Market Matters

AUGUST 2017 HIGHLIGHTS

- Global equity markets managed modest gains in August. A focus on strong corporate earnings and solid economic data offset a number of troubling global events.
- Bond markets rallied as yields dropped on weak inflation results and rising geopolitical concerns.
- Oil prices dropped as rising US production and ample supply continued to outweigh demand supported by a strong outlook for global growth.
- Gold prices rallied, supported by a flight to safety trade as geopolitical concerns rose, particularly in regard to a sharp increase in tensions between North Korea and the US.

CALM AMIDST STORMY CONDITIONS

August is typically a period of light trading activity, which lends itself to volatility as fewer market traders can cause bigger market moves. Yet this summer most equity markets managed modest gains without dramatic swings. Globally, corporate earnings were very strong and evidence points to synchronized global economic growth.

Once again, a month-end snapshot of capital results hides the stormy waters of politics, international relations and Mother Nature's life-changing force and fury. The controversy that followed the violent events in Charlottesville, Virginia further revealed signs of political disorder in the Trump administration, while a terrorist attack in Spain and a sharp escalation of threats between the US and North Korea heightened investors' concerns. Hurricane season has been particularly devastating this year. Hurricane Harvey ripped through Texas, only to be followed in quick succession by Hurricane Irma's direct hit on the Caribbean and eastern seaboard states. These situations remain fluid and troubling from a human perspective, while the full economic effects are yet to be known.

Table 1
Summary of major market developments

Market returns*	August	YTD
S&P/TSX Composite	0.4%	-0.5%
S&P 500	0.1%	10.4%
- in Canadian dollars	***0.4%***	***2.8%***
MSCI EAFE	0.6%	6.4%
- in Canadian dollars	***-0.3%***	***6.0%***
MSCI Emerging Markets	1.9%	20.9%
FTSE TMX Canada Universe Bond Index**	1.4%	1.8%
FTSE TMX Canada all corporate bond index **	1.1%	2.6%

*Local currency (unless specified); price only
**Total return, Canadian bonds

Table 2
Currency and Commodities
(in USD, % change)

	Level	August	YTD
CDN$	$0.801	0.0%	7.7%
Oil (West Texas)*	$47.23	-5.9%	-12.1%
Gold*	$1,316	3.7%	13.7%
Reuters/Jefferies CRB Index*	$180.86	-1.0%	-6.1%

Table 3
Sector level results for the Canadian market

S&P/TSX Composite sector returns*	August	YTD
S&P/TSX Composite	0.4%	-0.5%
Energy	-3.5%	-16.0%
Materials	5.5%	5.8%
Industrials	3.0%	9.6%
Consumer discretionary	1.6%	9.6%
Consumer staples	0.4%	0.8%
Health care	-10.3%	-13.8%
Financials	0.1%	0.7%
Information technology	1.5%	9.4%
Telecommunication services	1.0%	8.0%
Utilities	1.5%	7.0%
Real Estate	1.2%	2.1%

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

A SIDEWAYS SUMMER

Over the course of the summer, equity markets saw little change. Gold prices benefited from the safety trade as geopolitical tensions rose, helping the Canadian materials sector post the month's strongest sector return. In contrast, the energy sector continued to be weak in both Canada and the US as oil prices dropped while most other commodities (e.g. copper, natural gas, silver, gold) rallied on strong economic growth trends, indications of increased demand from China for industrial metals, a weak US dollar, and the aforementioned flight to safety trade that supported precious metal prices. Oil prices have come under pressure as increased US production contributed to the already abundant supply of crude in storage. The price for crude oil and refined oil products (i.e. gasoline) were volatile in August due to Hurricane Harvey's direct hit on Houston, the center of the US oil and gas industry. Broadly speaking across sectors, both the S&P 500 and S&P/TSX Composite delivered very strong Q2 corporate earnings and sales results, helping to support stock values and keep both indices in positive territory for the month.

The bond markets did not reflect the strength equities saw in the global economy. A modest flight to safety trade, weak inflation and geopolitical concerns added to the attraction of bonds in August. Yields fell, boosting bond market returns in both the US and Canada. The Bank of Canada surprised investors by raising rates early in September, becoming the most hawkish of the big global central banks. Meanwhile, the path to normalized rates and monetary policy in the US and Europe remains a topic of great debate in terms of both timing and pace.

SOLID ECONOMIC FOOTING

Economic data continues to reinforce a picture of accelerating global growth. Second quarter US real GDP was revised upward, while Canadian real GDP for Q2 blew past expectations, rising 4.5% versus the consensus expectations of 3.7%. The past four quarters mark the strongest expansion since 2006.

Consumer confidence rose to record levels in both Canada and the US. US consumer confidence rose to 122.9 in August, marking the second highest reading since late 2000, and Canadian consumer confidence rose to 121.7, the highest level in nearly a decade. Rounding out the pleasant surprises, US ISM Manufacturing PMI jumped a healthy 2.5 points to 58.8, the highest level in six years. European and Asian markets also continue to report a steady stream of positive economic data, and tentative signs of a return to a healthier rate of inflation.

TURNING A DEAF EAR TO POLITICS

Over the past few months capital markets have managed to turn a deaf ear to Washington. There appears to be a new acceptance of verbal banter amongst politicians, with diminished effect in terms of signaling any meaningful progress toward policy change, such as Wall Street's dream of tax reform. Instead, the market's focus has been on economic data and fundamental corporate results, such as profitability and balance sheet health – and we approve.

In short, it's a stock-picker's market. A disadvantage of passive investment processes and many exchange-traded investment options is their indifference to stock selection. Buy into an index as a whole and you forego the opportunity to differentiate the 'good' companies from the better ones, let alone the 'bad' companies from the worst. With a focus on stock selection, the goal of active portfolio management is to uncover companies with the most attractive attributes – those who are poised to deliver strong opportunities for capital appreciation within current market conditions. It's the value of proven, defined investment processes combined with the experience and expertise of portfolio management teams that offer the combination of opportunity and risk management that can navigate today's market conditions and deliver strong, long-term investment results.