current hot spot, Toronto, was a large driver of this annual growth prompting the Ontario government this week to enact 16 new measures to cool the market, including rent control and a 15% foreign buyers tax.
  - **Housing starts higher.** Beating expectations and surging to its highest pace in close to 10 years, annual home groundbreakings for March came in at 253,720 units, topping economist forecasts of 215,000. The main contributor was multi-unit starts, which rose 30.2% during the month, while single family homes also rose but by 3.1%.
  - **Home prices gain.** Prices in Toronto and Vancouver continued to push the Teranet-National Bank Composite Home Price Index higher again in March by 0.9%. This was the greatest increase in a decade for this month with prices higher by 13.5% when compared to a year ago.

S&P/TSX Composite Index
Sector Snapshot

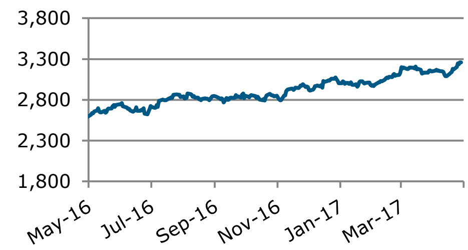
Sector	Month Return	YTD Return	Weight (%)
Energy	-0.24	-6.43	21.40
Telecoms	5.65	9.70	5.00
Industrials	2.42	7.45	9.10
Consumer Staples	5.27	7.67	3.90
Utilities	4.83	6.11	3.00
Financials	-1.85	0.71	33.80
Consumer Discretionary	3.85	10.57	5.30
Health Care	-7.35	-16.92	0.60
Materials	-0.37	5.42	12.00
Information Technology	3.56	10.67	2.90
Real Estate	1.49	4.89	3.00

S&P/TSX Composite - 1Y Return

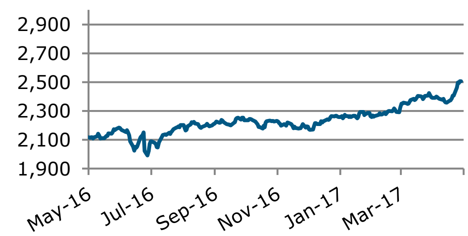


U.S. Markets

S&P 500 - 1Y Return (CAD)



MSCI EAFE – 1Y Return (CAD)



- **U.S. markets climb higher.** The U.S. market continued to press towards new record highs where increased protectionism by Trump and the announcement of his tax proposals provided a boost to markets in April. The broad-based S&P 500 index rose 0.9%, closing the month at 2,384, while the Dow Jones Industrial Average, marching toward the 21,000-level, moved up 1.3% to end the month at 20,941. The tech-heavy Nasdaq posted a solid gain of 2.3%, surpassing the 6,000 level to wrap up the month at 6,048.
- **U.S. GDP growth weakens.** The U.S. economy posted its weakest growth rate in three years. The Commerce Department reported that GDP was growing at an annualized rate of 0.7% in Q1 2017, much softer than the 1.2% projected by economists. It was the weakest quarterly performance since Q1 2014. Reduction in defense spending by the government and slowdown in inventory investment were believed to be the major drags on growth.
- **Fed releases March meeting minutes.** The Federal Reserve released the minutes of its meeting in March. The minutes highlighted the interest rate increase to a range of 75 to 100 basis points, as Fed announced in mid-March. It was the second rate hikes in three months. Markets also noted a mention in the minutes that most FOMC members believe that the U.S. central bank should take steps to trimming its $4.5T balance sheet, resulting from the massive bond purchases under quantitative easing.
- **U.S. non-farm payroll gains slow.** U.S. non-farm payroll gains in March slowed significantly from the previous month. The Labor Department reported that the economy pumped out 98,000 jobs in March after an increase of 219,000 reported in February. Economists were expecting a rise of 180,000. Unemployment rate, however, fell from 4.7% in February to 4.5%. Wage growth slowed to a 2.7% year-over-year pace.
- **U.S. 'flash' composite PMI drops.** Businesses in the U.S. were losing some momentum, according to the 'flash' composite purchasing managers index (PMI). The Markit 'flash' composite PMI declined to 52.7 in April from March's final reading of 53.2. The manufacturing PMI dropped from March's 53.4 to 52.8 while the service sector PMI moved down from 52.9 to 52.5.
- **U.S. durable goods orders rise.** The Commerce Department reported that durable goods orders increased by 0.7% in March, less than economists' estimate of a 1.1% increase. Core capital goods, which excludes the aircraft sector and is seen as a proxy of business spending, rose 0.2%, also below forecast of a 0.4% growth.
- **U.S. consumer sentiment improves.** The University of Michigan released its consumer sentiment index for April, and the report showed that consumers were more optimistic. April's index rose to 97.0 from March's reading of 96.9. Economists were expecting a reading of 98.0.
- U.S. Housing News:
  - **U.S. housing starts fall but permits rise.** Homebuilding in the U.S. fell in March, according to a report by the Commerce Department. Housing starts declined by 6.8% to a seasonally adjusted annual pace of 1.22M units in March, falling short of economists' expected annual pace of 1.25M units. March's number was dragged down by a big drop in single-family construction in the Midwest, which saw a decline of 35%, the largest drop since January 2014. On the other hand, building permits were up 3.6% last month, driven by a 13.8% gain in the multi-family segment.
  - **U.S. existing home sales jump.** Existing home sales in March surged to a level not seen since 2007, according to a report by The National Association of Realtors (NAR). Existing home sales rose 4.4% in March to a seasonally adjusted annual pace of 5.71M units, the highest level since February 2007. Economists only estimated a 2.5% increase in March. On a year-over-year basis, home resales were up 5.9%.
  - **U.S. home prices climb.** Home prices in U.S. rose more than expected in February as strong demand continued to outweigh supply. The S&P/Case-Shiller U.S. National Home Price Index climbed 5.8% year-over-year in February, slightly higher than economists' estimate for a 5.7% growth. It was the biggest increase in 32 months. The index that tracks the 20 largest cities moved up 5.9%, with Seattle, Portland, Oregon, and Dallas reaching their all-time highs.
  - **U.S. new home sales rise.** New home sales reached an eight-month high in March. The Commerce Department reported that March's new home sales jumped 5.8% to a seasonally adjusted annual pace of 621,000 units. Economists were expecting a decline of 0.8% to an annual pace of 583,000 units. Year-over-year, new home sales were up 15.6% from the previous year. Sales have now been up for three straight months, mainly driven by a tightening labor market and historically low mortgage rates.
  - **U.S. pending home sales drop.** Pending home sales in the U.S. declined in March. The number of contracts to buy previously owned homes dropped by 0.8% after a 5.5% jump in February, according to the National Association of Realtors. Economists were expecting a bigger fall of 1%. Year-over-year, pending home sales were up 0.8%. Lack of supply in the market was believed to be the major factor accounting for the decline.

European Markets

- **French election update.** Expected to be a major global event that could move the market, the outcome of the first round of the French election did not cause a lot of surprises for the market. The stock market posted a relief rally after the result was out. Centrist candidate Emmanuel Macron won the first round with 23.5% of the vote. He is going to face the far-right candidate Marine Le Pen, who won 21.5% of vote in the first round, in the May 7 run-off. It was widely expected that Macron will defeat Le Pen comfortably in the run off as most of the votes from other eliminated candidates are expected to go to him.
- **ECB keep interest rates unchanged.** The ECB left its monetary policy unchanged, but President Mario Draghi recognized economic recovery within the 19-member zone. "Incoming data since our meeting in early March confirm that the cyclical recovery of the euro area economy is becoming increasingly solid and that downside risks have further diminished," Mr. Draghi said when answering questions from reporters. The ECB held its benchmark interest rates at 0% and kept its rate of asset purchases at 60B euros, at least until the end of the year.

European Markets cont'd

- **Euro-zone's inflation rebounds.** Euro-zone inflation bounced back from March's dismal level. Eurostat reported that the 'flash' harmonized index of consumer prices (HICP) rose at 1.9% annually in April, beating economists' estimates and moving back on track to ECB's target inflation rate of 2%. March's inflation was reported to be 1.5%. Rising energy prices were believed to be the main contributor for the increase in April. Core inflation, which strips out energy and unprocessed foods, rose to 1.2% from March's 0.8%.
- **Euro-zone unemployment declines.** Unemployment within the 19-member region continued to fall, according to Eurostat. The Euro-zone unemployment rate fell to an eight-year low of 9.5% in February, matching economists' estimate. Czech Republic (3.4%) and Germany (3.9%) had the lowest unemployment rates, while Greece (23.1%) and Spain (18%) recorded the highest.
- **Euro-zone 'flash' composite PMI surges.** Business activity within the 19-member bloc reached a six-year high in April, according to the 'flash' composite purchasing managers' index (PMI). The 'flash' PMI rose to 56.7 in April, beating economists' expected reading of 56.3. France was leading the pack in April, where it saw its composite PMI surged to its highest level since May 2011. It was believed that a weak euro had been boosting to the manufacturing sector within the region.
- **Euro-zone industrial production drops.** Industrial output within the 19-member bloc unexpectedly fell in February. Eurostat reported that industrial output decreased by 0.3% from the previous month, missing economists' estimate of a 0.2% rise. January's growth was also revised down from 0.9% to 0.3%. Year-over-year, output was up 1.2% in February.
- **Eurozone consumer confidence rises.** Consumers' confidence continued to improve within the 19-member region. The EU Commission reported that the 'flash' consumer confidence index moved up to -3.6 in April from March's final reading of -5.0. Economists were expecting a reading of -4.5. It was the highest reading since July 2007.

Asian Markets

- **BOJ keeps policy steady.** The Bank of Japan (BOJ) became more optimistic about the economy but decided to stay its course on monetary policy. The BOJ increased its forecast of annual GDP growth for fiscal 2017-18 to 1.6%, from January's 1.5%. The central bank announced that it will maintain its pace of annual bond purchase at 80T yen and the target yield of the benchmark 10-year Japanese government bond at around 0%.
- **Japan's CPI increases.** Japan's consumer price index (CPI) increased by 0.2% year-over-year in March, down slightly from the 0.3% pace reported in February. It marked six consecutive months that CPI was in the positive territory. Core CPI, which excludes fresh food prices, rose 0.2% year-over-year in March, in line with February's pace. Rising energy prices and depreciation of the yen were believed to be main drivers of the price increase.
- **Japan's exports and imports rise.** Both exports and imports surged in Japan in March, showing signs that the world's third largest economy may be seeing some growth in the first quarter. Exports surged 12% year-over-year in March, handily beating economists' estimate for a 6.6% growth. Imports also surpassed economists' expectations of 11.5% growth, rising 15.8% in March. Japan reported its first trade surplus in six years in 2016.
- **Japan's industrial output drops.** Industrial output in Japan fell in March, mainly due to a drop in production of industrial machinery. Output fell 2.1% in March, a lot worse than the 1.1% decline expected by economists; output was up 3.2% in February. The industrial machinery category fell by 6.3% in March.
- **China producer inflation slows.** China's producer inflation cooled from its nine-year high recorded in February. The National Bureau of Statistics reported that the producer price index (PPI) rose 7.6% in March from a year earlier, dropping slightly from February's 7.8% increase. On a monthly basis, PPI advanced by 0.3%, the smallest monthly increase since September 2016. On the consumer side, the consumer price index (CPI) edged up 0.9% year-over-year in March, slightly lower than the forecast of a 1% rise but higher than February's 0.8%.
- **China's Caixin/Markit manufacturing PMI drops.** The Caixin/Markit manufacturing purchasing index (PMI) fell in March, but remained above the 50-mark - which separates expansion from contraction - for the ninth straight month. The gauge for manufacturing activity in China, with a tilt toward the small- and mid-size enterprises, fell to 51.2, missing economists' forecast of 51.6.
- **China's exports rise.** China's exports accelerated at the fastest pace in more than two years in March, according to customs data. Exports from the world's second largest economy rose 16.4% year-over-year to $180.6B in March, up from the 4% growth in the first two months of the year. Meanwhile, imports growth slowed to 20.3%, compared to the 26.4% growth recorded in January-February. U.S. President Donald Trump this week said he will not label China as a currency manipulator, a claim which had previously been a potential threat to China's export sector.

Key Take-Aways

The most recent report on price growth data in Canada was a setback for the economy and the Bank of Canada. Despite months of improving economic health, March's weaker than anticipated CPI numbers had markets speculating if Governor Stephen Poloz would have to pull the trigger on an interest rate cut to stimulate the economy forward. It is not likely a lowering of the benchmark rate would occur in the short term; with rates already at historical lows, Mr. Poloz's monetary tools are limited. In addition, a rate cut would have the negative effect of worsening the country's household debt-to-income ratio, which the central bank wants to control, especially when considering rates will eventually rise.

The thing about bubbles. They're cute when they're small but can be messy when they burst. This is the latest concern in Canada's housing market as recent data propelled fears the sector is unsustainable, and is exposing the economy to a possible housing correction. As one of four AAA-rated countries, debt rating agency Moody's identified Canada as highly susceptible to the downside effects of a housing decline, as low interest rates have spurred both rising home prices and record high household debt–to-income ratios. Fortunately, with a well-capitalized banking system and ever-tightening legislation and policy at all levels of government, the probability of a U.S.-style housing crash is low. But as the Bank of Canada monitors the recovery and overall health of economy, the inevitable rise in interest rates to moderate growth will cause problems for many borrowers trying to repay their debts, and sending negative repercussions back into the economy.

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