Equities

Local currency, price only, % change

	6/1/2018	Week	QTD	YTD	1 Year
S&P/TSX Composite	16,044	-0.2%	4.4%	-1.0%	3.7%
S&P/TSX Small Cap	646	-0.4%	6.6%	-2.2%	3.2%
S&P 500	2,735	0.5%	3.5%	2.3%	12.5%
NASDAQ	7,554	1.6%	6.9%	9.4%	20.9%
Russell 2000	1,648	1.3%	7.8%	7.3%	18.0%
Euro Stoxx 50	3,454	-1.8%	2.7%	-1.4%	-3.2%
Nikkei 225	22,171	-1.2%	3.3%	-2.6%	11.6%
MSCI EM Index (USD)	1,130	-0.6%	-3.5%	-2.4%	12.1%

Fixed income

Total return, % change

	6/1/2018	Week	QTD	YTD	1 Year
FTSE TMX Canada Universe Bond Index	1,037.66	0.8%	0.0%	0.1%	-1.0%
FTSE TMX Canada All Corporate Bond Index	1,178.58	0.5%	0.0%	0.2%	-0.2%

Interest rates - Canada

Change in bps

	6/1/2018	Week	QTD	YTD	1 Year
3-month Tbill	1.27	-1	17	21	74
GOC bonds 2 yr	1.92	-4	15	23	122
GOC bonds 10 yr	2.25	-10	16	21	82
GOC bonds 30 yr	2.28	-10	5	2	23

Currencies and Commodities

In USD, % change

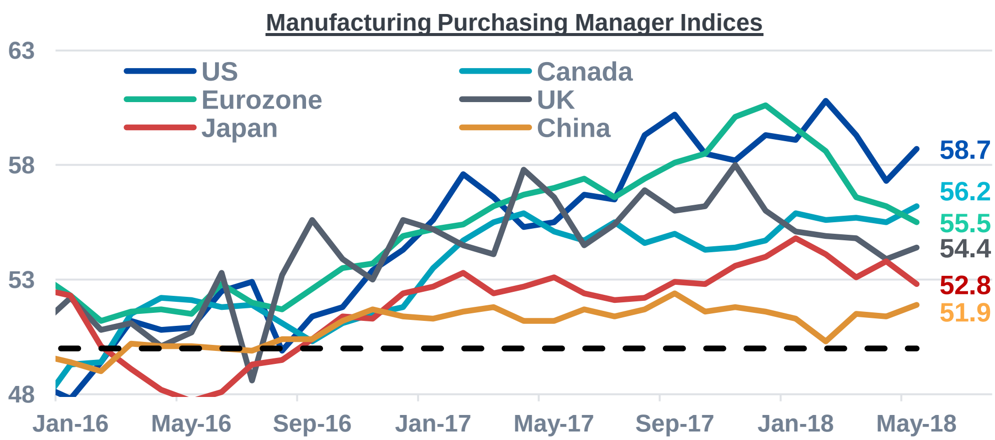
	6/1/2018	Week	QTD	YTD	1 Year
CDN $	0.772	0.2%	-0.5%	-3.0%	4.3%
US Dollar Index	94.16	-0.1%	4.6%	2.2%	-3.1%
Oil (West Texas)	65.81	-3.1%	1.3%	8.9%	36.1%
Natural Gas	2.96	0.0%	4.6%	5.6%	2.3%
Gold	1,293	-0.7%	-2.4%	-0.7%	2.2%
Copper	3.10	0.7%	1.7%	-6.9%	17.5%

Canadian sector performance

S&P/TSX Composite Index

	Week	YTD
Energy	1.1%	-2.3%
Materials	0.1%	0.9%
Industrials	0.9%	6.6%
Cons. Disc.	-0.2%	2.3%
Info Tech	1.8%	22.2%
Health Care	1.2%	-6.3%
Financials	-1.4%	-3.3%
Cons. Staples	0.5%	-5.8%
Telecom	-1.2%	-7.8%
Utilities	-1.1%	-10.6%
Real Estate	-0.6%	1.8%

Chart of the week: PMI's solid but divergent



Global growth is no longer synchronized. Recent GDP reports signal this, as does the trend in PMI's. European and Japanese economic growth rates are cooling down to a more sustainable pace, as is Canada. Forward looking surveys point to a further slowing in Europe and Japan, moderation in Canada and China, and the US poised to see a continuation of above potential growth fueled by tax cuts and business investment. However, the latest US business outlooks also flag labour shortages as a major concern, noting the unemployment rate sits near a 50-year low. One way to offset this is through labour substitution; that requires productivity enhancing capital investment – something US and Canadian businesses are doing. Canadian business investment is up 8.1% y/y and Q1 2018 US business investment clocked in at a 9.2% annualized rate.

Highlights

The relatively mild weekly percentage changes mask the extent of the volatility in both fixed income and equity markets. At one point, the S&P 500 was down as much as 1.9% and US and Canadian 10-year bond yields were both down close to 20 bps. Fundamental data releases were largely equity positive and bond negative, but the releases were stacked up at the end of the week. The earlier week lull left markets little choice but to devour the full plate of largely negative geopolitical news. Italy struggled to, but finally did, form a government, but not before eliciting fears of a euro-crisis/Brexit redux and uncertainty/skepticism over potential fiscal plans.

The US is moving forward with the steel and aluminum tariff's against previously exempted European, Canadian and Mexican allies under the notion of national security (a notion largely dismissed outside of the Trump administration). The tariff's (and the announced retaliatory responses) are clearly not constructive. Unless, of course you are trying to send a signal to China (which we propose is the US' real objective) that your threats are serious. If you are Commerce Secretary Wilbur Ross who is off to China this week, your negotiating stance just got a whole lot better. Here's to hoping the US administration listens to the myriad of voices in Congress and the business community decrying the moves and realizes the benefits of Canada and Mexico as the US' #1 and #2 export destinations. The US' numerous trade disputes are a cloud of uncertainty over the global expansion, the durability and longevity of which is an open question.

US bond yields recovered most of their ground, while the trade uncertainty kept Canadian bond yields down (the -1.47% YTD loss has swung to a 0.79% gain in two weeks), despite the hawkish tone of the Bank of Canada's policy statement. The Bank was more upbeat on the economy, including an expectation that housing activity will pick-up. The Bank stated unequivocally that future rate hikes will be warranted (we read this as a July move). This reinforces our view that unless the NAFTA deal completely unravels, we will see two more rate increases in 2018.

Energy shares managed to climb, despite a further pullback in oil prices. In Canada, word that the Federal government is buying the Trans Mountain Pipeline in order to see it through to completion is a mixed blessing. Questions remain around how this changes the amount of protest and legal wrangling the project will see, and what kind of signal it sends to other private enterprise (i.e. is nationalization now the only way large scale infrastructure projects can be accomplished)? While we see it as a positive (an unfortunate necessity) for Canadian investors, the ongoing narrative is far from over.

The week in review

- Canadian real GDP (Q1) rose 1.3% q/q annualized (versus +1.8% expected), down from a 1.7% increase in the prior quarter. March real GDP rose 0.3% m/m (versus +0.2% expected).
- The Bank of Canada left policy rates steady at 1.25% as widely expected. The tone of the statement was more hawkish than expected.
- US nonfarm payrolls (May) rose 223,000 (versus 190,000 expected), and the unemployment rate fell 0.3% to 3.8% (versus 3.9% expected) matching a 48-year low from April 2000. Average hourly earnings rose 0.3% m/m (versus 0.2% expected) and 2.7% y/y.
- US personal spending (April) rose 0.6% m/m (versus +0.4% expected). Personal incomes rose 0.3% m/m (in line with expectations). Core prices rose 0.2% m/m, holding the annual rate at 1.8%.
- Eurozone consumer prices (May) rose 1.9% y/y (versus 1.6% expected), the fastest pace in a year. Core CPI was up 1.1% y/y.
- Euro Area economic confidence (May) slipped 0.2 to 112.5. Euro Area jobless rate (April) ticked down 0.1% to 8.5%.
- Japan's jobless rate (April) held steady at 2.5%. Japanese Industrial production (April) rose 0.3% m/m (versus +1.4% expected).

The week ahead

- Canadian employment
- Canada, US and China trade data
- Non-manufacturing PMI data globally
- Europe and Japan GDP
- G7 meeting in Charlevoix, QC