glc asset management

Weekly Market Snapshot

For the week ending July 6, 2018

Equities

Local currency, price only, % change

	7/6/2018	Week	1 Month	YTD	1 Year
S&P/TSX Composite	16,372	0.6%	1.2%	1.0%	8.6%
S&P/TSX Small Cap	644	0.3%	-0.6%	-2.5%	5.7%
S&P 500	2,760	1.5%	-0.5%	3.2%	14.5%
NASDAQ	7,688	2.4%	0.0%	11.4%	26.3%
Russell 2000	1,694	3.1%	1.1%	10.3%	20.9%
Euro Stoxx 50	3,448	1.6%	-0.4%	-1.6%	-0.4%
Nikkei 225	21,788	-2.3%	-3.7%	-4.3%	9.0%
MSCI EM Index (USD)	1,060	-0.9%	-7.8%	-8.5%	5.3%

Fixed income

Total return, % change

	7/6/2018	Week	1 Month	YTD	1 Year
FTSE TMX Canada Universe Bond Index	1,046.42	0.3%	1.3%	0.9%	1.5%
FTSE TMX Canada All Corporate Bond Index	1,187.53	0.3%	1.1%	1.0%	1.9%

Interest rates - Canada

Change in bps

	7/6/2018	Week	1 Month	YTD	1 Year
3-month Tbill	1.21	-5	-4	15	47
GOC bonds 2 yr	1.91	0	-3	23	77
GOC bonds 10 yr	2.13	-4	-18	9	30
GOC bonds 30 yr	2.17	-4	-19	-10	-4

Currencies and Commodities

In USD, % change

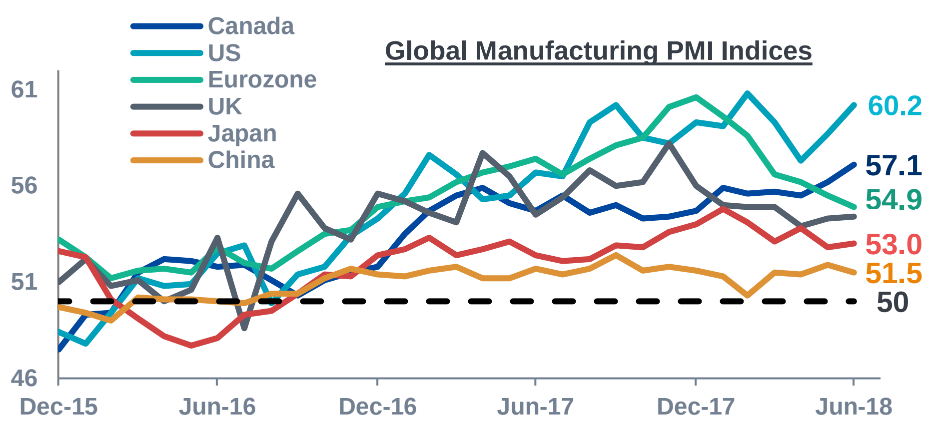
	7/6/2018	Week	1 Month	YTD	1 Year
CDN $	0.764	0.3%	-1.1%	-4.0%	-0.8%
US Dollar Index	93.96	-0.5%	0.4%	2.0%	-1.9%
Oil (West Texas)	73.80	-0.5%	14.0%	22.1%	62.1%
Natural Gas	2.86	-2.3%	-1.8%	1.8%	1.3%
Gold	1,255	0.2%	-3.2%	-3.6%	2.5%
Copper	2.82	-4.8%	-14.0%	-15.4%	4.1%

Canadian sector performance

S&P/TSX Composite Index

	Week	YTD
Energy	0.4%	3.2%
Materials	0.7%	3.4%
Industrials	-0.2%	5.5%
Cons. Disc.	-0.1%	2.3%
Info Tech	2.8%	25.4%
Health Care	0.0%	-1.5%
Financials	0.4%	-2.8%
Cons. Staples	-0.7%	-4.0%
Telecom	2.1%	-5.2%
Utilities	1.8%	-6.8%
Real Estate	1.6%	4.4%

Chart of the week: Global Economies on Divergent Paths



All of the major Manufacturing Purchasing Managers Indices remain above 50, signalling expansion. However, unlike late 2017, the rate of change is no longer globally synchronized, or universally accelerating. The solid absolute levels are supportive of earnings growth, but the divergent rates of change need to be factored in to estimates for the magnitude of earnings growth. The US and Canada are seeing a re-acceleration and the remainder are flat-to-lower; this lines up with the magnitude of earnings growth expectations for the next twelve months (positive for all, but higher for North America). Equity market performance YTD reflects this same diverging theme with US and large cap Canadian equities positive on the year, while European, Asian and emerging market equities are all negative in local currency terms (normalizing for currency, the conclusions remain broadly the same).

Highlights

Trade threats became reality this week. The US implemented a 25% tariff on $34 billion worth of Chinese imports, with the Chinese set to retaliate in-kind. Canada matched the US 25% tariff on imported US steel and aluminium and added a 10% tariff on a list of products, bringing the total dollar amount to $16.6 billion, the amount that Stats Canada calculated is the impact of the US tariffs on Canada. Despite the trade disputes, Japanese, Canadian, Mexican, European, UK and Chinese currencies all strengthened against the US dollar. Equities were mixed, with gains for US, Canadian and European equities and mild losses for Asian, UK and emerging markets. There were some casualties due to the trade woes: despite solid employment reports bolstering the case for further central bank rate hikes in both the US and Canada, North American bond yields were held in check; and, the price of copper tanked, clocking the largest weekly decline in more than two years. The price for copper, often a bellwether for global growth, is down 14% from its December 2017 5-year high and now sits little changed from year-ago levels.

The weaker bond yields put the interest-sensitive telecom, utilities and real estate sectors up front, but did not weigh on North American financials. In the S&P 500, gains were broad based, as all but the energy sector were higher. The health care sector was a standout, gaining on positive developments for Biogen Inc.'s Alzheimer's drug (the shares rose 23% on the week). Otherwise, the relatively broad-based strength for North American equities was largely due to the details of the twin employment reports.

Twins indeed! The labour market reports on both sides of the border were cheered by stock and bond investors alike. The job gains were substantially higher than forecast and the higher unemployment rates are for the 'right' reasons as the labour force in both countries showed exceptional expansion. The US labour market attracted 601,000 new workers, the 2nd largest gain in over 15 years; and, the Canadian labor force expanded by 75,600, the biggest increase in six years. The additional workers help to keep wage gains from spiralling, a development that would require central banks to hasten the pace of monetary policy tightening. We don't believe the wage growth readings (step back in Canadian and flat in the US) change the near-term path for rate hikes. The market expectations for 2018 rate hikes are for two more in the US and one or two (two is our call) more in Canada. The good news for investors is it certainly doesn't prompt policymakers to increase their cadence.

The week in review

- Canadian employment (June) rose 31,800 (versus +20,000 expected). The participation rate ticked up 0.2% to 65.5%, allowing the unemployment rate to rise from 5.8% to 6%. Average hourly earnings of permanent workers fell 0.4% to 3.5% y/y (versus 3.7% expected).
- Canada's merchandise trade deficit (May) widened from $1.9 billion prior to $2.77 billion (versus $2.2 billion deficit expected).
- US nonfarm payrolls (June) rose 213,000 (versus +195,000 expected). The participation rate ticked up 0.2% to 62.9%, allowing the unemployment rate to rise from 3.8% to 4%. Average hourly earnings held flat at 2.7% y/y (versus 2.8% expected).
- US goods & services trade deficit (May) narrowed roughly in-line with expectations to $43.1 billion from $46.2 billion the prior month.
- June PMI recap: Canada Markit Manufacturing +0.9 to 57.1; US ISM manufacturing +1.5 to 60.2, US ISM non-manufacturing +0.5 to 59.1; eurozone manufacturing -0.6 to 54.9, eurozone services +1.4 to 55.2; UK manufacturing unchanged at 54.4, UK services +1.1 to 55.1; Japan manufacturing -0.1 to 53.0, Japan services +0.4 pts to 51.4; China Caixin manufacturing -0.1 to 51.0, China Caixin services +1.0 to 53.9.
- Andrés Manuel López Obrador won Mexico's presidential election, as was expected.

The week ahead

- Bank of Canada policy announcement
- Canadian housing data
- US and China inflation data
- Japan, Europe, UK industrial production data
- Chinese trade, foreign reserves and money supply data
- Q2 S&P 500 earnings reporting ramps up with the large banks reporting