Highlights

- Market volatility persists in April.
- Oil prices rise amid global economic strength and rising geopolitical concerns.
- Canadian equities narrow the gap versus global peers, while fixed income markets wane as yields creep higher.
- Corporate earnings results surprise to the upside.

Volatility persists, with lots for investors to digest this spring

Market volatility persisted throughout April. The risk of a trade war between the US and China and escalating geopolitical tensions over the situation in Syria were counterbalanced by healthy company earnings growth and inflation levels that, while rising, are doing so gradually. Investors had lots to digest.

Canadian equities respond to stronger oil prices

A rising oil price was the difference maker for the S&P/TSX Composite index as energy stocks finally joined the party and responded strongly with nearly a 7% return for the month. That helped narrow the gap between the performance of the Canadian market and global markets year-to-date, though the Canadian market remains the laggard for now.

Oil prices rose, driving pump prices higher. News that the global economy continues to expand, rumours that OPEC and partners are comfortable with their production caps, production outages in Venezuela, and rising uncertainty over the Iran nuclear deal contributed to a rising price of oil.

Tech companies rebound, yet again

The Canadian info tech sector moved up alongside its US counterparts. Positive earnings releases from some tech-related names built on the momentum for the information technology sector and tech companies in general. Amazon hit a new all-time high after reporting its best revenue growth in more than six years while topping $1 billion in profit for the second straight quarter. Facebook continued to sign up new users (maybe even a few US Congressional representatives) and earned record profits. Facebook advertisers appear to be undeterred by recent controversies around the site's mishandling of user data. Microsoft and

Market Summary

Canadian Fixed Income[1]	Month	YTD
FTSE TMX Canada Universe Bond Index	-0.9%	-0.8%
FTSE TMX Canada All Corporate Bond Index	-0.5%	-0.3%

Canadian Equities[2]	Month	YTD
S&P/TSX Composite	1.6%	-3.7%

	Month		YTD	
Global Equities[2]	Local	CAD	Local	CAD
S&P 500	0.3%	-0.3%	-1.0%	1.4%
MSCI EAFE	4.3%	1.5%	-1.0%	2.0%
MSCI Emerging Markets	1.2%	-1.0%	1.4%	2.9%

Currencies and Commodities (in USD)	Level	Month	YTD
CDN $	0.779	0.3%	-2.1%
Oil (West Texas)	68.57	5.6%	13.5%
Gold	1,317.16	-0.4%	1.1%
Reuters/Jeffries CRB Index	201.98	3.4%	4.2%

Canadian Sector Performance[2]	Month	YTD
Energy	6.8%	-4.3%
Materials	0.4%	-4.2%
Industrials	2.8%	-0.2%
Cons. Disc.	1.0%	-2.4%
Info Tech	2.4%	12.7%
Health Care	-3.7%	-16.8%
Financials	0.0%	-4.3%
Cons. Staples	-1.4%	-7.5%
Telecom	0.7%	-7.1%
Utilities	-1.8%	-8.6%
Real Estate	-0.6%	-1.3%

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

Alphabet also beat earnings estimates, but the latter sold off on concerns around higher capital expenditures. Mega-cap tech names such as these are important drivers of the earnings growth story for the US, and so it provides comfort for investors that the group continues to deliver.

Interest rates (and inflation expectations) push higher

Globally, fixed income markets came under pressure amid rising (or expectations of rising) interest rates, along with some inflation pressure. Canadian government bond yields increased through most of the month, following the lead of U.S. Treasuries. Within the Canadian fixed income market there was a move back towards risk, helping to bring corporate bond spreads in by a couple of basis points. As a result, corporate bonds outperformed their government counterparts for the month.

Important risk mitigation and capital preservation tool

In proportion to your personal risk tolerance, fixed income exposure should not be abandoned. Rather, a well-diversified mix of high-quality investment grade bonds should form a core component of your fixed income portfolio – one that will be rewarded in a risk-off market environment where investor sentiment turns sour for equities. While rising rates pose a headwind for fixed income investments, high-quality bonds remain an important risk mitigation and capital preservation tool.

“Income originates in capital and capital originates in income.” Attributed to Leon Walras, French economist.

An opportunity for active management to shine

We’re continuing to see current market conditions bringing volatility back to the fore. This presents an opportunity for active managers to prove their value. The increased volatility, typical of late cycle investing, can enhance the benefits of active portfolio management strategies while creating specific challenges for passive investment strategies. Active managers have the opportunity to take advantage of volatility to buy good stocks at attractive valuations and take profits in stocks as they rise (generating alpha or excess return in financial speak) - an advantage that is absent within passive investment strategies by design.

At the core of every passive investment strategy is the premise that there will be no selective insight, or tilt for any given company, industry, sector or region. In down markets, passive investments offer no control, stop-gaps or interventions to prevent you from bearing the full brunt of market correction pain. In sideways markets, passive ETF (exchange-traded fund) products and index funds offer no potential to select ‘good’ over ‘bad’ investments.

Active management brings expertise, contrarian views, the ability to exercise patience and/or take advantage of opportunities through active decision making that will translate into real value through better returns and/or a smoother ride - benefits we see as well worth it for the current market conditions and outlook.

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.