Weekly Market Snapshot
For the week ending May 4, 2018

Equities
Local currency, price only, % change

	5/4/2018	Week	QTD	YTD	1 Year
S&P/TSX Composite	15,729	0.4%	2.4%	-3.0%	2.2%
S&P/TSX Small Cap	644	0.9%	6.2%	-2.5%	2.1%
S&P 500	2,663	-0.2%	0.9%	-0.4%	11.5%
NASDAQ	7,210	1.3%	2.1%	4.4%	18.7%
Russell 2000	1,566	0.6%	2.4%	2.0%	12.7%
Euro Stoxx 50	3,551	0.9%	5.6%	1.3%	-2.1%
Nikkei 225	22,473	0.0%	4.7%	-1.3%	15.6%
MSCI EM Index (USD)	1,136	-1.7%	-3.0%	-1.9%	15.9%

Fixed income
Total return, % change

	5/4/2018	Week	QTD	YTD	1 Year
FTSE TMX Canada Universe Bond Index	1,027.62	0.0%	-1.0%	-0.9%	-1.3%
FTSE TMX Canada All Corporate Bond Index	1,171.03	0.0%	-0.7%	-0.4%	-0.6%

Interest rates - Canada
Change in bps

	5/4/2018	Week	QTD	YTD	1 Year
3-month Tbill	1.22	3	12	16	72
GOC bonds 2 yr	1.91	1	14	22	123
GOC bonds 10 yr	2.33	1	24	29	79
GOC bonds 30 yr	2.41	0	18	14	26

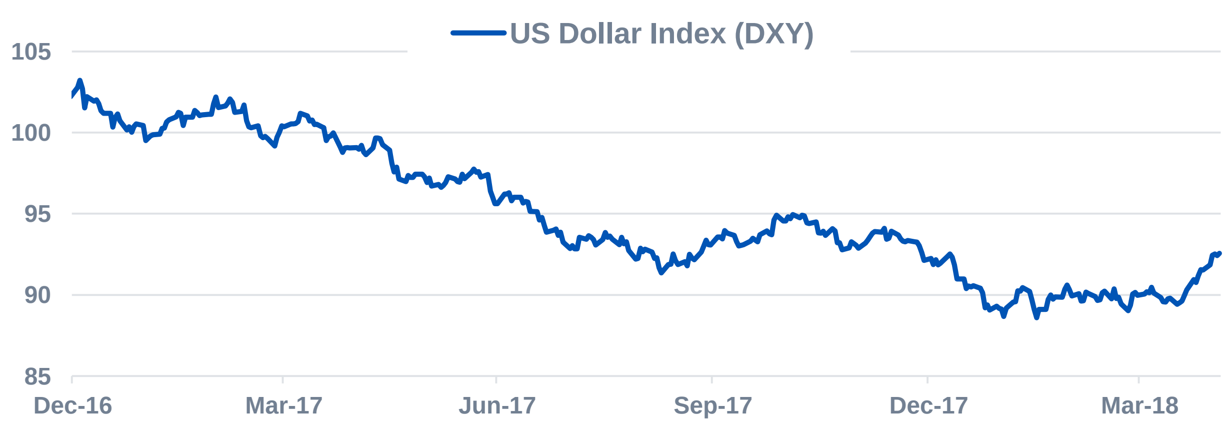
Currencies and Commodities
In USD, % change

	5/4/2018	Week	QTD	YTD	1 Year
CDN $	0.779	-0.1%	0.4%	-2.1%	7.0%
US Dollar Index	92.57	1.1%	2.9%	0.5%	-6.3%
Oil (West Texas)	69.72	2.4%	7.4%	15.4%	53.2%
Natural Gas	2.71	-2.2%	-2.4%	-2.2%	-6.2%
Gold	1,315	-0.7%	-0.8%	0.9%	7.0%
Copper	3.09	0.5%	1.3%	-7.3%	19.9%

Canadian sector performance
S&P/TSX Composite Index

	Week	YTD
Energy	1.8%	-3.0%
Materials	1.3%	-1.8%
Industrials	-0.2%	0.5%
Cons. Disc.	0.1%	-1.7%
Info Tech	3.4%	15.5%
Health Care	2.7%	-17.2%
Financials	-0.4%	-4.1%
Cons. Staples	-2.0%	-8.0%
Telecom	-1.5%	-8.0%
Utilities	0.1%	-7.9%
Real Estate	0.6%	-0.6%

Chart of the Week: US Dollar Index Hits Highest Level of 2018



The gain for the US Dollar Index (DXY) on top of last week's 1.36% gain marks the strongest two week gain (2.5%) since the Trump election rally in November of 2016 (a 4.3% gain). The greenback is being propelled by rising US inflation and an unemployment rate below 4% (for just the second time since 1970). The stronger dollar is weighing on emerging market debt and equities, and will need to be factored in to future S&P 500 earnings growth expectations. For now we see the move as somewhat of a relief rally for the DXY that had been down close to 4% earlier in the year. We expect the upward trend to moderate as the US continues to face a wide trade deficit, widening government deficits and large government bond issuance.

Source: Bloomberg, unless otherwise noted

Highlights

A relatively quiet week for equities and bond yields were essentially unchanged. Export-heavy European and UK equity markets benefitted from weakness in their domestic currencies, and the Japanese Nikkei was flat along with the yen. Canadian equities were boosted by the energy sector as oil prices continue to push higher (an even better result given the headwind of US dollar strength), and information technology saw a reprieve as shares of Apple jumped 13.25% to a new all-time high on the back of an earnings beat and $100 billion share buy-back announcement, the largest in history. Emerging markets saw the most weakness, pressured by the sudden resurgence in the US dollar, along with expectations for rising US interest rates and uncertainty over the path for global growth.

In regard to rising US interest rates, we are now more comfortable that the Federal Reserve (Fed) will stick to a gradual path of rate increases. In their recent statement the Fed signalled that they are comfortable with how inflation is moving higher. However, the most significant change in our view was the insertion of the word “symmetric” in front of the inflation objective. This clarifies that 2% inflation is not a ceiling; meaning the Fed would tolerate inflation above the 2% target for a period, without feeling the need to deviate from their gradual tightening path.

Even though the unemployment rate fell, it was due to a drop in labour force participation. Most noticeable was the pullback in annual wage growth. Recall that the spike in January wage growth sparked equity and bond market volatility. All told, when you consider US GDP growth, unemployment, inflation and risks in the form of trade disputes, we see the Fed’s current guidance on rate hikes as appropriate and expect them to stick with it. Should that be the case, we believe bond yields will rise gradually enough for equities to digest and grind slowly higher on the back of continued earnings growth, even if this quarter’s 25% US earnings growth is the high-water mark for the cycle.

In terms of global growth, recent GDP releases in the US, Canada and Europe were good. However, the recent slate of PMI’s show many are coming off their peak (albeit remaining strong), suggesting that global economic growth is moderating. Historically, equities still delivered positive returns in periods of growth moderation. The slowdown in eurozone inflation is also noteworthy, but suggests the European Central Bank may not begin to tighten policy by as much, or as soon as anticipated. European equities would be expected to benefit from this easier-for-longer monetary policy stance. Note that on a quarter-to-date basis, the Euro Stoxx 50 is up 5.6% and the UK FTSE 100 rose 7.2%, versus the S&P 500’s 0.9% rise.

The week in review

- Canadian real GDP (Feb) rose 0.4% m/m (versus 0.3% expected), following a 0.1% decline in the prior month.
- Canada’s merchandise trade deficit (Mar) widened to a record $4.1 billion (versus $2.3 billion deficit expected).
- US nonfarm payrolls (Apr) rose 164,000 (versus 193,000 expected); the unemployment rate dropped 0.2% to 3.9%; average hourly earnings fell slightly to 2.6% y/y.
- US personal spending (Mar) rose 0.4% m/m. Personal incomes rose 0.3% m/m. Core prices rose 0.2% m/m, lifting the annual rate to 1.9%.
- The US Federal Reserve held rates steady as expected; the target range sits at 1.50% to 1.75%.
- US ISM Manufacturing PMI Index (Apr) slipped 2.0 to 57.3. The ISM Nonmanufacturing PMI Index fell 2.0 to 56.8.
- The US goods & services trade deficit (Mar) narrowed to $49.0 billion from $57.7 billion the prior month.
- Eurozone consumer prices (Apr) rose 1.2% y/y, down from 1.3% in the prior month. Core CPI fell to 0.7% y/y, from 1.0% previously.
- Eurozone real GDP rose 0.4% in Q1, or 2.5% y/y.
- April PMI recap: Eurozone composite PMI fell 0.1 to 55.1; UK composite PMI rose 0.8 to 53.2; Japan composite PMI rose 1.8 to 53.1; China official composite PMI rose 0.1 to 54.1; China Caixin composite PMI rose 0.5 to 52.3.

The week ahead

- Canadian employment
- US inflation
- Bank of England policy meeting
- Chinese trade, inflation, financing and foreign direct investment data
- 101 S&P/TSX and 46 S&P 500 companies report Q1 earnings