

Monthly Market Snapshot



June 2019

Monthly Overview

The seemingly uninterrupted rally that bolstered stock prices for the first four months of the year came to an abrupt halt in May as all of the key equity market gauges we follow showed low to mid-single digit percentage losses. Despite the pullback, however, YTD returns for these same gauges through the end of May remained firmly in the black. The month was kicked off in a challenging way, when during an April 30 speech Fed Chairman Jerome Powell indicated that the U.S. central bank was not considering a rate cut. This spooked markets to some degree, as they had been pricing in the possibility of a cut. Lower rates are often viewed as being a positive catalyst for stocks.

Markets were on tenterhooks as May began, but were sucker-punched moving into the second week of the month after President Trump announced plans to increase the tariffs imposed on US\$200B of Chinese goods from 10% to 25%. The announcement sent shockwaves through markets globally and created renewed concerns that a trade war with China could be more pronounced and more prolonged than anticipated. The rapid run-up in stocks during the first four months of the year suggested that many market participants had built in a limited expectation of trade-related uncertainty. They were wrong.

Canadian stocks were pushed 3.3% lower in May, as measured by the S&P/TSX Composite index, although the benchmark still stood 12% higher on a YTD basis to May 31. Health care, consumer discretionary and financial services stocks were ravaged, while more defensive areas, such as consumer staples, utilities and telecom, actually witnessed gains on the month.

The S&P slid nearly 6% during the month, in Canadian dollar terms. A substantial decline in energy prices

punished energy stocks, where the sector overall slid by 11%. Returns for all of the S&P's sectors were in the red in May, with the singular exception of real estate. Information technology and consumer discretionary names faced losses of 8.1% and 7%, respectively.

Speaking of energy, the price of a barrel of oil plummeted by 16% and natural gas prices were off by 5%. Pressure on those fronts, along with general market jitters helped to elevate the greenback by a percent versus the loonie.

A more risk averse positioning on the part of investors resulted in higher bond prices and lower yields. The Canadian investment grade bond index we follow eked out a 1.7% gain in May. Over the past six months, the benchmark showed a gain of 7%. That easily outpaced the 5.5% return for Canadian large cap stocks over the same period. The Canadian investment grade yield curve was inverted by month's end, suggesting investors don't think much of medium-term growth prospects. You could earn a higher yield on a three month T-Bill (1.67%) than you could on a 10 year bond (1.49%). High yield bonds slipped marginally in May, but these issues still provided upside of 8% for the first five months of the year.

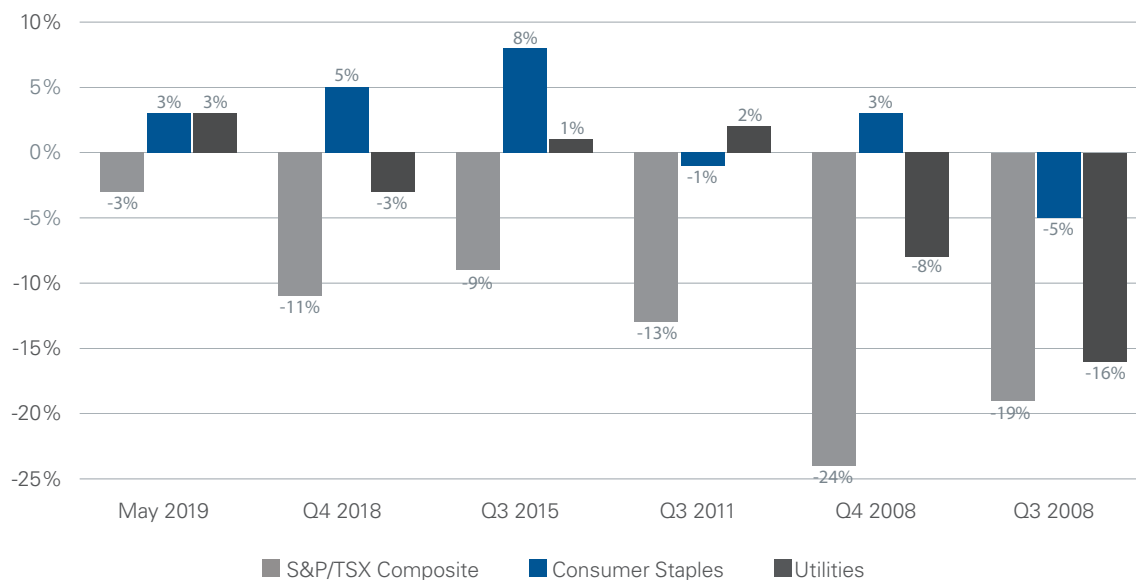
The Bank of Canada kept rates steady in May and the key takeaway from the accompanying statement was that there likely won't be a change in the policy rate for some time. Statistics Canada released Canadian Q1 GDP figures on May 31, and the 0.4% quarter over quarter headline growth number came in lower than expected. In the U.S., the Fed also kept rates steady in May. Unemployment rates on both sides of the border remained at multi-decade lows based on April's data, standing at 5.7% in Canada and just 3.6% in the U.S.

Monthly Market Statistics

Data to May 31, 2019, unless otherwise indicated

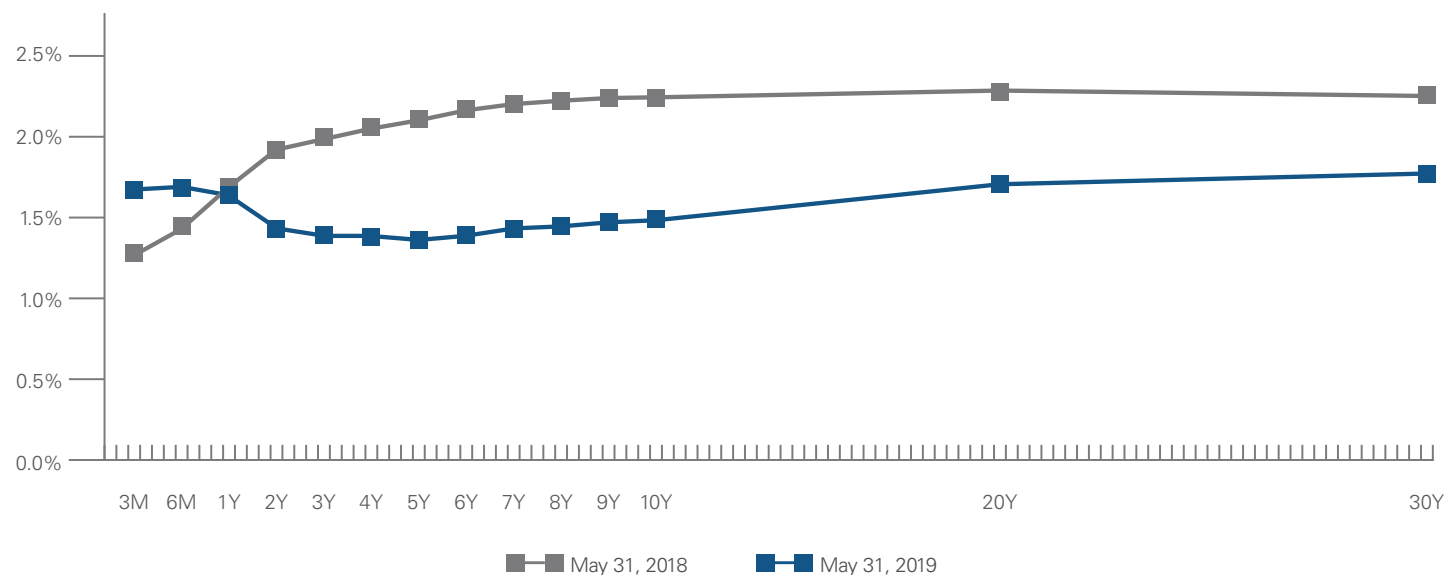
May was the first negative month of the year for S&P/TSX Composite, as escalating trade tensions between China and the U.S. understandably fuelled investor anxiety. When things get challenging for stocks, investors often seek solace in defensive sectors, two of which are consumer staples and utilities. These sectors held up well in May, and during more prolonged periods of market strain (such as the the financial crisis in 2008-2009, the European sovereign debt crisis in 2011, the 2015 collapse in oil prices, and the market slide in Q4 of 2018), they have proven to be better performers on the downside. The companies in these sectors tend to have steady cash flows and stable dividend streams, which are valuable defensive characteristics in times of market uncertainty.

Chart of the Month: Defensive Sectors Offer Protection Yet Again



Source: Bloomberg

Canadian Sovereign Yield Curve



Source: Bloomberg

Monthly Market Statistics

Data to May 31, 2019, unless otherwise indicated

Equity Index Returns (% in CAD)

Index	1 Mo	3 Mo	6 Mo	YTD	1 Yr	3 Yr	5 Yr	3 Yr Std Dev
S&P/TSX Composite	-3.3	0.2	5.5	12.0	-0.1	4.5	1.9	9.1
S&P/TSX Small Cap	-4.4	-6.1	0.7	4.8	-14.4	-1.9	-3.7	11.4
S&P 500	-5.8	1.6	1.4	9.0	-6.2	10.7	12.3	11.7
MSCI EAFE	-4.6	-0.3	2.1	4.9	-4.5	4.0	3.0	11.0
MSCI World	-5.3	0.8	1.9	7.8	2.1	8.1	8.3	10.9
MSCI World Small Cap	-6.0	-2.2	0.2	7.9	-5.9	7.3	8.4	13.2
MSCI Europe	-5.4	-0.3	3.2	5.5	-3.8	3.3	1.6	14.3
MSCI EM	-6.7	-2.4	2.0	2.6	-7.0	8.5	3.9	13.6
MSCI AC Asia	-5.4	-1.3	0.9	3.1	-7.6	6.8	6.0	11.5

Source: Bloomberg

Fixed Income Returns (% in CAD)

Index	1 Mo	3 Mo	6 Mo	YTD	1 Yr	3 Yr	5 Yr	3 Yr Std Dev
FTSE TMX Canada Universe Bond	1.7	4.0	7.0	5.6	7.0	3.0	3.7	3.7
Barclays Global Agg	1.4	2.3	5.4	3.3	3.1	1.9	0.9	4.6
Barclays High Yield Very Liquid Index	-1.5	1.0	5.5	8.0	5.9	6.4	3.6	4.6

Source: Bloomberg

Commodity Prices (Prices and Returns in USD)

Commodity	05/31/2019 Price (\$)	MoM Change (%)	YoY Change (%)
WTI Crude Oil/BBL	53.50	-16.3	-20.2
Natural Gas/mmBTU	2.45	-4.7	-16.9
Copper/pound	2.64	-9.0	-13.9
Silver/oz	14.57	-2.2	-11.5
Gold/oz	1305.80	1.6	0.4

Source: Bloomberg

Economic Data

Canada	
Real GDP - Q1 (q/q ann. % change)	0.4
Consumer Prices April (y/y % change)	2.0
Unemployment Rate, April 2019	5.7
United States	
Real GDP - Q1 (q/q ann. % change)	3.1
Consumer Prices April (y/y % change)	2.0
Unemployment Rate, April 2019	3.6

Source: Bloomberg, Stats Canada

One Month Sector Returns (% in CAD)

Sector	S&P/TSX Composite returns	S&P 500 returns
Consumer Discretionary	-8.7	-7.0
Consumer Staples	2.7	-3.2
Energy	-5.0	-11.0
Financials	-5.1	-6.6
Health Care	-13.8	-1.7
Industrials	-0.8	-7.3
Info Tech	4.3	-8.1
Materials	-4.5	-7.7
Real Estate	-0.3	1.8
Telecom Services	1.8	-5.2
Utilities	2.9	-0.4

Source: Bloomberg

Exchange Rates

Cross	2019-05-31	6 Mos Ago	1 Yr Ago
USD/CAD	1.35	1.33	1.30
EUR/CAD	1.51	1.50	1.52
GBP/CAD	1.71	1.69	1.72
CAD/JPY	80.12	85.45	83.98

Source: Bloomberg

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Recommended List:	The list presents a selection of funds that we believe are among the best of their peers and offer unique characteristics that can add value when used in a well-diversified investment portfolio tailored to a client's investment objectives.
Hold:	The fund remains on the Recommended List, but is not recommended for adding to or selling from client's portfolios.
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