Credential

# Market Insights | MONTHLY

## Month in Review

For the month ended April 30th, 2019

### Overall Highlights

- **TSX gains.** Canada's main equity exchange continued to set new records, finally eclipsing the previous all-time high during the month. Leading the way was the Consumer Discretionary sector (+7%) gain followed by Information technology (+6.4%) and the heavyweight Financials (5.2%). The Bank of Canada decided to hold rates again due to a slowing economy, providing fuel for the Bulls on the Composite. At closing, the April month end of the TSX was at 16,581, a 3% monthly gain. For the year, the index has returned 15.8%.
- **Loonie declines.** A dovish central bank and weak economic data at home kept the pressure on the Loonie from rising during the month. Not helping is the continued strength of the U.S. dollar following a surprising Q1 GDP reading. Fortunately, the rise in crude prices, one of our major exports, provided enough support to prevent our currency from falling any lower. In April, the Loonie ended at US74.50 cents for one Canadian dollar, a monthly retreat of 1.9%.
- **Gold tarnishes.** The precious metal sustained a loss for the third consecutive month as all eyes were focused on the upcoming Federal Reserve announcement on the direction the U.S. central bank will take on rates in the coming months. Adding to gold's decline was the rise in the U.S. greenback following strong economic growth in the first quarter and prospects of a resolution of the Sino-American trade dispute as China shows signs of slowing down. A June contact for gold closed the month at US$1,283.53, a decrease of 0.7%.
- **Oil gushes.** Crude was able to post another strong gain for the month as it ended April on a down note following U.S. president Trump's tweet for oil producing countries to boost output. Adding to the pressure on the commodity was the latest American Petroleum Institute's report of a rise in crude stockpiles even though the latest Baker-Hughes count of active drilling rigs in the U.S. fell sharply. A June contract for a barrel of WTI crude ended trading at US$63.91, a strong 6.3% surge for the month.
- **GDP slows.** After a surprise start to the year, the economy contracted slightly by 0.1% in February on weakness in multiple sectors including financing and manufacturing.
- **Bank of Canada holds**. As expected by the markets, the Bank of Canada left its key overnight rate unchanged at its latest policy meeting during the week.
- **Unemployment rate holds.** For the first time in seven months, there were jobs lost in Canada in March, but the decline was small enough not to affect the unemployment rate at 5.8%.
- **Manufacturing activity slows.** in March, a slowdown in export orders dropped activity in the manufacturing sector to its slowest pace since September 2016.
- **U.S. first quarter GDP moves ahead of expectations.** The U.S. economy grew at a robust annual rate of 3.2%, substantially higher than the projection for a 2.1% growth rate.
- **U.S. consumer confidence improves.** The U.S. Consumer Confidence index continued to climb higher following its sharp fall during the government shutdown at the beginning of the year.
- **The ECB leaves policy unchanged in its latest announcement.** As expected, the central bank reaffirmed a similar forward guidance it introduced the month prior.
- **Europe's first quarter GDP expands according to the latest flash reading.** This was the first look at the Eurozone economy for the first quarter, with the data showing modest economic growth of 0.4% for the period.
- **Japan's unemployment rate increases.** The seasonally-adjusted unemployment rate in Japan rose from 2.3% in February to a 2.5% rate in March.
- **China's GDP remains stable.** China's economy expanded 6.4% in Q1, unchanged from the previous quarter and marginally higher than the consensus.

| Index/Commodity/Currency | | |
|---|---|---|
| **Close** | **Month Change** | **YTD Change** |
| **S&P/TSX Composite** | | |
| 16,580.73 | 478.6 | 2,257.9 |
| | 3.0% | 15.8% |
| **Dow Jones Industrial Average** | | |
| 26,592.91 | 664.2 | 3,265.5 |
| | 2.6% | 14.0% |
| **S&P 500** | | |
| 2,945.83 | 111.4 | 439.0 |
| | 3.9% | 17.5% |
| **NASDAQ Composite** | | |
| 8,095.39 | 366.1 | 1,460.1 |
| | 4.7% | 0.0% |
| **MSCI EAFE Index** | | |
| 1,921.49 | 46.1 | 201.6 |
| | 2.5% | 11.7% |
| **WTI Crude Oil** (per barrel, in $US) | | |
| 63.91 | 3.8 | 18.5 |
| | 6.3% | 40.7% |
| **Gold** (per ounce, in US$) | | |
| 1,283.53 | -8.9 | 1.0 |
| | -0.7% | 0.1% |
| **Canadian Dollar** (¢ per US$) | | |
| 74.50 | -1.4 | 1.2 |
| | -1.9% | 1.6% |

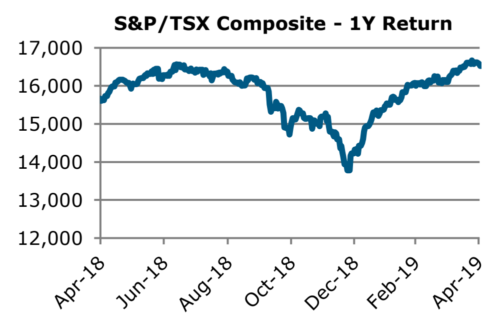
Source: Bloomberg

# Canadian Markets

- **GDP slows.** After a surprise start to the year, the economy contracted slightly by 0.1% in February on weakness in multiple sectors including financing and manufacturing. The largest detractor was in mining and oil and gas that declined for a sixth consecutive month, while utilities gained on the cold weather that persisted later into the year. Expectations were for no change during the month. Forecasts from the Bank of Canada predict Q1 GDP at 0.3%, down from an earlier 0.8%, and real GDP for 2019 at 1.2%, revised lower from the January estimate of 1.7%.
- **Bank of Canada holds**. As expected by the markets, the Bank of Canada left its key overnight rate unchanged at its latest policy meeting during the week. In his announcement, Governor Stephen Poloz cited a weaker than expected performance by the economy compared to its assessment in January. The Bank was expecting 1.7% growth for 2019 but revised that figure down to 1.2% as it pauses from further rate hikes possibly for the rest of the year. On the plus side, however, the BoC foresees an improvement in the second half of 2019.
- **Unemployment rate holds.** For the first time in seven months, there were jobs lost in Canada in March, but the decline was small enough not to affect the unemployment rate at 5.8%. For the month, the economy dropped by 7,200 jobs, a far-cry from the almost 56,000 added in February, and below forecasts of a gain of 1,000. The losses were seen in both full-time and part-time positions with more from the former as the healthcare, building, and support sectors were the biggest decliners.
- **Canadian CPI accelerates.** The latest results for March came in line with expectations of 0.7% monthly gain, arriving at a 1.9% annual rate. Broad-based gains were observed in all eight major components, with a 1.9% increase in transportation driving a large part of the increase. The central bank's preferred measures of inflation averages rose from 1.9 percent to 2.0 percent during the period. The overall increase in core inflation modestly increased the likelihood that the BoC would maintain a hiking bias.
- **PPI higher.** Canada's product price index rose in March, almost doubling market expectations due to higher energy, auto, and non-ferrous metal products. For the month, IPPI was reported by StatCan at 1.3% following February's 0.3% gain and forecasts of 0.7% increase. Also helping were meat, fish and dairy products that posted a 1.4% monthly gain. On an annualized basis, IPPI rose 1.5%, bettering 1.2% in the previous month.
- **Wholesale sales rise.** Sales in motor vehicles drove wholesale sales readings higher in February for a third consecutive monthly gain. On forecasts of a 0.1% increase, sales actually rose 0.3%, just below January's 0.4%, to a total of $63.7B in receipts. Of the seven subsectors followed by Statistics Canada, only two advanced. Motor vehicles provided so much of the month's gains that had it been excluded, sales would have fallen 1.5%. Building materials and supplies led the monthly losses. On a volume basis, wholesale sales increased 0.3% for the month.
- **Manufacturing activity slows.** in March, a slowdown in export orders dropped activity in the manufacturing sector to its slowest pace since September 2016. IHS Markit's manufacturing PMI fell sharply during the month from 52.6 to 50.5, just above the 50-threshold separating contraction and expansion. In addition to lower global demand, the rising cost of domestic raw materials used in production hindered Canada's ability to compete with global manufacturers at a price level. With the slowness, hiring and inventory stockpiling by producers also felt the effects.

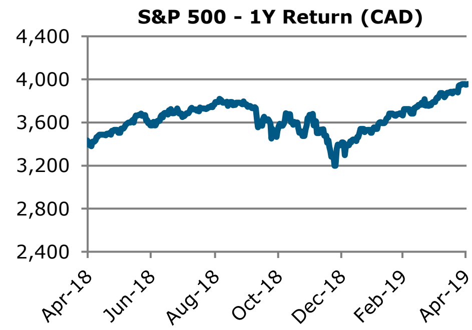
**S&P/TSX Composite Index**
**Sector Snapshot**

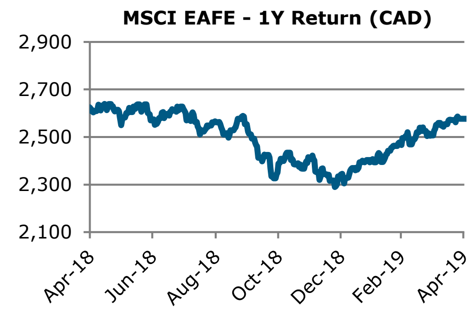
| Sector | Month Return | YTD Return | Weight (%) |
|---|---|---|---|
| Consumer Discretionary | 7.01 | 16.93 | 4.3 |
| Consumer Staples | 0.75 | 11.01 | 3.8 |
| Energy | 3.45 | 18.30 | 18.2 |
| Financials | 5.22 | 15.16 | 32.5 |
| Health Care | 2.00 | 51.91 | 2.2 |
| Industrials | 4.12 | 19.52 | 11.1 |
| Information Technology | 6.43 | 33.23 | 4.6 |
| Materials | -2.48 | 5.52 | 10.2 |
| Real Estate | -2.81 | 13.00 | 3.3 |
| Telecoms | -0.88 | 7.84 | 5.6 |
| Utilities | 0.33 | 15.13 | 4.1 |




- **Retail sales bounce back.** The latest results for February displayed a sharp gain following three months of declines. Sales rose by 0.8% during the period, ahead of consensus forecasts. This was the largest increase in nine months, pushing the annual growth rate from a revised 0.9% to 1.8%. On a negative note, sales volumes were not as strong, with only a 0.2% monthly rise recorded.
- Canada housing news:
    - **Housing starts rise.** The number of groundbreakings rebounded from February's decline, CMHC reported. In March, housing starts climbed to 192,527 units on a seasonally adjusted basis, sharply higher than the month prior yet slightly below economist forecasts. Most of the gains were in the condominium and apartment sector that rose 18.6%, while detached homes strongly contributed, rising 12.1%.
    - **Building permits fall.** Overall receipts for applications to build fell in February to a total of $7.8B. This was a 5.7% decline from the previous month as lower activity in multi-unit dwellings dropped 8.5%, mainly in B.C. and Ontario. It was the sector's lowest as non-residential structures also decreased by only 0.5% as institutional permits rose 11.5% for its first gain in five months.
    - **New home prices flat.** After falling slightly the month prior, new home prices in Canada were unchanged in February as weak market conditions continued to affect the housing sector. Statistics Canada reported no change in prices in Toronto and Calgary with declines seen in Edmonton and Vancouver as one-third of the metropolitan regions followed saw gains during the month. On an annualized basis, new housing prices rose 0.1% after a 0.1% decrease in January.

## U.S. Markets




- **Record-breaking April.** U.S. equities are off to the best start to the year in two decades. All major U.S. equity markets reached new all-time highs in April, buoyed by a solid start to the Q1 earnings season and an accommodative U.S. Federal Reserve ("the Fed"). Adding to the positive sentiment, market participants continued to witness encouraging reports that shed light into progressive trade discussions between Washington and Beijing. While markets saw broad-based gains, with most sectors rallying during the period, the outperformance of cyclical sectors reflected the renewed investor optimism in equity markets. The economic environment in the U.S. also supported stocks, with the first estimate of the Q1 GDP results coming in at a much higher than expected level. For the month, the S&P 500 Index advanced by 3.9% (in USD), to end the period at 2,946. Meanwhile, the widely tracked Dow Jones Industrial Average and NASDAQ Composite rallied by 2.5% and 4.7% and closed at 26,593 and 8,095 respectively.
- **U.S. first quarter GDP moves ahead of expectations.** The U.S. economy grew at a robust annual rate of 3.2%, substantially higher than the projection for a 2.1% growth rate. This was largely underpinned by stronger state and local government spending, lower imports and business inventories. This is the first estimate of the first quarter results, and there may be revisions to this rate as more data come out over the next few weeks.
- **U.S. Consumer Price Index inches higher.** Higher energy prices underpinned the higher-than-expected 0.4% increase recorded in March. Nevertheless, excluding energy and food prices, core inflation only ticked higher by 0.1%, below expectations. Year-over-year, headline inflation was up 1.9%, while core inflation was higher by 2%. Despite some softening in economic data, inflation data continues to reflect stable conditions, with the level trending around the long-term target aimed by the U.S. Federal Reserve.
- **U.S. employment data remains strong.** Jobless claims were down 10,000 to 202,000 and nonfarm payrolls came in at 196,000 compared to 33,000 last month, both beating expectations. Unemployment rate remained unchanged at 3.8% and average hourly earnings month over month changed by 0.1%.
- **U.S. industrial production down in March.** Industrial production slipped 0.1% for the month after edging up 0.1% in February. Manufacturing production remained unchanged (+0.3% expected) following two previous months of decline; motor vehicles and parts production notably decreased by 2.5% for the month. The data continues to signal tepid consumer and business demand and uncertainty in the global growth outlook.
- **U.S. PPI rises higher than expected in March.** Higher energy and finished goods prices underpinned the steeper-than-expected 0.6% increase in U.S. producer prices in March. This was the largest increase in five months, despite tame underlying wholesale inflation. Year-over-year, PPI rose by 2.2% after advancing by 1.9% in February. Nevertheless, excluding food, energy, and trade services, a key gauge of underlying producer price pressure was unchanged in March, and only ticked higher by 0.1% in February.
- **U.S. ISM Manufacturing Index above expectations.** At 55.3 in March, versus the expected 54.2 reading, ISM Manufacturing was boosted by strong new orders and manufacturing employment. This is solid and healthy growth despite a slowing trend.
- **U.S. ISM Non-Manufacturing Index falls below expectations.** The 56.1 index level for March was below the 58.0 consensus and 59.7 in February. Like the manufacturing index, the data still show growth, but at a moderate pace.
- **U.S. factory orders fall as expected.** The decline of 0.5% follows a no change record in January, and a marginal 0.1% increase reported for December. Stripping out aircraft and transportation equipment, core durable orders fell 0.1% in the last two reports. Nondurable orders were the few bright spots in the report, benefiting from higher petroleum-related prices and rising 0.6% to help offset the drop in durables. The decline can be largely attributed to the slowdown in global cross-border trade.
- **U.S. consumer confidence improves.** The U.S. Consumer Confidence index continued to climb higher following its sharp fall during the government shutdown at the beginning of the year. April's reading of 129.2 beat consensus by more than 2 points, underpinned by a robust shot-term outlook. Nevertheless, optimism hasn't fully recovered from the slump felt earlier in the year following market volatility and recession worries.
- U.S. housing news:
  - **U.S. existing home sales eases.** After a strong surge in February, existing home sales in the U.S. came in at the lower end of the consensus range in March. During the month, 5.210 million homes were sold, 4.9% lower than the level recorded in February. Sales decreased for a fourth time in five months, despite lower mortgage rates, signalling that perhaps the residential real estate sector may need more time to stabilize. Nevertheless, economists expect 2019 to be a positive year for the housing sector, enhanced by the recent dovish tone from the U.S. Federal Reserve.
  - **U.S. new home sales top expectations.** In contrast to existing home sales, the latest new home sales level grew at its best monthly rate since November of 2017. Actual sales came in at 692,000 in March, ahead of both the consensus range and the previous month's figure. While new home sales tend to be quite volatile, the latest data points to a promising rest of the year ahead for home sales—last year's big economic disappointment.
  - **U.S. housing starts fell below consensus.** The housing data continued a downward trend as this month's housing starts were at 1.139M versus 1.230M expected. Housing permits also showed weakness at 1.269M with 1.300M expected.

# European Markets

- **The ECB leaves policy unchanged in its latest announcement.** As expected, the central bank reaffirmed a similar forward guidance it introduced the month prior. The ECB expects to leave rates at present levels through the end of this year and remains committed to the same QE stance by re-investing principal payments from maturing securities purchased under the Asset Purchase Programme (APP). The Bank's economic outlook was relatively unchanged, with risk still tilted to the downside.
- **Europe's first quarter GDP expands according to the latest flash reading.** This was the first look at the Eurozone economy for the first quarter, with the data showing modest economic growth of 0.4% for the period. This figure was higher than the final 0.2% posted at the end of last year, and just strong enough to leave the annual growth rate at 1.2%. While this report should provide a source of relief to the ECB, it is difficult to assess the implication of the results on the central bank's policy outlook due to the lack of additional details.
- **The Eurozone's job market remains stable.** The latest unemployment rate came in at 7.7%, below expectations and at the lowest level since September of 2008. Decline in joblessness in Italy and Spain largely attributed to overall labour market stability. Within the notable details, youth unemployment decreased, reducing the rate for the segment from 16.2% to 16.0%.
- **Eurozone PMI composite flash reading remains weak.** Composite PMI was sluggish at 51.3 (51.6 prior), dragged down by weak manufacturing data of 47.8 (47.5 prior) in April. Services PMI dropped slightly to 52.5 (53.3 prior).
- **Eurozone industrial production beat forecasts.** Goods production came in significantly stronger than consensus in February. Output only fell marginally by 0.2% on the month, following a strong 1.9% bounce seen in January. This puts the average Eurozone industrial production in the first two months of the year 0.8% higher than the mean level in the fourth quarter of last year.

# Asian Markets

- **Japan's unemployment rate increases.** The seasonally-adjusted unemployment rate in Japan rose from 2.3% in February to a 2.5% rate in March. This was a tick higher than economists' forecasts, while remaining close to the multi-decade low of 2.2% recorded in May of last year. Meanwhile, Japan's participation rate increased to 61.9% in March, ahead of February and 61.2% recorded a year earlier. This data shows further strength in Japan's job market, fueling the Bank of Japan with hopes that inflation would begin to move towards its 2.0% target.
- **Japan's trade surplus exceeds expectations.** Trade surplus increased to JPY 528.5 billion (JPY 350 billion expected) in March driven by weaker demand in both domestic and international markets. Imports were well below expectations (1.1% versus 3.0% expected) while exports remained weak from slowing Asian markets (-2.4% versus -2.7% expected). Japan's PMI flash estimate mirrors this sentiment as it remains in contraction territory at 49.5 and 48.9 prior.
- **Japan's PPI increased in March.** The latest results recorded a year-over-year increase of 1.3% in the Producer Price Index, largely driven by a rebound in prices for petroleum and coal products. The strong PPI results contrast the recent PMI survey data out of Japan, which indicates that input costs increased at a slower pace in the manufacturing sector.
- **China's GDP remains stable.** China's economy expanded 6.4% in Q1, unchanged from the previous quarter and marginally higher than the consensus. Industrial production surged 8.5% year-over-year (5.9% expected), retail sales grew by 8.7% year-over-year (8.4% expected) and fixed asset investment increased by 6.3% year-over-year in line with expectations. China had introduced fiscal and monetary stimulus measures early this year to help strengthen growth that was negatively affected by the ongoing trade war.
- **China's PMI composite highest since June 2018.** Both PMI composite and services jumped this month from 50.7 to 52.9 and 51.1 to 54.4 respectively. New state policies, improved access to financing and increased domestic demands contributed to stronger growth this month.

# Key Take-Aways

**Merry-Go-Round.** The housing market in Canada has been on a rollercoaster ride for the last few years. Record highs have been seen in all metro regions in Canada, led by the nation's largest cities of Toronto, Vancouver, and Montreal, making affordability unattainable for many potential homebuyers. In response, municipal and provincial governments implemented foreign buyers and vacancy tax regimes to help rein in rising home prices with varying degrees of success. The Bank of Canada, primarily in response to a strong economy, began to hike interest rates in 2017 amidst their concerns of record high household debt. This began the slowdown that has been seen lately with monthly metrics from various sources showing muted growth in the sector. Most recently, the federal government proposed changes in their latest budget to assist first-time purchasers using their retirement plans. Unfortunately, although prices have been declining (yet still nowhere near what they were five or ten years ago) and the market has stabilized somewhat, the dreams of many to grasp the proverbial "brass ring" and own their home remains out of reach.

**Time for a Pause.** The economy took a break during the last month of the quarter after adding over 300K jobs in the previous six months. The slowdown of hirings was expected as 116K jobs were added in January and February, capping the best start to the year since 1981. In March, most of the losses were seen in the private sector, while public and self-employed individuals rose as the unemployment rate hovered at 5.8% for a third straight month, just above record lows of 5.6% seen in November and December. More importantly however, are the behind-the-scenes metrics showing the health of the labour market. For the 12-month period, 332K people found employment, with gains seen in both full-time and part-time positions, while for the same duration, hourly wages rose 2.3%, ahead of the annualized inflation rate in Canada. The economy has had some strong job creation in the past few months and has earned some time to cool off—but hopefully not for too long.