Weekly Market Snapshot

For the week ending July 27, 2018

Equities

Local currency, price only, % change

	7/27/2018	Week	QTD	YTD	1 Year
S&P/TSX Composite	16,394	-0.3%	0.7%	1.1%	7.9%
S&P/TSX Small Cap	639	-0.1%	-0.6%	-3.3%	2.2%
S&P 500	2,819	0.6%	3.7%	5.4%	13.9%
NASDAQ	7,737	-1.1%	3.0%	12.1%	21.2%
Russell 2000	1,663	-2.0%	1.2%	8.3%	16.0%
Euro Stoxx 50	3,527	1.9%	3.9%	0.7%	1.0%
Nikkei 225	22,713	0.1%	1.8%	-0.2%	13.1%
MSCI EM Index (USD)	1,092	2.1%	2.1%	-5.7%	2.2%

Fixed income

Total return, % change

	7/27/2018	Week	QTD	YTD	1 Year
FTSE TMX Canada Universe Bond Index	1,035.79	-0.7%	-0.7%	-0.1%	1.7%
FTSE TMX Canada All Corporate Bond Index	1,178.12	-0.6%	-0.5%	0.2%	1.9%

Interest rates - Canada

Change in bps

	7/27/2018	Week	QTD	YTD	1 Year
3-month Tbill	1.41	2	15	35	68
GOC bonds 2 yr	2.06	9	15	38	77
GOC bonds 10 yr	2.29	12	13	25	30
GOC bonds 30 yr	2.33	11	13	7	-9

Currencies and Commodities

In USD, % change

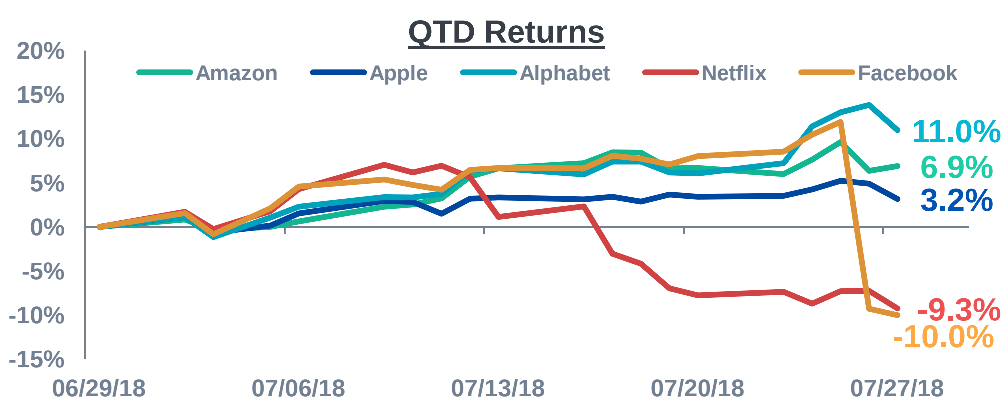
	7/27/2018	Week	QTD	YTD	1 Year
CDN $	0.766	0.6%	0.6%	-3.7%	-3.9%
US Dollar Index	94.67	0.2%	0.2%	2.8%	0.9%
Oil (West Texas)	68.69	-2.5%	-7.4%	13.7%	40.1%
Natural Gas	2.78	2.0%	-4.1%	-0.3%	-2.4%
Gold	1,224	-0.4%	-2.3%	-6.0%	-2.8%
Copper	2.80	1.7%	-5.5%	-16.1%	-4.8%

Canadian sector performance

S&P/TSX Composite Index

	Week	YTD
Energy	0.4%	2.7%
Materials	-1.6%	-1.7%
Industrials	1.9%	11.0%
Cons. Disc.	-2.2%	1.9%
Info Tech	-5.9%	24.3%
Health Care	0.6%	-10.0%
Financials	0.4%	-1.6%
Cons. Staples	-1.2%	-1.8%
Telecom	-0.7%	-4.4%
Utilities	-0.7%	-8.1%
Real Estate	0.0%	4.0%

Chart of the week: FAANG's Get A Root Canal!



Several 'new economy' stocks with significant weights in the S&P 500 have been taken to the woodshed over a combination of weak (or poor quality) earnings and lackluster forward guidance. Valuations in most of these names are elevated making them susceptible to any disappointment. Consider on a forward basis P/E multiples were recently as high as 125X for Netflix, 90X for Amazon; 24-26X for Facebook and Alphabet. Of note, Apple sits at a reasonable 16.5X P/E multiple. This group of new economy stocks has often traded in sympathy with each other given their secular growth stories. It now appears as though investors are becoming more discerning, focusing on each companies respective fundamentals, rather than just a blanket thematic trade. Thus reaffirming Benjamin Graham's famous quote: "In the short run, the market is like a voting machine - tallying up which firms are popular and unpopular. But in the long run, the market is like a weighing machine - assessing the substance of a company."

Source: Bloomberg, unless otherwise noted

Highlights

An event filled week with many macro (bond yields and trade) and micro (earnings and M&A) developments left global equity markets mixed, while a definitive move up for global bond yields whacked fixed income investors.

Bond yields globally were propelled higher by a solid US Q2 GDP number and speculation that the Bank of Japan (BoJ) is set to moderate its zero-yield 10-year bond target - seeking to make their current accommodative policy more sustainable. Sovereign 10-year bond yields in Japan spiked to 0.104% an 18-month high; in the US they are making a run at 3%; and in Canada they are back above 2.25%. While the Japanese yield move may seem small (and all of this remains speculation), the BoJ is the last central bank of a major developed market yet to signal any move toward unwinding crisis era measures. Should the rumour prove true, markets will be faced with unanimity amongst the major developed market central banks' having a tightening bias.

On the trade front, equities cheered the positive outcome of the discussions between European Commission President Junker and US President Trump. Even though the outcome is short on details, it is being heralded as a sign that the Trump administration is willing and able to seek negotiated solutions. With most companies (though not all - see Chart of the Week, plus Twitter and automakers were weak) delivering very solid corporate earnings growth markets were primed to rally on any positive developments with respect to trade. The positive EU-US tone was coupled with a thaw in the NAFTA negotiations. Although there is nothing concrete on NAFTA and we have had false dawns in the past, the tone is currently more optimistic. There is concern that the thaw in US trade relations with its allies allows the US to focus more aggressively on trade issues with China – potentially prolonging that overhang. In a snub to the US, China failed to approve the Qualcomm/NXP Semiconductor merger. However, emerging markets have pulled out of their nosedive (+4.4% since June 28) on signs that the Chinese are set to stimulate their slowing economy through monetary and fiscal policy.

Despite a few high profile misses, US corporate earnings thus far are very solid. A whopping 88% of companies are beating analyst estimates, far above the typically respectable 70% level. The "beat" rate is even more compelling given that for just the second quarter out of the past 30 quarters, this quarter had analysts raising estimates leading into and during the reporting season.

Going forward, the move up in bond yields should spark an equity rotation that disadvantages technology stocks (but shouldn't break them) and benefits the value sectors of financials, materials and energy. This action favours the S&P/TSX over the S&P 500, but is the type of rotation we see as necessary for both markets to continue to advance.

The week in review

- US GDP (Q2) grew 4.1% q/q annualized (versus +4.2% expected), the strongest pace in nearly four years. Consumer spending rebounded 4.0% after hitting a soft patch the prior quarter (0.5%). Q1 growth was revised higher to 2.2% q/q (from 2.0% previously).
- US durable goods orders (June) rose 1.0% m/m (versus +3.0% expected). Core orders (nondefense capital goods orders ex aircraft) jumped 0.6% m/m (versus +0.5% expected).
- The ECB kept its policy rate and asset purchase program unchanged.
- Purchasing Managers Index (July) recap: US Markit manufacturing rose 0.1 to 55.5 (versus 55.1 expected), services fell 0.3 to 56.2 (versus 56.3 expected); eurozone manufacturing rose 0.2 to 55.1, services fell 0.8 to 54.4; Japan manufacturing fell 1.4 to 51.6.
- Earnings update: 53% of S&P 500 companies have reported and earnings are up 24.5% y/y, 5.4% above expectations; 18% of S&P/TSX constituents have reported and earnings are up 23% y/y, 1% above expectations.
- Facebook shares fell 19%, erasing ~$119 billion in market value; the biggest-ever one-day loss in market value for a US-listed company.

The week ahead

- Canadian GDP and trade data
- US, UK and Japan central bank policy meetings
- US core PCE inflation, payrolls, and personal spending and income data
- Purchasing Manager Indices globally
- 145 S&P 500 companies and 82 S&P/TSX companies report earnings