Credential

Market Insights | MONTHLY

Month in Review

For the month ended March 31st, 2017

Overall Highlights

- **S&P/TSX moves up.** The TSX Composite Index continued to move up in March. The major index in Canada gained 1% for the month to close at 15,548. Among the three major sectors of the index (Energy, Financials, and Basic Materials), Energy contributed most to the gain with a 0.7% return, followed by a 0.6% gain in Basic Materials. Financials lagged, losing 0.4% in March.
- **Loonie flat.** The Canadian dollar was relatively flat for the month. Despite dropping due to week crude prices and the expected fiscal deficits of the Liberal government's 2017 budget, the loonie held its ground for the month. The dollar closed at 75.13 U.S. cents per Canadian dollar, a small monthly drop of 0.2%.
- **Wild ride for gold.** The yellow metal's price experienced a wild ride in March. Starting at $1,254, and falling as low to $1200/ounce mid-month, gold price rebounded in the latter half of March after the Fed raised its benchmark interest rates, but with a less hawkish tone than the market expected. Gold price closed at $1,247, a slight monthly drop of 0.2%.
- **Oil drops.** U.S. shale production continued to increase, offsetting the production cuts by the OPEC countries, and as a result, West Texas Intermediate (WTI) crude tanked in March due to concern of oversupply. Starting the month at $54/barrel, the price dropped dramatically to $47/barrel before rebounding near the end of the month. To close March, WTI crude sat at $50.80 a barrel, dropping almost 6% for the month.
- **Canada's economy grow at a solid pace.** Statistic Canada reported that GDP grew by 0.6% in January, doubling economists' call for a 0.3% growth.
- **Unemployment falls.** The national jobless rate fell to a two year low in February as more jobs were created than expected.
- **Inflation cools.** CPI rose 0.2%, on par with consensus estimates but substantially lower than January's reading.
- **S&P 500 and DJ pulls back but Nasdaq shines.** The U.S. stock market was losing steam in March. It was the first monthly pullback for the S&P 500 and the Dow Jones Industrial Average since the "Trump rally" began in November last year. However, the tech-heavy Nasdaq posted solid gains for the month.
- **U.S. Fed raises target rates.** In a widely anticipated decision, the U.S. Federal Reserve announced its second rate hike in three months.
- **U.S. Q4 GDP growth revised up**. The growth rate of the U.S. economy in Q4 was reported to be at 2.1% annualized, slightly higher than the previous estimate of a 1.9% pace and economists' consensus of a 2% growth rate.
- **U.S. Nonfarm payrolls increase.** The U.S. economy pumped out 235,000 jobs in February, higher than an expected increase of 190,000.
- **U.S. CPI rises.** The consumer price index (CPI) rose 0.1% in February after a 0.6% surge in January. The increase was on par with economists' estimate.
- **Brexit is coming.** With British PM Theresa May officially triggering Article 50 of the Lisbon Treaty on March 29, 2017, Brexit became a reality.
- **ECB stays its course.** ECB announced that it would maintain its stimulus policy but removed the language around urgency for more policy action from its statement.
- **BOJ maintains status quo.** Bank of Japan (BOJ) decided to maintain one of the world's most aggressive monetary policies.

Index/Commodity/Currency		
Close	**Month Change**	**YTD Change**
S&P/TSX Composite		
15,547.75	148.5	260.2
	1.0%	1.7%
Dow Jones Industrial Average		
20,663.22	-149.0	900.6
	-0.7%	4.6%
S&P 500		
2,362.72	-0.9	123.9
	0.0%	5.5%
NASDAQ Composite		
5,911.74	86.3	528.6
	1.5%	9.8%
MSCI-EAFE Index		
1,792.98	39.9	109.0
	2.3%	6.5%
WTI Crude Oil (per barrel, in $US)		
50.80	-3.1	-3.0
	-5.8%	-5.6%
Gold (per ounce, in US$)		
1,246.80	-2.2	95.9
	-0.2%	8.3%
Canadian Dollar (¢ per US$)		
75.13	-0.2	0.6
	-0.2%	0.8%

Sources: Bloomberg, PC Bond

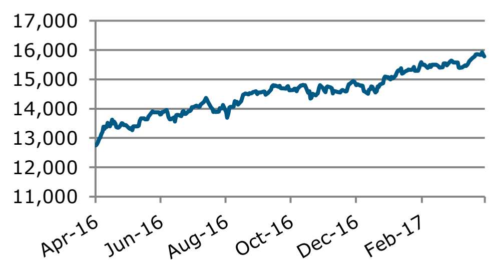
Canadian Markets

- **Canada's economy grow at a solid pace.** Statistic Canada reported that GDP grew by 0.6% in January, doubling economists' call for a 0.3% growth. Year-over-year, the Canadian economy grew at a seasonally adjusted annualized rate of 2.3%. With the exception of October last year, Canadian GDP had been rising every month since June 2016. The manufacturing sector was propelling the economy with a 1.9% growth.
- **Liberal's second budget released.** March 22nd was Budget Day in Canada. It was a relatively quiet event as Finance Minister Bill Morneau provided details for the fiscal year. Few changes involved the investment industry other than the capital gains and dividend tax structures remaining status quo. Revolving around a theme of "Building a Strong Middle Class," this year's budget committed funding for skills development for workers, a new program for affordable child care, gathering data on Canada's housing market, the building of home-growth innovation, and resources for CRA to pursue tax evaders and improve tax compliance. Taxation changes included the elimination of the public transit tax credit, increased taxes on alcohol and cigarettes, and tax initiation on ride-sharing businesses. For more comprehensive coverage, read our budget breakdown on kXg.
- **Unemployment falls.** The national jobless rate fell to a two year low in February as more jobs were created than expected. For the month, 15,300 positions were added, beating projections of 2,500, and pushing down the unemployment rate to 6.6%, a positive sign the economy is on the road to recovery. The participation rate was lower, dropping a notch to 65.8%.
- **Inflation cools.** Higher fuel prices accounted for most of the monthly rise in the cost of living in February, offsetting a decline in food prices. For the month, CPI rose 0.2%, on par with consensus estimates but substantially lower than January's reading. The slower price growth sent annualized inflation lower, from 2.1% to 2%. Core inflation remained unchanged at 1.7% on a year-over-year basis.
- **Manufacturing PMI rises.** A gauge of factory activity, Markit's manufacturing PMI for January climbed higher to 53.5 from 51.8, the 11th straight month of expansion. Increased volume output and new order growth drove PMI higher at its fastest pace since December 2014 and a good start to the new year.
- **Manufacturing sales up.** For a third consecutive month, the country's factories sold more of its product as sales rose 0.6% in January, topping estimates of a 0.2% decline. Most of the sales were seen in petroleum and coal products as 14 of the 21 industries tracked rose during the month. Statistics Canada's report was good news as it reflected continued recovery of the manufacturing sector that has struggled to gain momentum.
- **Wholesale sales surge.** With a jump in the auto sector, sales from Canada's factories hit a record in January, blowing past economists' expectations of a 0.5% gain. For the month, sales tallied $59.1B, a 3.3% rise from December, providing optimism for a strengthening manufacturing sector. Wholesale sales were up in four of the seven sectors tracked and, by volume, increased 3.4% over the month.
- **Retail sales climb.** With its largest gain in over six years, consumers were spending in January as sales rose 2.2%, doubling forecasts of 1.1%. Ten of the 11 sectors followed by Statistics Canada were higher, led by a 3.8% increase in the auto and parts industry. (Had this sector been omitted, sales would have climbed 1.7%.) The strong number, coupled with previously released wholesale data, shows that the economy is on track for roughly 3% growth in the quarter.
- **Housing News:**
  - **Housing starts up.** Groundbreaking on new homes rose in February to an annual pace of over 210K units on increased activity in Ontario. The majority of starts were for single detached homes, which rose 12.1%, while multi-unit homes, primarily condominiums and apartments, fell 4.7%.
  - **Building permits surge.** After two consecutive months of declines, applications for new structures rose 5.4% in January on increases in both residential and non-residential sectors, with the most activity occurring in Alberta and B.C. The latter sector saw the largest gain rising 11.2%, while multi- and single-family dwellings rose 2.7%.
  - **New home prices steady.** The price of a new home, excluding multi-unit dwellings, rose again in January on the backs of a surging Toronto market. During the month, prices climbed 0.1%, the same as December, equating to a year-over-year increase of 3.1%. Of the 27 markets tracked by StatCan, 14 were higher and six were unchanged.
  - **Existing home sales up.** Gains in Toronto and Vancouver helped pushed sales activity higher by 1% in February in Canada as other regional markets slumped, CREA reported. This was the first monthly increase since October and sales were higher by 2.7% compared to a year ago on a seasonally unadjusted basis. Lower inventory was part of the cause as supply fell nationally to 6.4 months from 6.5 months in January.
  - **Home prices higher.** Teranet-National Bank reported a 1% increase in the price of a home in Canada in February. Four of the 11 markets tracked contributed to the monthly increase led by Toronto (+1.9%), Hamilton and Vancouver (+1.4%), and Ottawa-Gatineau (+0.9%). On a year-over-year basis, prices have risen 13.4%, the largest 12-month increase since 2006.

S&P/TSX Composite Index
Sector Snapshot

Sector	Month Return	YTD Return	Weight (%)
Energy	0.74	-6.21	21.40
Telecoms	2.02	3.82	4.80
Industrials	2.75	4.91	9.00
Consumer Staples	4.49	2.28	3.80
Utilities	4.83	6.11	3.00
Financials	-0.41	2.60	34.50
Consumer Discretionary	3.46	6.47	5.10
Health Care	-11.29	-10.33	0.60
Materials	0.65	5.81	12.10
Information Technology	5.20	6.87	2.90
Real Estate	-0.48	-0.48	3.00

S&P/TSX Composite - 1Y Return



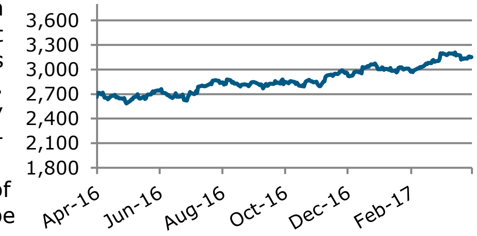
U.S. Markets

- **S&P 500 and DJ pulls back but Nasdaq shines.** The U.S. stock market was losing steam in March. It was the first monthly pullback for the S&P 500 and the Dow Jones Industrial Average since the "Trump rally" began in November last year. However, the tech-heavy Nasdaq posted solid gains for the month. The broad-based S&P 500 index lost less than 0.1% in March, ending the month at 2,363. The Dow Jones Industrial Average lost the most among the three major indices, closing the month at 20,663, down 0.7% from February. Nasdaq was the sole winner in March, gaining a solid 1.5% to end the month at 5,912.

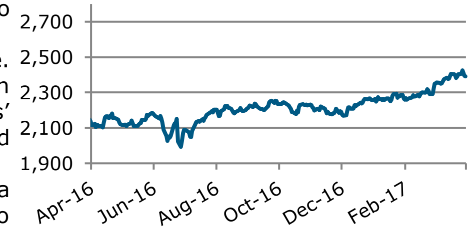
U.S. Markets cont'd

- **U.S. Fed raises target rates.** In a widely anticipated decision, the U.S. Federal Reserve announced its second rate hike in three months. The Fed announced its decision after the two-day March meeting. The move took the overnight funds rate to a target range of 0.75% to 1%. In the press conference, Fed Chair Janet Yellen told reporters that "We have confidence in the robustness of the economy and its resilience to shocks. It's performed well over the last several years." The Fed suggested that there will likely be two more interest rates this year but maintained that the decision will be data-dependent.
- **Q4 GDP growth revised up**. The Commerce Department released its final estimate of the Q4 2016 GDP figure. The growth rate of the U.S. economy in Q4 was reported to be at 2.1% annualized, slightly higher than the previous estimate of a 1.9% pace and economists' consensus of a 2% growth rate. For the entire year of 2016, GDP expanded by 1.6%, the worst performance since 2011.
- **Nonfarm payrolls increase.** Number of jobs increase handily beat expectations in February, paving the way for a March rate hike. The Bureau of Labor Statistics reported that the U.S. economy pumped out 235,000 jobs in February, higher than an expected increase of 190,000. Unemployment rate also dropped from 4.8% reported in January to 4.7%. Average hourly earnings increased by 2.8% year-over-year.
- **CPI rises.** Consumer inflation in U.S. continued to rise in the U.S. but at a slower pace. The Labor Department reported that the consumer price index (CPI) rose 0.1% in February after a 0.6% surge in January. The increase was on par with economists' estimate. Year-over-year, CPI was up 2.7%. Core CPI rose 0.2% month-over-month and 2.2% year-over-year.
- **PPI rises.** Producer prices rose more than expected in February, according to the data released by the Labor Department. The producer price index (PPI) was reported to increase by 0.3% in February after rising 0.6% in January. Economists were expecting a 0.1% uptick. Year-over-year, the PPI jumped 2.2%, also higher than economists' estimated increase of 2%. Core PPI, which excludes food and energy prices, increased 0.3% month-over-month and 1.8% year-over-year.

S&P 500 - 1Y Return (CAD)



MSCI EAFE – 1Y Return (CAD)



- **PCE price index rises.** The personal consumption expenditures (PCE) price index posted its largest increase since April 2012 in February. The PCE price index rose 2.1% year-over-year in February, matching economists' expectations. The Fed's preferred inflation measure, the core PCE price index which excludes food and energy, increased 1.8% year-over-year in February after a similar gain in January, slightly higher than economists' estimates.
- **Goods trade deficit declines.** Goods trade deficit narrowed in February as imports declined more than the drop in exports. The Commerce Department reported that the goods trade deficit, services excluded, dropped 5.9% to $64.8 billion in February, less than economists' consensus of a $66.5 billion trade gap. Exports decreased slightly by 0.1% while imports fell by 2.1%.
- **Consumer sentiment rises.** Consumer sentiment improved in March, according to the report by University of Michigan. The University of Michigan's consumer sentiment index was reported to be 96.9 for March. Despite scaling back from the preliminary reading of 97.6, it was still up from February's reading of 96.3. Economists were expecting a March reading of 97.6.
- **Retail sales slow.** Retail sales in the U.S. slowed in February, although staying on the uptrend. The Commerce Department reported that retail sales were up a slight 0.1% in February, matching economists' forecast but far from the 0.6% increase reported in January. It was the smallest gain in six months, where the slowdown was assumed due to a delay in individual tax refunds.
- **Durable goods orders increase.** Durable goods orders rose in February, led by an increase in aircraft orders. The Commerce Department reported that durable goods orders rose 1.7% in February, beating the consensus estimate of a 1.5% increase. Demand for commercial aircraft jumped 47.6%, leading all categories. Year-over-year, durable goods orders were up 5%. Core capital goods orders, which exclude aircraft and are seen as proxy of business spending plans, dropped by 0.1% in February. Economists were expecting a gain of 0.5%. Year-over-year, core capital goods orders were up 2.7%.
- **'Flash' composite PMI declines.** Activity in both manufacturing and services sectors slowed in March, according to a report from IHS Markit. Markit's 'flash' composite purchasing managers' index (PMI) was reported to fall to a six-month low of 53.2 in March from February's final reading of 54.1. It was below economists' expectations of 54.3. Manufacturing and services PMI were reported to be 53.4 and 52.9, respectively, both missing economists' forecast and sitting at multi-month low.
- **Chicago PMI up.** The barometer of the business conditions in the Chicago region increased in March and posted its best quarter in two years. The Chicago purchasing managers' index (PMI) improved to 57.7 in March from February's reading of 57.4. Q1's average reading of 55.1 also marked the best quarter since Q4 2014. Economists were expecting a March reading of 57.0.
- **Housing News:**
  - **Pending home sales jump.** The National Association of Realtors reported that sales rose 5.5% month-over-month in February, beating economists' estimate of a 2.4% growth by a wide margin. Year-over-year, sales were up 2.6%.
  - **Prices rise.** Home prices in U.S. accelerated at the fastest pace in 31 months in January, according to the S&P/Case-Shiller U.S. National Home Price Index. The home price index rose 5.9% year-over-year in January, up from the 5.7% gain reported in December last year. The 20-city index, which tracks the countries' largest cities, gained 5.7% year-over-year, also higher than the previous month's gain.
  - **New home sales jump.** New home sales surged to a seven-month high in February. The Commerce Department reported that new home sales increased by 6.1% to a seasonally adjusted annual pace of 592,000 units in February, the highest level since July 2016. February's rise in sales exceeded economists' forecast of a 0.7% increase by a wide margin. Year-over-year, sales were up 12.8%.
  - **Existing home sales drop.** The National Association of Realtors reported that existing home sales fell 3.7% to a seasonally adjusted annual pace of 5.48M units in February. It was lower than economists' forecast of a 5.57M unit pace. Year-over-year, sales were up 5.4% in February.
  - **Housing starts increase.** The Commerce Department reported that housing starts increased 3% in February to a seasonally adjusted annual pace of 1.29M units, higher than economists' estimated pace of 1.26M units. Single-family homes provided the biggest boost to February's figure, jumping up 6.5% to an annual pace of 872,000 units.

European Markets

- **Brexit is coming.** With British PM Theresa May officially triggering Article 50 of the Lisbon Treaty on March 29, 2017, Brexit became a reality. UK voted to leave the European Union (EU) in a referendum on June 23, 2016. The timeframe of the negotiation on the separation was believed to be around two years. The divorce will redefine UK's relationship with the rest of the EU and ends its 44 years membership.
- **ECB stays its course.** ECB announced that it would maintain its stimulus policy but removed the language around urgency for more policy action from its statement. ECB President Mario Draghi said that the phrase of "using all the instruments available within its mandate if needed to achieve its objectives" was removed from the standard introductory statement as the central bank believed risks of deflation had diminished.
- **Euro-zone Q4 GDP grows**. Eurostat released its final estimate of the Q4 GDP growth of the 19-member bloc. It was unchanged from its previous estimate of a 0.4% growth pace. Household spending had been propelling the region with a 0.4% increase in the quarter. Fixed investments were also up by 0.6% in Q4, compared to a 0.7% decline reported in the previous quarter.
- **Euro-zone unemployment rate unchanged.** Unemployment rate within the 19-member region remained stable month-over-month in January, according to Eurostat. Eurostat reported that January's unemployment rate remained at its seven-and-a-half year low of 9.6%, matching economists' estimate. A year ago, unemployment rate was sitting at 10.4%.
- **Euro-zone inflation slows.** Inflation within the 19-member region dropped significantly in March, according to a preliminary measure. The 'flash' harmonized index of consumer prices (HICP) was reported to drop 0.5 percentage points to 1.5% from February's 2% pace. Economists were expecting an inflation rate of 1.8%. Easing of inflation pressure is likely to allow ECB to keep its monetary stimulus in place.
- **Euro-zone 'flash' composite PMI jumps.** Business activity within the 19-member region grew more than expected in March. March's 'flash' composite purchasing managers' index (PMI) was reported to be 56.7, an increase from February's final reading of 56.0. It was higher than economists' forecast of 55.8 and was also at its highest level since April 2011.
- **Euro-zone records trade deficit.** The 19-member bloc reported its first trade deficit in three years in January. January's trade deficit within the Euro-zone was reported to be €0.6B, the first deficit since January 2014. Exports increased, but were more than offset by a larger increase in imports. Exports rose 13% year-over-year in January to €163.9B while imports increased by 17% to €164.5B.

Asian Markets

- **BOJ maintains status quo.** Bank of Japan (BOJ) decided to maintain one of the world's most aggressive monetary policies. BOJ's announcement came shortly after the U.S. Fed's decision to raise target rates. In Japan, short-term interest rates will remain at -0.1% while 10-year bond yields will be capped near zero. Also, the asset purchase program will be maintained at the ¥80T annual pace. In explaining the decision, the central bank said "Japan's economy has continued its moderate recovery trend, but inflation expectations have remained in a weakening phase."
- **Japan Q4 GDP revised up.** Japan's Q4 GDP grew faster than initially estimated. The second largest economy in Asia was reported to grow at an annualized rate of 1.2% in Q4, up from the initially reported 1% growth pace. However, the revised figure was lower than economists' estimated growth of 1.6%.
- **Japan core CPI increases.** Core CPI rose for the second straight month in February, according to government data. Headline consumer price index (CPI) increased by 0.3% year-over-year in February, while core CPI, which excludes fresh food prices, advanced by 0.2%. The rise was in line with economists' forecast. On a separate report, household spending dropped 3.8% year-over-year in February, a much bigger drop than economists' estimate of a 1.7% decline.
- **Japan's exports surge.** Japan's exports in February showed the highest growth in two years. The Ministry of Finance reported that exports grew 11.3% year-over-year in February, exceeding economists' expectations of a 10.6% increase. It was the biggest jump in exports since January 2015. Exports to U.S. and China rose 0.4% and 28.2% year-over-year respectively.
- **China's official manufacturing PMI up.** China's official purchasing managers' index (PMI) was reported to be 51.8 in March, increasing slightly from February's reading of 51.6 and matching economists' expectations. This gauge on the health of the manufacturing sector, with a bias toward state-owned large enterprises, had increased in each of the past eight months.

Key Take-Aways

One down. To little surprise, the U.S. Federal Reserve set out and did what many had predicted leading up to their latest FOMC meeting. For the first time in 2017, Chair Janet Yellen increased the benchmark interest rate by 25 basis points to a range between 0.75% to 1% to help slow down a surging U.S. economy amidst rising inflation and a tightening labour market. Economists had expected the hike and saw the rise as a sign to consumers to become more accustomed to an environment of higher interest costs. With the impact to be felt more in the U.S., the 0.25% increase will affect some Canadians, especially those that hold fixed rate mortgages. The rates of these mortgages are typically correlated with movement in long term interest rates, which will raise the cost of borrowing by banks, who will in turn pass on the costs to consumers. Ms. Yellen forecasts the likelihood of two more rate hikes for the year, which will likely impact Canada, in addition to any actions undertaken by the Bank of Canada.

The good, the bad, and the ugly. The 2017 Canadian Federal Budget provided little in terms of new tax initiatives for Canadians and their investments. Instead, the Liberal's latest budget provided clarification of their spending plans for the next few years. The good: there will be no changes to personal income, capital gains, or dividend taxes despite rumours of that these were on the table. The bad: the public transit tax credit was eliminated, more tax will be levied on alcohol and tobacco products, and the Canada Savings Bond program will close after 71 years. The ugly: the intended spending comes at price - annual deficits are expected for at least the next four years. By the end of the 2021-22 fiscal year, the national debt is predicted to balloon to over ¾ of a trillion dollars. This puts Canada at risk of losing its coveted title of having the lowest net debt-to-GDP among G20 members.

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