glc asset management

Weekly Market Snapshot

For the week ending May 25, 2018

Equities

Local currency, price only, % change

	5/25/2018	Week	QTD	YTD	1 Year
S&P/TSX Composite	16,076	-0.5%	4.6%	-0.8%	4.3%
S&P/TSX Small Cap	649	-1.4%	7.0%	-1.8%	2.3%
S&P 500	2,721	0.3%	3.0%	1.8%	12.7%
NASDAQ	7,434	1.1%	5.2%	7.7%	19.8%
Russell 2000	1,627	0.0%	6.4%	6.0%	17.6%
Euro Stoxx 50	3,515	-1.6%	4.6%	0.3%	-1.9%
Nikkei 225	22,451	-2.1%	4.6%	-1.4%	13.3%
MSCI EM Index (USD)	1,137	-0.1%	-2.9%	-1.9%	12.0%

Fixed income

Total return, % change

	5/25/2018	Week	QTD	YTD	1 Year
FTSE TMX Canada Universe Bond Index	1,029.54	0.8%	-0.8%	-0.7%	-1.5%
FTSE TMX Canada All Corporate Bond Index	1,172.60	0.7%	-0.6%	-0.3%	-0.5%

Interest rates - Canada

Change in bps

	5/25/2018	Week	QTD	YTD	1 Year
3-month Tbill	1.28	2	18	22	77
GOC bonds 2 yr	1.96	-7	19	27	124
GOC bonds 10 yr	2.35	-14	26	31	89
GOC bonds 30 yr	2.38	-11	16	12	29

Currencies and Commodities

In USD, % change

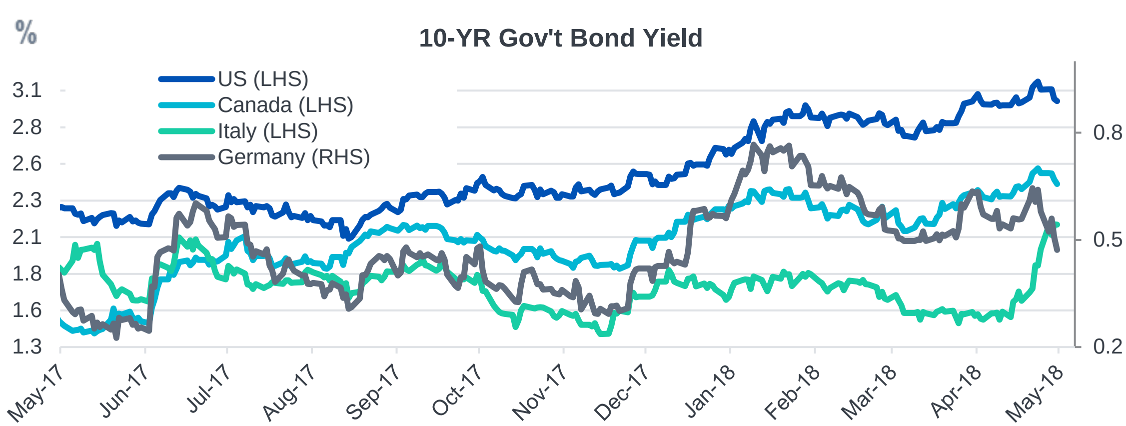
	5/25/2018	Week	QTD	YTD	1 Year
CDN $	0.771	-0.7%	-0.6%	-3.1%	3.9%
US Dollar Index	94.25	0.7%	4.8%	2.3%	-3.1%
Oil (West Texas)	67.91	-4.7%	4.6%	12.4%	39.6%
Natural Gas	2.94	3.2%	5.8%	6.0%	1.1%
Gold	1,302	0.7%	-1.8%	0.0%	3.7%
Copper	3.08	0.5%	1.0%	-7.5%	16.2%

Canadian sector performance

S&P/TSX Composite Index

	Week	YTD
Energy	-4.2%	-3.3%
Materials	-0.2%	0.8%
Industrials	1.9%	5.6%
Cons. Disc.	0.5%	2.6%
Info Tech	1.2%	20.0%
Health Care	-0.2%	-7.4%
Financials	-0.2%	-1.9%
Cons. Staples	2.0%	-6.3%
Telecom	0.1%	-6.7%
Utilities	0.8%	-9.6%
Real Estate	1.5%	2.4%

Chart of the week: Rising Bond Yields Take a Pause…Except in Italy



After recently pushing above key psychological levels (2.5% in Canada and 3% in the US), bond yields promptly retreated, posting the largest weekly decline for US and Canadian 10-year yields in more than a year. The YTD decline for the FTSE/TMX Universe was halved. The drop came on the heels of weaker economic data (poor European and Japanese PMI's and weak US durable goods orders), trade fears, geopolitical tensions and central bank minutes that were no-more 'hawkish' than expected. Italy stands out against the trend as two populist parties attempt to take power. The coalition floated fiscal policy ideas that would balloon Italy's deficit. Reaction in the bond market forced them to flip-flop on some of their campaign ideals - a rare, but welcome sign of investors enforcing some fiscal discipline upon politicians. Over the weekend, the Italian president rejected the coalition government, so Italians look to be headed back to the polls.

Highlights

Fixed income volatility continues to dominate the overall capital market narrative. Equity markets were mixed on the week with relatively mild moves overall. Markets are dealing with renewed uncertainty surrounding trade and geopolitics, along with some softer economic data. Fears over trade were stoked by rumours that NAFTA negotiations have stalled, largely over contentious issues in the auto sector. President Trump added to the fear and widened the scope beyond North America by threatening an across-the-board 25% tariff on auto imports. Offsetting these concerns was a thaw in the US-China trade spat with China recently offering a number of conciliatory gestures, including cutting tariffs on autos and consumer products, approving the Bain-Toshiba deal, and talking up an increase in Chinese imports of US oil and agricultural products. Meanwhile, the US seems willing to soften its stance toward restrictions on Chinese tech company ZTE. As an aside, the Canadian government blocked a proposed takeover of construction firm Aecon Group by state-controlled China Communications Construction. Geopolitical tensions were stoked by the cancellation (for now at least) of the US-North Korean Summit.

Energy shares were the major drag for equities as oil prices pulled back on news that Russia, Saudi Arabia and the UAE met to discuss the oil supply pact and are considering an output increase of about 1 million bpd, a development that does not surprise us. With oil prices significantly higher than anyone expected just a few months ago, and the fact that the higher commodity price has not been accompanied by strength for the Canadian dollar, we remain optimistic on the outlook for the Canadian energy sector.

Canadian bank earnings kicked off by exceeding analyst expectations. In aggregate, Royal Bank, CIBC and TD Bank put up earnings growth of 16%, beating expectations by 5%. The banks cited strength in wealth management, retail and business banking. Mortgage growth slowed from last year's elevated pace, and the banks signalled that slower growth likely lies ahead. This is to be expected given slowing housing markets and the implementation of tighter lending regulations. The better-than-expected results were met with a sigh as the S&P/TSX Bank sub-index fell 0.7% on the week. Returns from the Canadian financials are negative YTD. Going forward, modest earnings expectations, average valuations and 15% return on equity leave us constructive on the sector. Like most of the Canadian equity universe, it will take an improvement in investor sentiment toward "all-things" Canada (housing, debt, NAFTA, pipelines, politics, government and trade deficits) to be the catalyst, but given the fundamentals, when that sentiment shifts, we'd expect the Canadian banks to participate in the upside.

The week in review

- Minutes from the May Federal Reserve policy meeting reinforced the expectation that rate hikes will continue in-line with their current guidance; likely raising 0.25% on June 13.
- US durable goods orders (April) dropped 1.7% m/m (versus -1.3% expected). Core orders (nondefense capital goods orders ex aircraft) rebounded to +1.0% m/m following March's unrevised 0.9% drop.
- Final University of Michigan Consumer Sentiment Index (May) was revised down to 98.0 (versus 98.8 in initial estimate)
- Eurozone manufacturing PMI (May) dropped 0.7 to 55.5. The services PMI fell 0.8 to 53.9 and the composite PMI fell 1.0 to 54.1.
- Japan manufacturing PMI (May) fell 1.3 to 52.5.
- Minutes from the latest European Central Bank meeting showed that policymakers believe the underlying strength of the economic expansion remained broadly intact.
- UK consumer prices (April) rose 2.4% y/y, the slowest pace in 13 months; core prices were up 2.1% y/y.
- Canadian bank earnings (Q2 2018); CIBC, TD Bank and RBC all beat earnings estimates. CIBC announced a ~$1 billion share buyback program (up to 9 million shares).

The week ahead

- Canadian GDP and current account data
- Bank of Canada policy announcement
- US employment data
- US personal spending and income data
- European inflation
- Purchasing Manager Indices globally