glc asset management

Weekly Market Snapshot

For the week ending May 11, 2018

Equities

Local currency, price only, % change

	5/11/2018	Week	QTD	YTD	1 Year
S&P/TSX Composite	15,983	1.6%	4.0%	-1.4%	2.8%
S&P/TSX Small Cap	649	0.7%	7.0%	-1.8%	-0.1%
S&P 500	2,728	2.4%	3.3%	2.0%	13.9%
NASDAQ	7,403	2.7%	4.8%	7.2%	21.0%
Russell 2000	1,607	2.6%	5.1%	4.6%	15.6%
Euro Stoxx 50	3,566	0.4%	6.1%	1.8%	-1.6%
Nikkei 225	22,758	1.3%	6.1%	0.0%	14.0%
MSCI EM Index (USD)	1,164	2.5%	-0.5%	0.5%	16.4%

Fixed income

Total return, % change

	5/11/2018	Week	QTD	YTD	1 Year
FTSE TMX Canada Universe Bond Index	1,027.05	-0.1%	-1.0%	-0.9%	-0.7%
FTSE TMX Canada All Corporate Bond Index	1,169.25	-0.2%	-0.8%	-0.6%	-0.3%

Interest rates - Canada

Change in bps

	5/11/2018	Week	QTD	YTD	1 Year
3-month Tbill	1.21	0	11	15	71
GOC bonds 2 yr	1.96	5	19	28	126
GOC bonds 10 yr	2.37	5	29	33	77
GOC bonds 30 yr	2.41	0	18	14	16

Currencies and Commodities

In USD, % change

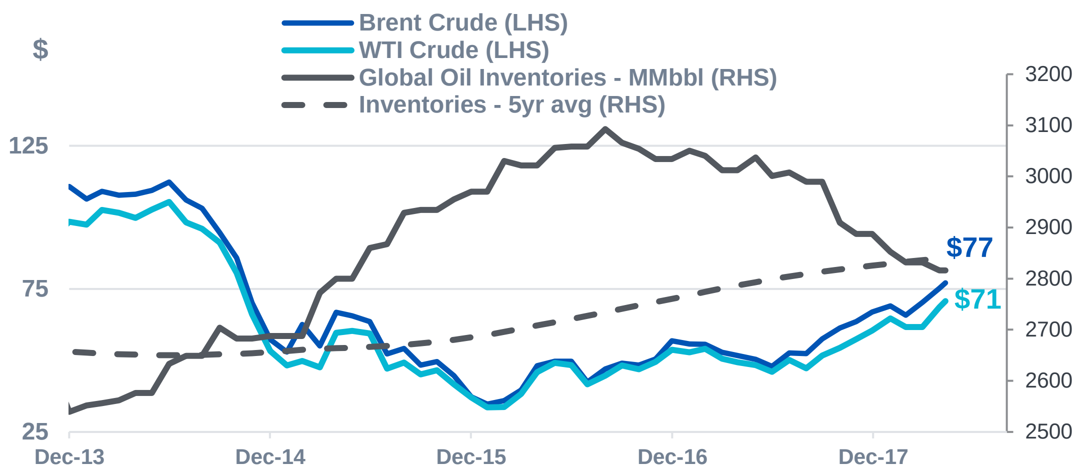
	5/11/2018	Week	QTD	YTD	1 Year
CDN $	0.782	0.4%	0.8%	-1.8%	7.0%
US Dollar Index	92.54	0.0%	2.8%	0.4%	-7.1%
Oil (West Texas)	70.70	1.4%	8.9%	17.0%	47.8%
Natural Gas	2.81	3.5%	1.0%	1.2%	-4.2%
Gold	1,319	0.4%	-0.5%	1.3%	7.7%
Copper	3.11	0.8%	2.2%	-6.5%	21.4%

Canadian sector performance

S&P/TSX Composite Index

	Week	YTD
Energy	2.3%	-0.8%
Materials	2.1%	0.3%
Industrials	0.9%	1.5%
Cons. Disc.	1.3%	-0.5%
Info Tech	1.7%	17.4%
Health Care	5.4%	-12.7%
Financials	1.8%	-2.4%
Cons. Staples	-0.1%	-8.1%
Telecom	0.4%	-7.6%
Utilities	-1.8%	-9.5%
Real Estate	1.8%	1.2%

Chart of the week: Oil Higher on Mid-East Tensions, Tighter Inventories & Supply Disruptions



We think oil prices will struggle to maintain current levels for a number of reasons. If, when and by how much Iranian supply could be reduced due to US sanctions remains unclear. Trump is interested in negotiating a 'new' deal and the remaining signatories have not pulled out (although the nature of the US sanctions makes it difficult for any global business to deal there). Saudi Arabia has pledged to offset any declines in Iranian production. The OPEC/Russia production cap deal could be scrapped as the purpose of that deal was to raise prices and bring global inventories below their 5-year average – both have been accomplished. Outages in Venezuela and possibly Iran should make the OPEC/Russia deal obsolete. If not on paper, then in reality, as pressure to reap rewards in the form of revenues and capture the market share that is up-for-grabs will be too tempting for the deal partners not to cheat.

Highlights

Global equities posted solid gains. In North America, the advance was broad based, with only consumer staples and the utilities sectors underwater. All our tracked markets are back to flat or better on the year, with the exception of Canada. The tech heavy NASDAQ leads the way. Not surprisingly, the small cap Russell 2000 Index is besting its large cap brethren. It's more domestic focus benefits from US economic strength and is better insulated from trade skirmishes and a see-saw US dollar. Notably, the S&P 500 has climbed back above all three of its 50, 100 and 200 day moving averages. Despite being negative on the year, the S&P/TSX is perking up, and we expect that trend to continue. Energy, materials and industrials (41% of the index and sectors typically associated with out-performance in the late-stage of the cycle) are currently doing the heavy lifting.

Bond yields moved higher in Canada, despite disappointing headline job creation numbers. The details of the report were much better than the decline of 1100 jobs would suggest: Full-time jobs rose by 28,800, offsetting the slightly larger decline in part-time positions - a positive theme that has persisted for the past year, with full time employment up by 378,000 jobs while part-time jobs shrunk by 100,000. The bond market no doubt focused on the upside in wage growth. The 3.6% y/y gain is close to the fastest pace of the cycle. The employment report shifted the expectations for the timing of Bank of Canada rate hikes, but the bottom line is that the market is pricing a 95% chance of at least one hike by year-end and a 36% chance of two. With wages rising at this pace and oil prices up ~50% year-over-year, we continue to lean toward expectations of two more rate hikes in 2018.

US bond yields rose ever so slightly, but the 10-year Treasury yield has yet to move sustainably above 3%. Keeping the cap on yields was a weaker-than-expected reading for US core inflation. Core prices rose 0.1%, but near-term annualized rates have really come off the boil, with the 3-month down to 1.8% from the near 3% run-rate of recent months. Notably, a $25 billion auction of US 10-year Treasuries (the largest for that maturity since 2010) saw solid demand and drew a yield of 2.995%, just missing the first 3% yield at auction since early 2014. We believe a sustained move above 3% for US 10-year yields would be a constructive development and one that equities can handle. We expect core inflation to drift higher given very tight labour markets, tariffs, firmer commodity prices and past weakness in the dollar. We see this keeping the Federal Reserve on track to lift policy rates three more times in 2018.

The week in review

- Canadian employment (April) fell by 1,100 (versus +20,000 expected) following the solid 32,300 advance in the prior month. The participation rate slipped 0.1, helping hold the unemployment rate steady at 5.8%, matching the four-decade low. Average hourly wages rose 3.6% y/y.
- US CPI inflation (April) rose 0.2% m/m (versus +0.3% expected), lifting the annual rate up to 2.5%. Core CPI rose 0.1% m/m (versus +0.2% expected), with the y/y pace holding at 2.1%.
- US real average hourly earnings (April) rose by 0.2% y/y, down from 0.4% y/y pace in March.
- US NFIB Small Business Optimism Index (April) rose 0.1 to 104.8, close to the February 2018 all-time high of 107.6.
- US University of Michigan Consumer Sentiment Index (May) stayed flat at 98.8 (versus 98.3 expected).
- The Bank of England left its policy rate unchanged at 0.50% and the asset purchase facility target at £435 billion.
- Bank of Japan's March meeting minutes underscored that policy normalization still remains in the distant future.
- China consumer prices (April) rose 1.8% y/y (versus 1.9% expected), down from 2.1% prior. Producer prices rose 3.4% y/y (as expected), up from 3.1% prior.
- China's trade balance (April) swung back to a surplus of $28.8 billion

The week ahead

- Canada, US and China retail sales data
- Canada, Japan, eurozone inflation data
- US, Japan, eurozone and China industrial production data
- Eurozone trade balance