

MARKET UPDATE FROM THE GLOBAL CIO OFFICE

JULY 2019

In June, financial markets thrived on the string of dovish rhetoric from central banks including the likes of the Federal Reserve, the European Central Bank, and the Bank of Japan – while thawing US-China trade tensions also lent support ahead of the highly-anticipated meeting between President's Trump and Xi. In the end, the gathering between the two superpowers proved successful in producing a framework for the resumption of trade talks, but fell short of reaching an all-encompassing deal. The details were fairly scarce, though Trump agreed to defer any new tariffs “for the time being” and lifted some restrictions on Huawei Technologies, while Chinese officials agreed to the purchase more US agricultural products.

FINANCIAL MARKET DASHBOARD

	JUNE 28 2019	JUNE	YTD	1 YEAR
EQUITY MARKETS		% PRICE CHANGE (LC)		
S&P 500	2942	6.89%	17.35%	8.22%
S&P/TSX	16382	2.15%	14.38%	0.64%
MSCI EAFE	1922	5.77%	11.77%	-1.86%
MSCI EM	1055	5.70%	9.22%	-1.37%
FIXED INCOME (%)		BASIS POINT CHANGE		
US 10 Year Bond Yield	2.01	-12.0	-67.9	-85.5
US 2 Year Bond Yield	1.75	-16.7	-73.3	-77.3
US Corp BBB Spread	1.47	-15.0	-39.0	-17.0
US Corp High Yield Spread	3.86	-59.0	-141.0	23.0
CURRENCIES		% PRICE CHANGE		
CAD/USD	0.76	3.23%	4.16%	0.30%
EUR/USD	1.14	1.83%	-0.82%	-2.66%
USD/JPY	107.85	-0.41%	-1.68%	-2.63%
COMMODITIES		% PRICE CHANGE		
WTI Oil (USD/bbl)	58.47	9.29%	28.76%	-21.15%
Copper (USD/pound)	2.70	2.48%	2.83%	-8.32%
Gold (USD/oz)	1413.70	8.26%	10.33%	12.69%

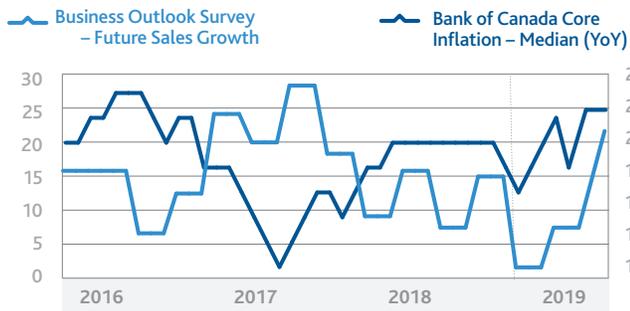
Global equity markets welcomed the supportive undertones from central banks and receding trade tensions that buoyed risky assets in June. The S&P 500 breached record highs as expectations for multiple fed fund rate cuts ignited US stocks. The S&P/TSX followed suit – though by a lesser extent as robust performance in gold stocks was countered by weakness in the energy space. Positive results also extended to overseas markets, with European and Japanese bourses cheering pledges for support from the ECB and the BOJ, while emerging market shares prospered alongside the Federal Reserve's dovish-pivot and hopes for a breakthrough at the US-Sino trade talks late in the month.

Bond yields declined decisively and yield curves bull-steepened as monetary policymakers in the US, Europe, and Japan signaled a willingness and readiness to act should economic or financial market conditions deteriorate. The US 10 year treasury yield broke below 2% for the first time since 2016, while investors were paying German and Japanese governments to hold their money for a decade. Meanwhile, markets got even further out in front of the Fed and are now fully-discounting a rate cut at the July gathering, while pricing-in a total of 2.5 rate cuts in 2019. Finally, the revival in risk appetite saw credit spreads narrow, with investment grade bonds outperforming their government peers during the month.

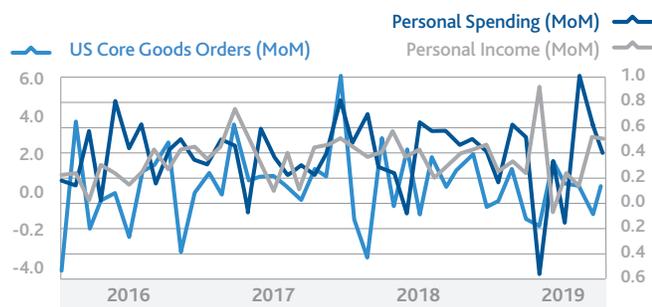
Dollar momentum dwindled in June as investors ramped-up their wagers for aggressive easing from the Federal Reserve. In contrast, the loonie took flight alongside rebounding crude prices, while rate differentials between the US and Canada narrowed after the Fed opened the door to the possibility of rate cuts at the same time that strong growth and inflation results in Canada endorsed a sidelined approach from the Bank of Canada.

Oil prices bounced profoundly higher as tensions between the US and Iran fanned fears of a conflict that threatened to disrupt supplies in the Middle East, while OPEC reiterated their commitment to maintaining a balanced market - all of which propelled oil to its biggest monthly increase since January. Gold also extended its impressive rally and broke through \$1400/oz thanks to the dovish bias from central banks, while rising geopolitical tensions also boosted the allure of bullion as a haven. Finally, copper posted its first monthly gain since February on renewed hopes for a trade détente that would help to alleviate tensions between the world's two largest consumers of the red metal.

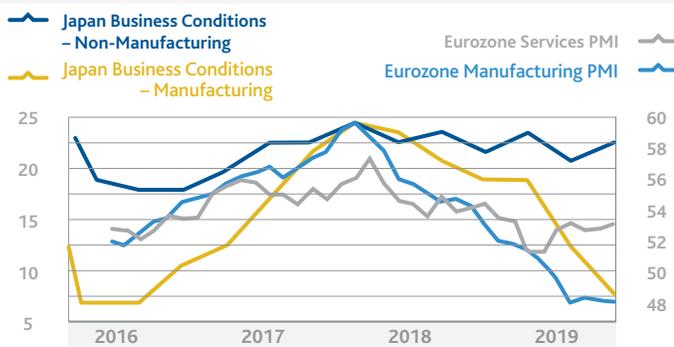
Past performance is no guarantee of future results. All investments involve risk including loss of principal.



The Canadian economy has rebounded convincingly in the second quarter after stalling out late last year. According to the Bank of Canada's Business Outlook Survey, corporate sentiment has improved, with the balance of opinion on future sales growth surging higher in June. Meanwhile, the Bank of Canada's three key gauges of underlying price pressures breached the 2% threshold and accelerated 2.1% y/y in May.



In the US, both personal incomes and spending rose at a faster-than-expected pace in May. Incomes have been supported by solid trends in the labour market and have driven personal spending to the fastest pace in a year, underscoring the resilience of the mighty US consumer. Meanwhile, core (ex-aircraft) goods orders (a proxy for US business spending) also perked up in May in a sign that US corporations are also holding their own.



Lingering trade uncertainty has been fairly isolated to the factory sector and has yet to spill over to the domestic economy. According to the Tankan survey results from the Bank of Japan, business confidence among large manufacturers dropped in June, while in contrast, sentiment unexpectedly improved among large non-manufacturers. Similarly in Europe, while the factory PMI contracted in June, the private sector services gauge jumped higher.

CANADA

After a difficult start to the year, the Canadian economy recalibrated and got off to an impressive start in the second quarter, as temporary weakness in the energy sector reversed course after the Alberta government eased curtailments on production. Gross domestic product rose 0.3% in April after a 0.5% gain in March, marking the strongest two-month gain since the end of 2017. Similarly, the latest Business Outlook Survey indicated that corporations were decisively upbeat through May and June even amidst a cloudy global backdrop at hand. Meanwhile, underlying pricing pressures have reaccelerated, which gives the Bank of Canada plenty of scope to remain sidelined even as other central banks adopt and increasing dovish stance.

USA

Despite the Federal Reserve's cautious narrative, the US economy remains on solid ground. The domestic outlook remains healthy, with the personal income and spending data for May indicating that the consumer has been immune to the tumultuous trade backdrop at hand and remains well positioned to lead the growth charge in 2019. And while sentiment in the factory sector has deteriorated, both core goods orders and shipments rebounded in a sign that corporate spending is holding up even in the wake of lingering tensions with major trading partners. While the Fed has indeed opened the door to easing monetary policy, the sound economic backdrop will make it difficult to corroborate the market's expectation for multiple rate cuts through 2019.

INTERNATIONAL

Looking abroad, the ongoing trade debacle and a gloomy global growth backdrop have weighed on sentiment in the factory sector and revealed the vulnerabilities for export-oriented economies such as Europe and Japan. In Europe, the key manufacturing gauge remained in contraction territory for a fifth straight month in June, while the same index in the UK dropped to a six-year low. And in Japan, sentiment among the largest manufacturers deteriorated to the lowest level in almost three years. That said, tensions in the factory space have yet to spill over into the domestic economy, as the services sector gauge in the Eurozone actually improved in June, while the mood among domestic focussed non-manufacturers in Japan also unexpectedly bounced higher.

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