



Please find below our monthly market review. Please don't hesitate to contact us if you have any questions.

ECONOMIC HIGHLIGHTS

POSITIVE OUTLOOK FOR THE CANADIAN GDP

May's GDP results were better than expected, with solid headline growth and broad-based gains. The dispersion of output gains was actually the best since. The only sector seeing a decline was utilities, although a giveback was always in the cards there after colder-than-normal temperatures had boosted the prior month's output. Sectors that were adversely affected by inclement weather the prior month such as construction, retailing, arts/recreation and accommodation/food services, all saw rebounds. Also, gains in real estate and finance/insurance add to evidence that the housing market is now stabilizing after a difficult start to the year. May's output surge puts Q2 GDP on track to grow around 3% annualized.

FEDERAL RESERVE OPTIMISM

As widely expected, the Federal Reserve left the fed funds rate unchanged at 1.75-2.00%. However, the Fed sounded more bullish about the economy, tweaking some of its wording in the statement. Economic activity is now seen rising at a "strong" rate (as opposed to "solid" in the June statement), while the Fed also says that household and business fixed investment "have grown strongly" versus its depiction last June that household spending "has picked up". The Fed also says both headline and core inflation "remain near 2%", a more confident statement compared to June's depiction of "have moved close to 2%".

VOLATILE TIMES FOR EMERGING MARKETS

Could U.S. protectionism be the straw that breaks the back of indebted emerging economies? That possibility should not be underestimated given the resulting triple whammy of a subsequent growth slowdown, capital outflows, and an appreciating US dollar. Recall that the dollar's surge this year has been driven in part by risk-off sentiment, courtesy of U.S. protectionist measures, which prompted a selloff of stocks and currencies of several emerging economies. The dollar's appreciation is concerning in the sense that it can lead to a vicious cycle by making it harder for borrowers to service USD-denominated debt, reinforcing default risks and hence leading to more capital outflows from emerging markets.

ASSET CLASS REVIEW

FIXED INCOME

On July 11 the Bank of Canada raised its overnight rate a quarter-point to 1.50% and updated its economic projections, leaving its growth outlook unchanged for 2018. In his post-rate-announcement press conference, BoC governor Poloz acknowledged that the downside risks associated with trade negotiations and tariff threats were serious, but added that much of those dangers could evaporate if NAFTA were settled this fall.

CANADIAN EQUITIES

The S&P/TSX has done well in recent months and is closing in on the predicted year-end target of 16,700. Though a weaker Canadian dollar will buoy earnings in a number of sectors, there is a limit to what the exchange rate alone can achieve if U.S. trade policy turns more aggressive on Canadian products (Canada-U.S. trade is a whopping US\$630 billion in each direction, i.e. more than U.S.-China trade).

U.S. EQUITIES

Sky-high American business optimism also suggests the expansion has legs and hence could extend through next year. Solid corporate profits bode well for investment outlays at large firms. Even small businesses, which account for the bulk of employment creation in the U.S., plan to expand and invest.

COMMODITIES

Libya's geopolitical troubles coincide with a tight oil market that is already struggling with the looming re-imposition of US sanctions on Iran and plummeting oil production in Venezuela.

FOREIGN EXCHANGE

Several economists have tweaked their near term Canadian dollar forecasts to reflect ongoing headwinds brought by U.S. protectionism, but are keeping unchanged their longer term projections which show a strengthening loonie on the assumption of an eventual deal on trade.

National Bank Financial is an indirect wholly-owned subsidiary of National Bank of Canada which is a public company listed on the Toronto Stock Exchange (NA: TSX). The particulars contained herein were obtained from sources we believe to be reliable, but are not guaranteed by us and may be incomplete. The opinions expressed are based upon our analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein. National Bank Financial may act as financial advisor, fiscal agent or underwriter for certain companies mentioned herein and may receive remuneration for its services. National Bank Financial and/or its officers, directors, representatives or associates may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time on the open market or otherwise. Please read the terms of the myWEALTH Unified Investment Program Form before investing.