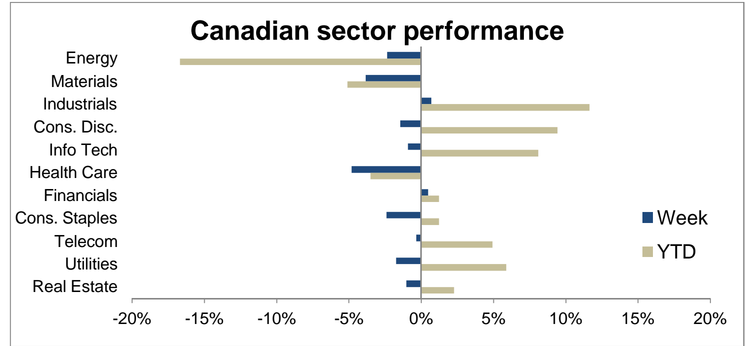
Weekly Market Snapshot

For the week ending July 7, 2017

Equities (local currency, price only, % change)	7/7/2017	Week	1 Month	YTD	1 Year
S&P/TSX Composite	15027.16	-1.02%	-2.24%	-1.70%	6.32%
S&P/TSX Small Cap	604.29	-3.08%	-3.19%	-8.25%	-4.25%
S&P 500	2425.18	0.07%	-0.33%	8.32%	15.60%
NASDAQ	6153.08	0.21%	-2.29%	14.30%	26.17%
Russell 2000	1415.84	0.03%	1.37%	4.33%	23.14%
Euro Stoxx 50	3463.84	0.64%	-2.40%	5.27%	24.59%
FTSE 100	7350.92	0.52%	-1.71%	2.91%	12.51%
Nikkei 225	19929.09	-0.52%	-0.28%	4.26%	30.46%
Shanghai Composite	3217.96	0.80%	2.47%	3.68%	6.67%
MSCI EM Index (USD)	1002.48	-0.82%	-1.31%	16.26%	21.22%

Fixed Income (total return, % change)	7/7/2017	Week	1 Month	YTD	1 Year
FTSE TMX Canada Universe Bond Index	1027.92	-0.71%	-2.10%	1.63%	-1.71%
FTSE TMX Canada All Corporate Bond Index	1162.40	-0.65%	-1.76%	2.20%	1.16%

Interest Rates - Canada (change in bps)	7/7/2017	Week	1 Month	YTD	1 Year
3-month Tbill	0.74	3	24	28	28
GOC bonds 2 yr	1.16	6	45	42	70
GOC bonds 10 yr	1.88	12	47	16	90
GOC bonds 30 yr	2.26	11	24	-5	70



Currencies and Commodities (in USD, % change)	7/7/2017	Week	1 Month	YTD	1 Year
CDN $	0.78	0.67%	4.90%	4.37%	0.96%
US Dollar Index	96.01	0.40%	-0.76%	-6.07%	-0.33%
Oil (West Texas)	44.23	-3.93%	-3.26%	-17.67%	-2.02%
Natural Gas	2.86	-5.63%	-6.22%	-19.89%	-8.29%
Gold	1212.46	-2.35%	-5.80%	5.66%	-10.88%
Copper	2.65	-2.36%	3.24%	4.96%	22.72%
CRB Index	172.56	-1.27%	-1.74%	-10.36%	-7.08%

NORTH AMERICAN EQUITIES

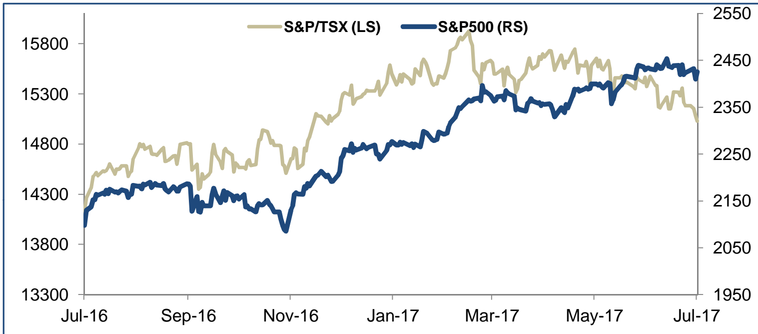
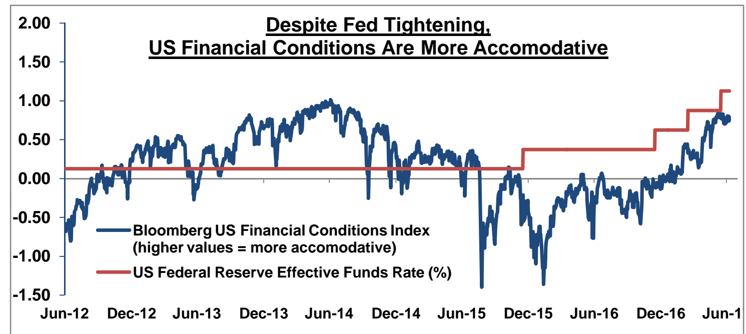


Chart of the Week



HIGHLIGHTS

Very few investors are making money these days. Most assets have struggled since the start of the global sovereign bond sell-off, which began mid-June and has accelerated ever since. Of the 19 markets tracked in our weekly tables, only 4 have a positive return for the past month. The past month has been especially difficult for Canadian investors. The woes for the Canadian equity market continue as the S&P/TSX Composite ended the week at its lowest level of the year and our bond market sell-off has been about as bad as anywhere (although German 10-year yields have doubled in two weeks to 0.57%).

Canadian bond yields have risen meaningfully with 2 and 10-year yields at YTD highs. The net result: YTD returns for bond investors have been halved (the peak was 3.93% on June 6). Longer-term, we continue to see headwinds for bond investors. Near-term, we expect the upward move for Canadian yields to moderate. Canadian data continues to show strength, but wage growth and inflation measures remain muted. These factors, coupled with strength for the Loonie, should keep the now telegraphed rate increases by the Bank of Canada slow and modest. Even though Canadian job creation in June smashed expectations again, average hourly wage growth for June remained at 1.3% y/y, which matches the latest annual CPI inflation rate. Employment rose by 45,300 vs. an expectation of 10,000. The unemployment rate fell by 0.1% to 6.5%, matching the low since 2008, while the participation rate rose to 65.9%, the best level in four years.

While welcome for foreign summer travel, the appreciating Canadian dollar has sapped returns from the year's biggest winners - foreign assets. The YTD return in Canadian dollars for the S&P 500 has been chopped by 2/3rds (peaked at 9.4% May 9th, and it now stands at 3.6%). Similarly, the YTD return in Canadian dollars for the Euro Stoxx 600 has been sliced by 40% (peaked at 14.6% June 10, and it now stands at 8.8%).

Currency aside, the weakness for equities isn't out of the ordinary and to us isn't overly worrisome. US and European equities were positive on the week. The S&P 500 is down only 1.47% from its 2017 high; while, the Euro Stoxx 50 is down 5.3% respectively, it still boasts a solid YTD return. In the US, equities are experiencing a typical sector rotation with yield sensitive sectors garnering the heaviest losses. Over the past month, the telecom, utilities and consumer staples sectors are down between 4% and 5.5%, while the financials sector is up 6.5%. With equity

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valuations still high in the US, the coming Q2 earnings season (which kicks off this week) will be crucial to the future path for US equities. Given our view that the underlying fundamentals remain strong, we see any potential bouts of equity weakness as a buying opportunity.

Some fear central bank tightening will choke off the economy. While that may happen at some point, we don't believe that to be a worry for today, given the current level of interest rates. In fact, buoyant stock markets and narrowing bond yield spreads in the US have measures of financial conditions looser now than prior to the Fed raising rates. For example, the Bloomberg US Financial Conditions Index that tracks the overall level of financial stress in money, bond, and equity markets to assess the availability and cost of credit is sitting at a 33-month high (See Chart of the Week).

For Canadian equities, the sector moves have been similar, but our sector weights continue to hamper our benchmark performance. While Canadian financials have perked-up, the strength hasn't been enough to offset weakness in energy and gold related equities. Throw on top the recent give-back from the interest rate sensitive sectors, with a combined index weight of 15%, and you end-up down on the year (percentage change in return from the 2017 peak: consumer staples -7.3%, telecom -4.8%, utilities -3.6% and real estate -4%). We remain constructive on Canadian equities. Consider the following factors: The S&P/TSX has corrected 5.6% from its February 2017 high. The S&P/TSX is geared for a rising interest rate environment. Since 2010, 66% of index companies have displayed a positive correlation to yields, with our two largest sectors, financials and energy sporting the highest and most broad based positive correlation. Lastly, the S&P/TSX historically has benefitted from global growth.

The firmness we expect from the global economy, and in turn corporate earnings, is still being corroborated by the data - including solid readings for the June Purchasing Managers Indices surveys (US ISM Manufacturing +2.9 to 57.8, ISM Non-Manufacturing +0.5 to 57.4, eurozone Markit Services +0.7 to 55.4, Composite +0.6 to 56.3, Japan Nikkei Manufacturing -0.7 to 52.4, China Caixin Manufacturing +0.8 to 50.4, Canada Ivey +7.8 to 61.6), eurozone industrial production for May was solid and beat expectations (Germany 1.2% m/m vs. expectation of 0.2%, France 1.9% m/m vs. expectation of 0.6%), and US employment beat expectations for 178,000 new jobs with job growth of 222,000 and May and April were revised higher by 47,000 in total. The unemployment rate rose 0.1% to 4.4% as the participation rate rose by 0.1% to 62.8%. Average hourly earnings grew by 0.15% m/m, or 2.5% y/y. Wage growth is still low and very much on the Federal Reserve's (Fed) radar. Minutes from the Fed's latest meeting showed that policymakers are split on the inflation outlook and the timeline for reducing the balance sheet remains uncertain.

The week ahead brings the beginning of S&P 500 Q2 earnings reporting. The Bank of Canada has an interest rate announcement. Inflation data is released in the US, China, Germany, France and Italy. We also get updates to US retail sales and industrial production.

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