glc asset management

Market Matters

Summary for May 2018

Highlights

	North American equities benefitted from strong corporate earnings, while emerging markets lag amid trade worries and a stronger US dollar.		Oil price fundamentals are stabilizing. Oil was seen above $70USD/barrel mid-month for the first time since 2014.
	Yields dropped and bond returns turned positive amid trade concerns and Italy's election turmoil.		Tech stocks are still the market darlings - favoured by investors for their secular growth, strong earnings and expanding profit margins.

Come what May: A rise in Canadian stocks and bonds

Investor sentiment shifted mid-month from risk-on to risk-off. This tempered very strong equity gains made earlier in the month, while giving a lift to bond prices as yields dropped. In Canada, this left the end of month results looking pretty darn good for both the equity and bond indices. The mid-month change in sentiment came in response to political turmoil in Italy, vexing trade negotiations, and the troubling nature of the on-again/off-again North Korea and US Summit.

Pipelines and rails boost the TSX

The resource and industrial sectors were top contributors to the Canadian equity market in May. Within the industrials sector, the rail companies drove results after data released showed improved rail car volumes, while sentiment toward the Canadian energy sector has warmed (or at least the chill has been taken off).

In spite of oil prices ending the month down (part of the risk-off trade), fundamentals in oil prices appear to have stabilized and the price per barrel briefly moved above $70(USD) in May for the first time since 2014. The premium spread between Western Canadian Select (the heavy, high-sulphur content 'sour' crude benchmark for Canadian oil) and West Texas Intermediate (the light, sweet crude benchmark for US oil) has narrowed significantly, easing the price differential headwind facing Canadian oil companies. Furthermore, the US government's withdrawal from the Iran nuclear deal opened the door for oil sanctions to come back into effect and helped move oil prices higher on expectations of less supply in the marketplace. For the month, the Canadian pipeline companies did best among Canadian energy sector peers. The Canadian government's Trans Mountain Pipeline purchase aside, these dividend-paying, interest-sensitive companies saw stock prices rise as yields dropped in the second half of the month.

Market Summary

Canadian Fixed Income[1]	Month	YTD
FTSE TMX Canada Universe Bond Index	0.8%	0.0%
FTSE TMX Canada All Corporate Bond Index	0.6%	0.3%

Canadian Equities[2]	Month	YTD
S&P/TSX Composite	2.9%	-0.9%

	Month		YTD	
Global Equities[2]	Local	CAD	Local	CAD
S&P 500	2.2%	3.2%	1.2%	4.6%
MSCI EAFE	-1.2%	-1.8%	-2.3%	0.2%
MSCI Emerging Markets	-2.4%	-2.8%	-1.0%	0.1%

Currencies and Commodities (in USD)	Level	Month	YTD
CDN $	0.772	-0.9%	-3.0%
Oil (West Texas)	67.04	-2.2%	11.0%
Gold	1,301.88	-1.2%	-0.1%
Reuters/Jeffries CRB Index	202.84	0.4%	4.6%

Canadian Sector Performance[2]	Month	YTD
Energy	2.4%	-2.0%
Materials	5.5%	1.0%
Industrials	6.7%	6.5%
Cons. Disc.	4.3%	1.8%
Info Tech	7.8%	21.5%
Health Care	11.8%	-7.0%
Financials	1.3%	-3.0%
Cons. Staples	1.5%	-6.1%
Telecom	-0.6%	-7.7%
Utilities	-1.9%	-10.4%
Real Estate	2.9%	1.5%

Local currency unless otherwise stated.
[1]Total return [2]Price only return
Source: Bloomberg

Canada's big banks always factor heavily in overall Canadian market results. The banks reported strong earnings during the month, but the stocks failed to make significant gains. The devil was in the details as the drivers of earnings growth were not as investors had hoped - muting the enthusiasm for the earnings results overall.

The stand-out sector in both Canada and the US was the information technology (IT) sector. The mega-cap tech giants - Apple, Alphabet (Google), Facebook, Microsoft - continue to deliver great earnings results and have thus far shown a degree of immunity from many of the US political denunciations that have affected other areas of the market. The shine has spread across the border to Canada's tech companies - year-to-date the sector holds the top performance spot by a wide margin.

Flight to safety trade highlights bonds risk-mitigating benefits

In spite of both the US Federal Reserve and the Bank of Canada acting as expected by leaving interest rates unchanged, bond markets moved sharply in May. Investors fled equities and poured money into bonds, driving yields down. The Government of Canada 10-yr yield fell 33 basis points and 2-yr yield fell 21 basis points from peak-to-trough in the month. It was a classic flight-to-safety trade as worry and uncertainty took hold over a number of geopolitical issues:

- Protectionist US trade actions against Canada, China, Europe and Mexico (among others);
- Italy's challenge in forming a coalition government and skepticism over their proposed fiscal plans; and
- On-again, off-again US/North Korea Summit denuclearization talks.

The story is far from over when it comes to trade negotiations, eurozone political unrest, and/or the long-standing issues facing the Korean peninsula. June is expected to continue where May left off - with market volatility and ongoing geopolitical uncertainty in the headlines. The strong positive response from fixed income during the 'risk-off' tone stands as a great reminder that high quality bonds remain a valuable risk-mitigation tool in balanced portfolios.

Coming in July – a special edition Market Matters' Mid-year Review"

July's edition of GLC's Market Matters will feature an extended review of capital market performance for the first half of 2018. From Canadian and US sector results, to eurozone, emerging market and fixed income re-caps, you'll find it all in GLC's Special Edition: Market Matters' Mid-year Review.

Christine Wellenreiter, CM

VP Marketing and Communications, has more than 15 years of investment industry experience and has been writing the monthly Market Matters for over 10 years.