Credential

# Market Insights | MONTHLY

## Month in Review

For the month ended July 31st, 2019

### Overall Highlights

- **TSX climbs.** The S&P/TSX Composite posted a slight increase for the month of July following the Federal Reserve announcing its much expected rate cut. Although a dovish rate policy can help extend the record Bull run, markets were disappointed about the U.S. central bank's lack of commitment to future cuts. As well, no deal between China and the U.S. at the conclusion of their latest round of talks provided little optimism for equity markets. On the close, the TSX ended at 16,407, up 0.1% for the month.
- **Loonie dips lower.** No major global currencies were immune to the strength of the U.S. green back, but the Loonie was the best performer amongst the G-10 countries. A surprise in GDP and rising in manufacturing activity helped support our Dollar as the British pound faltered following Boris Johnson's election as the new U.K. prime minister and the Bank of Japan continued to be dovish on its economy. At the close, the Loonie finished at 75.94 U.S. cents, a decrease of 0.6%.
- **Gold twinkles.** The anticipated rate cut that occurred at the latest FOMC meeting helped advance the precious metal in July. However, gold proponents were turned off of the haven asset as some Fed governors voted "no" on cutting rates, which increased the uncertainty of another rate cut during the second half of the year. At month's end, gold closed at US$1,413.78 an ounce for a December contract, an advance of 0.3%.
- **Oil up.** Following OPEC's decision to extend production cuts by its members, crude oil had a positive July as U.S. stockpiles shrank for a seventh straight week. Also helping was the fresh rate cut by the Federal Reserve, which kept the largest economy growing and lessened the strength of the U.S. dollar. At the end of the month, a September contract on a barrel of WTI crude settled at US$58.58, a rise of 0.2%.
- **BoC holds.** Central bank governor Stephen Poloz left the Bank of Canada benchmark rate at 1.75% at their latest policy meeting on par with the majority of market forecasts.
- **Unemployment rate rises.** The national jobless rate increased a notch to 5.5% in June, on par with expectations.
- **Inflation lower.** Weaker energy drew down the consumer price index in June while a rise in U.S. inventories drove gasoline prices lower.
- **Retail sales fall.** Consumers were in less of a spending mood in May as retail sales fell for the first time in four months.
- **Fed cuts rate.** In a widely expected move, the Federal Reserve cut its benchmark interest rates by 25 basis points, dropping the target range to 2-2.25%.
- **U.S. Q2 GDP growth slows.** The Commerce Department reported its first estimate of Q2 GDP growth. Growth slowed to an annualized rate of 2.1% in Q2, the weakest pace since Q1 2017.
- **U.S. consumer sentiment rises.** Consumer sentiment in the U.S. ticked up slightly in July, according to the University of Michigan.
- **ECB hints at more stimulus.** The ECB announced no change to its key interest rates after its July meeting. However, ECB's president Mario Draghi hinted at the press conference that the 19-member region may need more monetary stimulus due to sluggish growth.
- **Eurozone unemployment rate falls.** The unemployment rate within the Eurozone fell in June.
- **Japan 'flash' manufacturing PMI rises.** Japan's manufacturing sector contracted for the third straight month in July.
- **China GDP growth slows.** The world's second largest economy's growth slowed to a multi-decade low in Q2 amid a bitter trade war with the U.S.

| Index/Commodity/Currency | | |
|---|---|---|
| **Close** | **Month Change** | **YTD Change** |
| **S&P/TSX Composite** | | |
| 16,406.56 | 24.4 | 2,083.7 |
| | 0.1% | 14.5% |
| **Dow Jones Industrial Average** | | |
| 26,864.27 | 264.3 | 3,536.8 |
| | 1.0% | 15.2% |
| **S&P 500** | | |
| 2,980.38 | 38.6 | 473.5 |
| | 1.3% | 18.9% |
| **NASDAQ Composite** | | |
| 8,175.42 | 169.2 | 1,540.1 |
| | 2.1% | 0.0% |
| **MSCI EAFE Index** | | |
| 1,897.12 | -25.2 | 177.2 |
| | -1.3% | 10.3% |
| **WTI Crude Oil** (per barrel, in $US) | | |
| 58.58 | 0.1 | 13.2 |
| | 0.2% | 29.0% |
| **Gold** (per ounce, in US$) | | |
| 1,413.78 | 4.2 | 131.3 |
| | 0.3% | 10.2% |
| **Canadian Dollar** (¢ per US$) | | |
| 75.94 | -0.5 | 2.6 |
| | -0.6% | 3.6% |

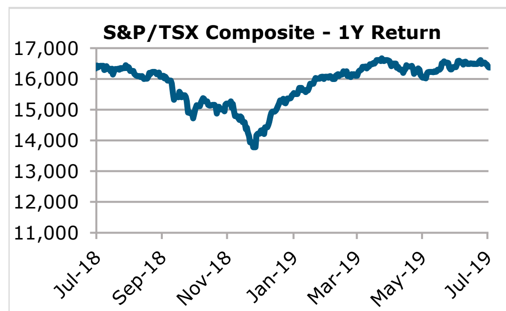
Source: Bloomberg

# Canadian Markets

- **BoC holds.** Central bank governor Stephen Poloz left the Bank of Canada benchmark rate at 1.75% at their latest policy meeting on par with the majority of market forecasts. In his announcement, he continued to warn of the uncertainty surrounding the global trade tensions and showed no immediate need to deviate from the current policy of holding rates steady. At the same meeting, the BoC downgraded their global growth outlook to 3%, from 3.2%, and domestic growth for 2019 higher to 1.3%, from 1.2% in April, and 1.9% in 2020, down from 2.1%.
- **GDP up.** The economy rose for a third straight month led by manufacturing and construction. For May, GDP rose 0.2%, besting forecasts for a 0.1% increase and follows a surprise April reading of 0.3%. Of the 20 industry sectors monitored by Statistics Canada, 13 advanced with the aforementioned sectors rising 1.2% and 0.9%, respectively. On an annualized basis, Q2 growth is expected to top the Bank of Canada's estimate of 2.3% and lessen the pressure to take action after the Fed's 25 basis point cut.
- **Unemployment rate rises.** The national jobless rate increased a notch to 5.5% in June, on par with expectations. The net change was a decrease of 2,200 jobs, primarily due to part-time employment, which missed forecasts of a 10,000 gain. Declines were seen in the wholesale and retail trade and manufacturing industries, while jobs were added in the healthcare, education, and transportation sectors. The participation rate remained unchanged at 65.7%.
- **Inflation lower.** Weaker energy drew down the consumer price index in June while a rise in U.S. inventories drove gasoline prices lower. For the month, inflation fell 0.2%, lower than the -0.1% estimated by analysts and a reversal of May's 0.4% increase. The decline in energy was sharp, but it was buffered by price increases in fresh veggies, car insurance, and mortgage costs. On an annualized basis, prices fell from 2.4% to 2.0%, the mid-way point of the Bank of Canada's target range and supporting their recent decision to not change interest rates. Core inflation for the same period fell to 2% from 2.1%, on par with expectations.
- **Producer price index plummets.** IPPI, StatCan's index tracking costs at the producer level, fell sharply in June after a small decline in May. Markets expected a fall of 0.1% for the month. Energy petroleum products were the biggest factors as they fell 6.9% followed by primary non-ferrous products at 1.2%. This was the largest decline in almost two years. Year-over-year, IPPI is down 1.7% in June as May's reading was revised lower to 0.4%.
- **Manufacturing sales climb.** May factory, driven by demand in transportation sales, painted an improvement in the manufacturing sector, gaining 1.6% for the month to total receipts of $58.9B. Twelve of the 21 industries followed saw gains as durable goods, in general, rose 3%, while non-durable goods rose slightly by 0.1%. In terms of volume, sales increased 1.7% as factory capacity utilization rose to 82% with space to spare as the Bank of Canada forecasts increased activity in the second half of the year.

**S&P/TSX Composite Index**
**Sector Snapshot**

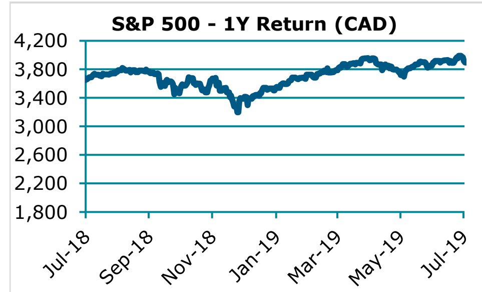
| Sector | Month Return | YTD Return | Weight (%) |
|---|---|---|---|
| Consumer Discretionary | 3.45 | 17.72 | 4.30 |
| Consumer Staples | 1.47 | 13.40 | 4.00 |
| Energy | -3.95 | 5.51 | 16.40 |
| Financials | 0.61 | 12.72 | 32.10 |
| Health Care | -13.29 | 16.98 | 1.70 |
| Industrials | 1.79 | 22.34 | 11.60 |
| Information Technology | 3.24 | 47.61 | 5.20 |
| Materials | 2.33 | 16.25 | 11.20 |
| Real Estate | 1.84 | 15.34 | 3.50 |
| Communication Services | -1.11 | 6.18 | 5.50 |
| Utilities | 1.60 | 21.53 | 4.40 |



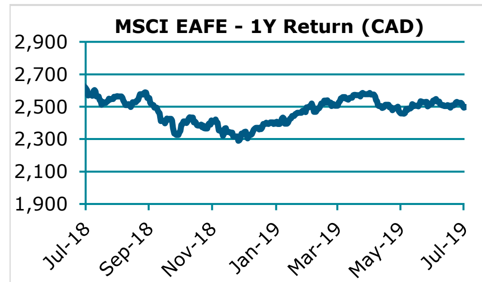

- **Manufacturing PMI improves.** A sharp drop in production, the largest in three-and-a-half years, showed the difficulties faced in the manufacturing sector in June. IHS Markit's Manufacturing PMI for the month rose slightly to 49.2 but still below the 50.0 threshold between contraction and expansion. This was the third month in a row the reading showed the sector contracting as new work orders declined and backlogs fell.
- **Retail sales fall.** Consumers were in less of a spending mood in May as retail sales fell for the first time in four months. Pushed lower by colder weather, the food and drink subsector sales declined by 2%, its largest monthly fall since January 2015, as reported by Statistics Canada. Four of the 11 subsectors tracked decreased in sales as forecasts called for an increase of 0.3%. Gains were seen in cannabis products posting a 14.8% jump for its third straight double-digit monthly increase, while sales were experienced at the pumps for a fourth consecutive month, rising 3.5%. On an annualized basis, retail sales have risen 1%, a sharp decline from April's annualized 3.8%.
- Canada housing news:
    - **Housing starts rise.** The number of home groundbreakings rose sharply in June on a seasonally adjusted basis. For the month, 245,657 units were started, a 26% increase, and comfortably above market expectations of 210,000 units. This was the highest since November 2017, with multi-family buildings rocketing 31% and single-detached homes rising 8% as gains were seen in all 10 provinces for the first time since 1996.
    - **Building applications fall.** The total value of building permits issued by municipalities took a tumble in May falling 13% on an annualized basis to $8.2B. This was lower than the forecasted 10% decline after April's reading was revised higher to a 16% increase from 14.7%. Most of the decline was from the multi-unit dwellings that fell 17.2% followed by industrial and commercial structures falling 5.7%. Geographically, hot markets of Montréal and Toronto rose 11.6% and 6.6%, respectively, while Vancouver plummeted 55.6%.
    - **New home prices decline.** The price of a new home in Canada fell for the first time in four months declining 0.1% as expectations were for a slight gain in May. The largest declines were seen in Western Canada with Saskatoon and Victoria falling 0.5% and 0.4%, respectively. Edmonton, Vancouver, and Kelowna also saw declines as the housing market remains in a soft patch. On an annualized basis, new home prices are unchanged.

# U.S. Markets

- **U.S. stocks positive.** After a strong rebound in June, U.S. stocks remained positive in July. All three major indices hit all-time highs during the month despite paring some gains near the end of the month. Corporate earnings and a mixed message by the Federal Reserve were the main drivers for the stock market in July. The broad-based S&P 500 rose 1.3%, closing the month at 2,980. The Dow Jones Industrial Average advanced 1%, ending the month at 26,864. The tech-heavy Nasdaq outperformed in July, ending the month at 8,175, up 2.1%.
- **Fed cuts rate.** In a widely expected move, the Federal Reserve cut its benchmark interest rates by 25 basis points, dropping the target range to 2-2.25%. It was the first rate cut since December 2008. The Fed cited "implications of global developments for the economic outlook as well as muted inflation pressures." The stock market, however, dove after Chairman Jeremy Powell said that the move was a 'midcycle adjustment', hinting that future rate cuts are not guaranteed.




- **U.S. Q2 GDP growth slows.** The Commerce Department reported its first estimate of Q2 GDP growth. Growth slowed to an annualized rate of 2.1% in Q2, the weakest pace since Q1 2017. It was down from Q1's pace of 3.1%. However, the growth pace was better than economists' expectation of 2% growth. Consumer and government consumptions were the main driver for Q2's growth as the segment increased by 4.3% and 5% respectively.
- **U.S. unemployment rate higher.** After touching an almost five decade low, the U.S. unemployment rate rose to 3.7% in June, just above market expectations of no change at 3.6%. Following a weak May, the economy added 224,000 jobs, besting estimates of 110,000 anticipated by economists. This helped ease concerns the U.S. expansion was slowing and the effects of the ongoing trade wars was taking a toll. Labour market participation rate was unchanged at 62.9%.




- **U.S. inflation rises.** Both consumer and producer prices rose in June according to data from the Labor Department. The consumer price index (CPI) rose 0.1% in June, higher than economists' expectation of a flat reading. The core CPI, which excludes food and energy prices, rose 0.3% for the month, higher than forecasts of a 0.2% increase; on a year-over-year basis, the core CPI rose 2.1%. The producer price index (PPI) rose 0.1% in June, in line with expectations. On a year-over-year basis, PPI rose 1.7%.
- **Core PCE price index rises.** The Fed's preferred inflation gauge rose slightly in June but remained below the central bank's 2% inflation target. The core personal consumption expenditures (PCE) price index, which excludes food and energy components, rose 1.6% on the year in June, accelerating slightly from May's pace of 1.5%. Economists were expecting a 1.7% annual pace. On the same report, consumer spending was reported to gain 0.3% from the previous month, in line with forecasts.
- **U.S. industrial production stays flat.** The Federal Reserve reported that industrial production remained unchanged in June, missing forecasts of a 0.1% increase. A drop-off in utilities production were offset by modest output gains in manufacturing and mining.
- **U.S. 'flash' composite PMI rises.** The IHS Markit composite purchasing managers' index (PMI) ticked up to 51.6 in July from June's reading of 50.6, thanks to a solid showing in the services sector; economists were expecting a reading of 51.7. The manufacturing PMI slumped to its worst level since September 2009, sliding from 50.6 to 50.0, barely above the 50-mark. The services sector PMI rose from June's reading of 50.7 to 52.2, beating economists' estimate of 51.7.
- **U.S. retail sales rises.** The Commerce Department reported that retail sales in U.S. edged up 0.4% in June, higher than economists' estimate of a 0.1% increase. On a year-over-year basis, retails sales were up 3.4%. Core retail sales, which excludes autos, gasoline, building materials, and food services, advanced 0.7% from May, also beating economists' expectation of a 0.4% increase.
- **U.S. consumer sentiment rises.** Consumer sentiment in the U.S. ticked up slightly in July, according to the University of Michigan. Preliminary reading of the university's consumer sentiment index rose slightly to 98.4, up from June's final reading of 98.2. Economists were expecting a reading of 98.5 for July.
- U.S. Housing News:
  - **U.S. new home sales rise.** U.S. new home sales rebounded strongly in June, according to data by the Commerce Department. New home sales, which account for about 11% of the housing market, rose 7% to a seasonally adjusted annual pace of 646,000 units. Economists were expecting an annual pace of 660,000 units in June.
  - **U.S. housing starts drop.** U.S. homebuilding fell for the second straight month in June. The Commerce Department reported that housing starts declined 0.9% to a seasonally adjusted annual pace of 1.25 million units, missing economists expected annual pace of 1.26 million units. Building permits fell 6.1% to an annual rate of 1.22 million units, the lowest level since May 2017, well below forecast of 1.30 million.
  - **U.S. home prices increase.** The S&P CoreLogic Case-Shiller 20-City home price index rose 2.4% in May on a year-over-year basis, in line with economists' expectation. It slowed down a tick from April's annual pace of 2.5%. Las Vegas, Phoenix, and Tampa saw the highest annual percentage gains. The typically red-hot Seattle market, however, reported an annual decline of 1.2% in May.
  - **U.S. pending home sales rise.** Pending home sales in U.S. rose by the most in three months, according to data released by the National Association of Realtors. June's sales increased by 2.8% from April, blowing past economists' expectation of a 0.5% monthly increase.

# European Markets

- **ECB hints at more stimulus.** The ECB announced no change to its key interest rates after its July meeting. However, ECB's president Mario Draghi hinted at the press conference that the 19-member region may need more monetary stimulus due to sluggish growth. Mr. Draghi said that the central bank was examining different options, "such as the design of a tiered system for reserve remuneration, and options for the size and composition of potential new net asset purchases."
- **Eurozone GDP growth slows.** Eurostat reported the preliminary reading of Q2 GDP growth of the Eurozone. The 19-member bloc grew 0.2% quarter-over-quarter, slowing down from Q1's growth pace of 0.4%. Q2's growth rate was in line with economists' estimates. On a year-over-year basis, GDP grew 1.1% in Q2.
- **Eurozone unemployment rate falls.** The unemployment rate within the Eurozone fell in June. Eurostat reported that the unemployment rate within the 19-member zone dropped to 7.5% in June, down a tick from May's rate of 7.6%. June's unemployment was in line with forecasts and was the lowest rate since July 2008.

  **Eurozone inflation remains subdued.** Inflation level within the 19-member bloc remained well below ECB's target in June. The harmonised index of consumer prices (HICP) rose 1.3% on a year-over-year basis, up a tick from previous month's pace; economists were expecting June's pace to remain at 1.2%. The core figure, which excludes energy, food, alcohol and tobacco, increased from May's pace of 0.8% to 1.1%.
- **Eurozone 'flash' composite PMI falls.** Business activity continued to cool in July. July's IHS Markit 'flash' composite purchasing managers' index (PMI) fell from June's reading of 52.1 to 51.5, missing economists expected reading of 52.1. The manufacturing sector slowed down further and remained in contraction territory, with the manufacturing PMI dropped from 47.8 to 46.4, also missing forecasts. The service sector PMI fell slightly from 53.4 to 53.3.

# Asian Markets

- **Japan inflation slows.** Japan's core consumer price index (CPI) posted its weakest reading since July 2017, adding to speculation that Bank of Japan may have to further loosen its monetary policy in its next meeting. The core CPI, which excludes fresh food prices, rose 0.6% year-over-year, down from the 0.8% annual pace reported in May. The core-core CPI, which excludes both fresh food and energy prices, rose 0.5%, unchanged from May's pace.
- **Japan 'flash' manufacturing PMI rises.** Japan's manufacturing sector contracted for the third straight month in July. The Jibun Bank 'flash' manufacturing purchasing managers' index (PMI) rose slightly from June's reading of 49.3 to 49.6. Despite the increase, the gauge for manufacturing activity stayed below the 50-mark for the third straight month, indicating demand for Japanese goods remained sluggish.
- **China GDP growth slows.** The world's second largest economy's growth slowed to a multi-decade low in Q2 amid a bitter trade war with the U.S. The National Bureau of Statistics reported that China's Q2 GDP grew by 6.2%, down from 6.4% reported in Q1, the slowest quarterly growth rate since 1992. Economists were expecting a slightly higher growth pace of 6.3%.
- **China's inflation remains stable.** The National Bureau of Statistics reported that the consumer price index (CPI) rose 2.7% year-over-year in June, matching economists' forecast and previous month's pace. Food prices were the main driver of consumer inflation, up 8.3% year-over-year. On the producer's side, the producer price index (PPI) remained flat in June on a year-over-year basis, missing economists' expectation of a 0.2% increase.
- **Chinese manufacturing PMI lower as well as services PMI.** Both measures from Markit Economics fell in China, brought on by sluggish overseas demand; similar factors felt by other global economies. The manufacturing PMI fell back into contractionary territory for the first time in four months to 49.4 from 50.2 in May. The ongoing dispute with the U.S. affected new orders, sales, and output as business sentiment remains mixed on the uncertainty of tariff effects. Services PMI fell to a four-month low as expansion slowed to 52.0 from 52.7 in the previous month. New orders grew slightly primarily due to new state policies recently introduced to increase client spending. The Composite PMI for China in June fell to 50.6 from 51.5 in May.

# Key Take-Aways

**Not following the herd.** There can be little doubt that global growth has been impacted by the trade tensions and tariffs brought on between warring economies. As the battles continued, central banks have been forced to react, taking a 180 degree turn from a year ago, and begin considering implementing an accommodative policy. Again. The U.S. Federal Reserve has taken a dovish stance and is playing to the market's expectation of a rate cut at their next meeting later in July. Equity markets rallied to fresh highs on this anticipation. Over in Europe, the ECB just recently stopped their stimulus in January and may consider turning it back on as they elected Christine Lagarde as their new president. In Canada, however, it's a different story as our economy heats up after a late-2018/early-2019 lull. Holding its own rate for a sixth straight time, the Bank of Canada sees its rate policy more accommodative already, compared to its counterparts, as GDP is on the upswing and inflation falls within the BoC's target range. Governor Poloz has opted to not follow the herd for now but may do so later this year—or next—depending how the trade environment plays out.

**A good – no, a great - first half.** The unemployment rate serves as a good indication, albeit lagging, of the health of an economy. A strong labour market with low joblessness shows the economy is successfully filling open job positions in response to domestic and foreign demand. In turn, with more people working and earning more, they'll likely be inclined to increase their spending thereby promoting more economic growth. This was precisely the case in Canada. The sell off and underly feared to be the catalyst for a slowdown and possibly even a recession. GDP slowed but jobs were ac pace. The unemployment rate hovers at 5.5%, just above a four-decade low, with the participation rate at almost two-thirds, and full-time and stable hirings accounting for essentially all the gains in the first half of the year. Similarly, in the U.S., its jobless rate is near a 49-year low at 3.7% with the economy adding jobs for a record 105 consecutive months and at an average of 172,000 jobs per month so far in 2019. The Eurozone, having reached record highs during the 2008 financial crisis, has seen an amazing turnaround with its unemployment rate falling to an eleven-year low of 7.5% with 12.3M people looking for a job, down 1.3M from a year earlier. With eyes focuses on the monthly job numbers, especially by central banks, hopefully the second half of the year will be just as great.

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