Market Matters

APRIL 2017 HIGHLIGHTS

- It is counter-intuitive for both equity and bond markets to move in the same direction, but that's exactly what happened in April.
- Global equity market returns rose with optimism over positive corporate earnings results coming from North American companies, a friendly view of political outcomes in Europe, and relief found in good economic results out of China.
- Bond market returns rose in response to strong demand for credit product, and a greater measure of pessimism toward global geopolitical tensions and recent US economic results (e.g. weaker than expected retail sales and lower Consumer Price Index readings).
- Oil prices continued their slide lower with rising US inventories and rig counts. The Canadian dollar and energy sector followed a similar trajectory downward.
- Canada's financial sector lagged. News of Home Capital Group's woes hurt the stock and sector, and this was amplified by Ontario law makers move to cool the Toronto real estate market – landing a blow to Canada's major mortgage lenders (a.k.a. the banks).

EARNINGS POWER

With earnings season well underway, the majority of North American companies reporting their first quarter earnings have managed to surpass the analysts' expectations and offered optimistic forward guidance for their company's future prospects. Equity markets are embracing the first quarter corporate earnings season. We know US legislative issues relating to the budget and health care reform will return to the headlines soon enough, but for now US political events are starting to look like "business as usual'. It is refreshing to see market watchers get back to basics (i.e. focusing on actual company results to garner the confidence of shareholders). This helped keep the Canadian and US equity markets in the black for the month, in spite of numerous political and geopolitical events that played out in April (notably a Syrian chemical attack eliciting a US counter strike; attacks in Russia, Egypt, Sweden, and France; and North Korean missile tests). The pro-growth sentiment helped growth-oriented stocks continue to outperform value-oriented stocks.

Table 1
Summary of major market developments

Market returns*	April	YTD
S&P/TSX Composite	0.2%	2.0%
S&P 500	0.9%	6.5%
- in Canadian dollars	***3.6%***	***8.1%***
MSCI EAFE	1.1%	5.1%
- in Canadian dollars	***5.0%***	***10.5%***
MSCI Emerging Markets	2.2%	9.8%
FTSE TMX Canada Universe Bond Index**	1.4%	2.7%
FTSE TMX Canada all corporate bond index **	1.5%	3.4%

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

Table 2
Other price levels/change

	Level	April	YTD
CAD per USD exchange rate	$0.732	-2.5%	-1.6%
Oil (West Texas)*	$49.33	-2.5%	-8.2%
Gold*	$1,268	1.5%	10.5%
Reuters/Jefferies CRB Index*	$181.73	-2.2%	-5.6%

*U.S. dollars

Table 3
Sector level results for the Canadian market

S&P/TSX Composite sector returns*	April	YTD
S&P/TSX Composite	0.2%	2.0%
Energy	-0.2%	-6.4%
Materials	-0.4%	5.4%
Industrials	2.4%	7.4%
Consumer discretionary	3.9%	10.6%
Consumer staples	5.3%	7.7%
Health care	-7.3%	-16.9%
Financials	-1.8%	0.7%
Information technology	3.6%	10.7%
Telecommunication services	5.7%	9.7%
Utilities	-0.1%	6.0%
Real Estate	1.5%	4.9%

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

JUST ABOVE AND BELOW THE SURFACE

The small Canadian health care sector was the laggard as Canada's beleaguered pharma giant, Valeant, continued to struggle with its recovery efforts. Conversely, the telecommunications and consumer sectors held up well as investors turned to these sectors, and away from the resource and financial sectors.

Two of Canada's largest sectors (financials and energy) dampened the S&P/TSX Composite results, and the reasons for it lie just above and below the earth's surface.

Above ground, the hot real estate market in Toronto received a dose of cold water with new policy measures (i.e. 15% tax on foreign buyers and additional rent control measures) imposed by the Ontario provincial government. This, coupled with news of Home Capital Group's woes (which significantly reduced investor confidence and led to financial uncertainty for the company) landed a blow to Canada's major mortgage lenders (a.k.a. banks). With a 'shoot now, ask questions later' mentality, selling pressure has come from foreign investors who are turning their backs on Canadian banks.

Below the surface (more literally than figuratively), oil prices have been brought down because of rising US inventory levels and rig counts. The Canadian dollar and energy stock values have declined alongside falling oil prices. 2017 hasn't been kind to the Canadian energy sector. April's decline in stock values follows a first quarter slump that was exacerbated by the Trump administration's threats of a border adjustment tax.

INTERNATIONAL MARKETS

Outside of North America equity markets also performed well in April, in spite of geopolitical tensions rising and a number of terror attacks. European equity markets took comfort in April's first-round of French election results showing centrist candidate Macron leading the polls. The polls proved to be right as the final results of the May 7th election welcomed political newcomer, Emmanuel Macron, as France's next President.

Meanwhile Asian markets continue to gain support from China's stabilizing GDP growth and better than expected trade results. Recent results show China's GDP grew by 6.9% in the first quarter. A congenial meeting between President Trump and President Xi also helped to decrease tensions between the two nations, helping equity markets in emerging economies outperform their developed market counterparts.

CANADA'S NEW HOT COMMODITY – CORPORATE BONDS

The FTSE TMX Canada Universe Bond Index more than doubled its year-to-date gains in the month of April.

While equity market volatility has cooled (the VIX equity market volatility measure has dropped to about half its long-term average), bond market activity has heated up. There simply isn't enough supply of attractive yielding bonds to meet a growing demand. Persistent low yields and the growing cohort of +65 year old Canadians seeking income-generating investments has continued to ramp up demand for credit products like corporate and provincial bonds. Canada's recent census revealed that seniors outnumber children in Canada for the first time since Confederation. Demand for credit spread isn't just coming from within our borders. Like our Canadian real estate market, we see an increasing demand for Canadian fixed income products coming from international investors. The 'high-demand/limited supply' market dynamics have created a veritable food-fight among fixed income investors every time a bond issue comes to market. The Canadian market is regularly seeing bond issues that are two- to three-times oversubscribed (or more).

AVOIDING UNEXPECTED DELAYS

When done in hindsight, expressions of regret and humility can't undo a problem and can be a bitter (and expensive) pill to swallow – just ask United Airlines. Better to deescalate risks and rising tensions before they hit the damage control phase. With that in mind, take steps to avoid risk-creep within your portfolio and the heartache that can follow. Regular rebalancing of your investment portfolio ensures it continues to reflect the risk exposure, time horizon and investment goals that suit you best. After all, when you've taken the time to plan a journey (an investment journey or otherwise), no one appreciates unexpected delays.