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Market Matters

Summary for July 2019

Highlights

- Consumer-facing sectors were July's bright spots on news of interest rate drop.
- Mild volatility appeared mid-month, especially in Canada's Energy and Health Care sectors.
- U.S. large-cap indices (S&P 500, Dow Jones Industrials and NASDAQ) set new all-time highs
- Fixed-income markets heated up after what started as a cool month.

July's stock markets bring summertime highs before cooling off into August

Warm weather, backyard barbeques and new market highs – July brought no shortage of reasons to kick back and enjoy a cool beverage. Consumer confidence followed suit with sunny ways. Sentiment brightened as trade tensions took a breather for most of the month and expectations for a U.S. Federal Reserve (Fed) interest rate cut grew. Consensus estimates for corporate earnings were lowered coming into quarter end, which helped most companies deliver blue-sky results by beating quarterly earnings expectations.

In the very last week of July, investors spotted storm clouds on the horizon when the Fed dampened expectations of more rate cuts ahead. Flight-to-safety trades ensued leading stock markets to retreat from their mid-month highs, while bond investors recovered. Point to point, July's capital market returns were flat or muted.

Fed expectations fuel market enthusiasm

All three U.S. large-cap indices (S&P 500, Dow Jones Industrials and NASDAQ) set new all-time highs in July, with the Dow Jones Industrials and S&P 500 crossing round-number milestones of 27,000 and 3,000 respectively. The S&P 500 rode a wave of optimism for most of the month thanks to expectations of a U.S. interest rate cut (that were priced in early, eventually to be fulfilled on the last day of the month). While the Bank of Canada was not expected to follow suit with a similar rate cut, the S&P/TSX Composite Index also reached a new high before settling back to its beginning-of-the-month level (but still over 14% on a year-to-date basis).

Fixed-income markets heated up after what started as a cool July. What was good for stock prices weighed on bond values. For much of the month, fixed-income yields rose, eating away at bond investors' returns. The less-than-encouraging statements from Fed Chairman Powell on July

Market Summary

Canadian Fixed Income[1]	Month	YTD
FTSE Canada Universe Bond Index	0.2%	6.7%
FTSE Canada All Corporate Bond Index	0.4%	7.3%

Canadian Equities[2]	Month	YTD
S&P/TSX Composite	0.1%	14.5%

	Month		YTD	
Global Equities[2]	Local	CAD	Local	CAD
S&P 500	1.3%	1.7%	18.9%	14.7%
MSCI EAFE	0.7%	-0.9%	12.2%	6.5%
MSCI Emerging Markets	-1.5%	-1.3%	7.1%	3.6%

Currencies and Commodities (in USD)	Level	Month	YTD
CDN $	$0.758	-0.7%	3.4%
Oil (West Texas)	$58.58	0.2%	29.0%
Gold	$1,424.68	1.1%	11.2%
Reuters/Jeffries CRB Index	$178.53	-1.4%	5.1%

Canadian Sector Performance[2]	Month	YTD
Energy	-4.0%	5.5%
Materials	2.3%	16.3%
Industrials	1.8%	22.3%
Cons. Disc.	3.4%	17.7%
Info Tech	3.2%	47.6%
Health Care	-13.3%	17.0%
Financials	0.6%	12.7%
Cons. Staples	1.5%	13.4%
Comm. Services	-1.1%	6.2%
Utilities	1.6%	21.5%
Real Estate	1.8%	15.3%

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

31 reset the mood by reversing stock market gains and re-cooping bond market losses. The FTSE Canada Universe Bond Index needed a last-day rally to avoid a loss for the month, ending up with a gain just a fraction above zero.

Canada's consumer-facing sectors, were July's bright spots

Canadian consumer confidence in July rose to its highest level of 2019 (thanks to low interest rates and low unemployment factors). The S&P/TSX Composite Index reflected that when Canadians are happy, they like to eat and shop: Consumer Discretionary and Information Technology (IT) led all sectors. In particular, quick-serve restaurants and retailers did well, while Shopify in the IT sector continued to grow at a tremendous rate with a near 7% monthly gain. The S&P/TSX gold sub-sector rose over 5% as investors looked to play defense following the news of the Fed downplaying expectations for additional rate cuts in 2019 and curtailing investors' hope for more easy-money policies. A desire for security and a defensive focus have also helped gold prices rise more than 11% thus far in 2019. Ongoing cautionary sentiment about trade (with uncertainty once again fueled by President Trump's tweets) has boosted the price of gold significantly this year, contributing to the strong returns from Canada's Materials sector.

Mild volatility appeared during the middle of the month, especially in the Energy and Health Care sectors. Canadian energy-related stock performance continued to be weak despite oil price strength. In July, Canadian energy companies were once again weighed down by negative headlines concerning the construction of pipelines – this time from Enbridge's Line 5 pipeline and a potential legal challenge in Michigan. Canada's cannabis high wore off, bringing the Health Care sector down with it. The large selloff within the sector was triggered by a licensing scandal at CannTrust Holdings Inc. as senior executives appeared aware of the growth of cannabis plants within unlicensed rooms of their facilities.

Europe's political and economic uncertainty continues

International and emerging markets started high and then dropped throughout the rest of the period to settle at month-end lows. On the positive side, European companies saw better than expected earnings results; however, the economic outlook remains less rosy. The International Monetary Fund reduced its global growth forecast and the European Central Bank hinted at the possible need for future economic stimulus action. Boris Johnson began his term as U.K. Prime Minister with demands for a renegotiation of the E.U. withdrawal agreement, issuing a threat to leave without one. It's difficult to know if investors will see the changing of the guard (from Teresa May to Boris Johnson) as relieving or exacerbating Britain's political and economic conditions. So far, it looks like the later. The British pound swooned in July, pushing down near its lowest in two years. Likewise, sovereign yields declined in Europe, with German sovereign bond yields dropping into record-breaking negative territory. Meanwhile, Asian markets were mixed in July as both regional and global trade concerns continue to be a dominate focus.

Diversification can be an investor's best friend

Early signs for August's capital markets indicate that rising trade tensions and economic uncertainty will bring about an increased return of volatility – a time when diversification can be an investor's best friend.

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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.