

# Market Matters

## JULY 2016 HIGHLIGHTS

- Global equity markets shrugged off near-term Brexit concerns and rebounded in July to post strong monthly returns.
- The overall risk-on tone was aided by a better than expected corporate earnings season in both the US and Canada.
- Gold bullion and oil prices bucked the risk-on trend. Oil prices slid down 13.9% as less favourable supply and demand data emerged, while demand for gold continued and bullion prices rose 2.2%. The energy sector was Canada's only negative performing sector this month.
- Bank of Canada and the U.S. Federal Reserve held rates steady during the month, remaining at their ultra-low levels.
- Strong demand for Canadian bonds held yields in check, and Canadian fixed income market returns delivered a solid return.

## FASTER

- **Brexit recovery:** Global equity markets quickly dismissed worries related to June's Brexit referendum – showing surprising resilience (see Table 1). Likewise, UK political leadership certainty returned faster than had been feared. While the initial weeks of July were ripe with post-Brexit political betrayals and unexpected reversals, the firestorm quelled as fast as it had flared. Theresa May of the British Conservative Party (and Home Secretary of the UK since 2010) remained standing among the ashes as Britain's next prime minister.
- **US employment:** June and July job results picked up the pace after a pullback in May. Total nonfarm payroll employment added 292,000 new jobs in June and 255,000 jobs in July compared to the negatively-revised estimate of only 24,000 new jobs in May.
- **Housing:** US and Canadian consumers continued to invest in real estate on the back of a solid job market and low mortgage rates. In June, US new home sales increased a whopping 25.4% year-over-year for single-family homes, while existing home sales also posted gains, but accelerated at a more modest pace of 3.0%. Results were more region-specific in Canada, but overall existing home sales climbed over 10% year-to-date, while prices are up 13.8% year-to-date (Vancouver existing home data ballooned to 20% year-to-date for both sales and prices). A new 15% foreign buyer tax in B.C., effective this August, is hoped to moderate the pace of the red-hot Vancouver housing market.

**Table 1**

### Summary of major market developments

| Market returns*                            | July | YTD   |
|--------------------------------------------|------|-------|
| S&P/TSX Composite                          | 3.7% | 12.1% |
| S&P 500                                    | 3.6% | 6.3%  |
| - in Canadian dollars                      | 4.3% | 0.5%  |
| MSCI EAFE                                  | 4.7% | -4.8% |
| - in Canadian dollars                      | 5.8% | -7.0% |
| MSCI Emerging Markets                      | 3.9% | 6.1%  |
| FTSE TMX Canada Universe Bond Index**      | 0.8% | 4.9%  |
| FTSE TMX Canada all corporate bond index** | 0.7% | 4.8%  |

\*Local currency (unless specified); price only

\*\*Total return, Canadian bonds

**Table 2**

### Other price levels/change

|                              | Level    | July   | YTD   |
|------------------------------|----------|--------|-------|
| CAD per USD exchange rate    | \$0.767  | -0.9%  | 6.1%  |
| Oil (West Texas)*            | \$41.60  | -13.9% | 12.3% |
| Gold*                        | \$1,351  | 2.2%   | 27.3% |
| Reuters/Jefferies CRB Index* | \$181.01 | -6.0%  | 2.8%  |

\*U.S. dollars

**Table 3**

### Sector level results for the Canadian market

| S&P/TSX Composite sector returns* | July  | YTD    |
|-----------------------------------|-------|--------|
| S&P/TSX Composite                 | 3.7%  | 12.1%  |
| Energy                            | -0.5% | 16.6%  |
| Materials                         | 6.8%  | 61.1%  |
| Industrials                       | 7.6%  | 12.3%  |
| Consumer discretionary            | 5.4%  | 4.3%   |
| Consumer staples                  | 5.2%  | 7.4%   |
| Health care                       | 6.3%  | -70.7% |
| Financials                        | 2.9%  | 5.9%   |
| Information technology            | 9.2%  | 2.6%   |
| Telecommunication services        | 4.4%  | 17.3%  |
| Utilities                         | 2.8%  | 17.9%  |

\*Price only

Source: Bloomberg, MSCI Barra, NB Financial, FTSE TMX Global Debt Capital Markets Inc.

### Not-so-fast

- **Volatility:** During the dog days of summer, trading volumes tend to be light, which can sometimes heighten volatility – but so far, the VIX index (S&P 500 measure of market volatility) averaged 13 for the month, which is far below the post-Brexit spike of 25+, and well below the long-term average of around 20.
- **Political campaign news cycles:** You wouldn't be alone in looking forward to the end of the political run for US President, ...and they say things will really start to ramp up after Labour Day!

### HIGHER

- **Equity markets:** It was another month of strong gains for the Canadian market, and Canada holds a good lead ahead of most of its developed market peers on a year-to-date basis. For the S&P 500, it was the fifth monthly gain in a row. It's hard to believe the American market was off 10.5% for the year at its low on Feb. 11, 2016. The information technology sector was the big winner on both sides of the border, with stronger than expected earnings from the US tech giants capturing the headlines (specifically Apple, Alphabet, and Facebook) and Amazon pushing up the US consumer discretionary sector. Expectations of more economic stimulus out of Japan, Britain and the EU helped international markets book strong July equity results as well.
- **Gold:** Even though risk aversion took the month off, the price of gold bullion continued higher. The safe-haven and capital preservation nature of gold continues to appeal to investors as an alternative to the ultra-low and negative yields of bonds.
- **Valuations:** Many global indices are showing price-to-earnings ratios above their 10-year historical averages; a possible risk to further equity advances should corporate earnings growth be lackluster.

### Not-so-high

- **Interest rates:** At its meeting at the end of July, the U.S. Federal Open Market Committee opted to maintain the target range for the federal funds rate at its current low level of 0.25% to 0.50%. As was expected, the Bank of Canada also stood pat - leaving the bank rate at 0.50%. Facing the initial Brexit turmoil, the Bank of England maintained its Bank Rate at 0.50% in July, but in the early days of August further cut the rate to 0.25% and introduced a package of measures designed to provide additional monetary stimulus.

### STRONGER

- **Corporate earnings:** With Brexit worries looming, stronger than expected earnings results turned up at just the right time to give investors the confidence to move markets higher. Current earnings season (highlighting Q2 results) have brought an above average level of positive surprises.
- **Canadian gold stocks:** Gold-related stocks in Canada have more than doubled in 2016 (up 102.6% YTD, far outpacing the strength in gold bullion prices).

### Not-so-strong:

- **Consumer confidence:** Following the late June UK referendum vote to leave the European Union, UK business and consumer confidence for economic prospects have been less than upbeat. This is being watched closely for its long-term impact on the nation's economic outlook.
- **Oil:** Crude oil prices dropped to under \$42 per barrel by the close of July, and in the opening days of August oil prices slid into bear market territory. Weighing on oil prices is record output from OPEC nations, the return of Albertan production, an increase in active rigs in the US, moderating Chinese demand, and rising U.S. gasoline inventories (despite peak summer driving season).

### AN ELITE FIELD

Central bank policy and risk aversion in the face of sluggish global economic growth, volatile currencies and political uncertainty have led to ultra-low and negative bond yields across the globe. International demand for 'good product' is high and is adding to the downward pressure on yields. As of the end of July, Canada is among only four nations\* in an elite field offering both strong credit ratings (AAA) and an above 1% yield on 10-year sovereign bonds (\*Australia at 1.87%; Singapore at 1.76%; US at 1.58%; and Canada at 1.15%).

### GO CANADA GO!

We wish all our Canadian athletes and their support teams good luck this summer! You transform us with national pride, captivate us with exceptional talent, and inspire us through stories of hard-work, dedication and the unwavering desire to succeed.

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