MARKET REVIEW | SEPTEMBER 2018

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

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ECONOMIC HIGHLIGHTS

STRONG ECONOMIC DATA IN THE U.S.

Despite political drama out of Washington, one can hardly deny that macroeconomic conditions have rarely been this good south of the border. Jobless claims are at their lowest point since the late 60s and monthly job creation has averaged +200k over the last year. Additionally, consumer confidence is at an 18-year high, the manufacturing PMI jumped to 61.3 (best in 14 years), and the latest GDP figures showed the strongest reading in nearly 4 years – easily eclipsing all G7 peers. With an economy running at full steam and inflation trending higher, we should not be surprised with the Federal Reserve commitment to gradually bring rates from accommodative to neutral, notwithstanding other central banks' stances.

EMERGING MARKETS UNDER PRESSURE

The U.S.-led trade war is starting to hurt the world economy. Latest data from the CPB confirm global trade volumes were flat last quarter, the worst performance since 2016, as U.S. tariffs on steel and aluminum imports and retaliatory measures from affected trade partners came into effect. Emerging markets, whose economies are highly dependent on trade, were hit hard with a 2% annualized decline in export volumes in Q2, the damage even more pronounced in Asia. The latter's ratio of industrial production to exports even rose to the second highest on records, suggesting perhaps some accumulation of inventories and hence production challenges in the second half of 2018.

NAFTA TALKS CONTINUE

In August, Canada finally rejoined NAFTA negotiations only to be faced with a U.S.-Mexico agreement on a revamped deal. Despite Mr. Trump's stated desire to shred NAFTA, he is unlikely to have the authority to formally terminate the agreement without congressional approval. His preferred route is to include Canada in a three-way pact that he wants signed at the end of the month. We are looking at very intense negotiations over the next few weeks.

ASSET CLASS REVIEW

FIXED INCOME

Fixed income indices finished August fractionally higher, with U.S. 10-year rates stuck in a relatively narrow range of 2.80% to 3.00% for most of the last 3 months. Canadian 10-year rates exhibited higher volatility, especially in the last few days of the month as the announcement of a new U.S.-Mexico trade deal brought Canada back into the spotlight. They now stand at 2.23%, 8 bps lower than a month earlier.

CANADIAN EQUITIES

The S&P/TSX delivered its first negative monthly performance since March 2018 as Canadian government officials signalled that a final agreement on trade would not be reached within the deadline set by the U.S. administration. Mounting trade tensions between the U.S. and China weighed heavily on materials stocks, while the overturn by the Federal Court of Appeal of the Trans Mountain oil pipeline expansion dragged the energy sector lower.

U.S. EQUITIES

The S&P 500 outperformed global equities yet again in August, reaching a new all-time high, while breaking the record for the longest bull market in history. The index got a lift from another stellar earnings season, with all sectors but one contributing positively to the performance.

COMMODITIES

WTI oil prices concluded August where they started, with the threat posed by a growing U.S.-China trade spat offset by a larger-than-expected decline in U.S. crude stockpiles. Gold prices managed to settle just above 1200$/oz. after falling as low as 1160$/oz., its lowest since January 2017, as it faced pressure from a rising U.S. dollar and broad-based short selling.

FOREIGN EXCHANGE

The Loonie got a temporary lift from rising prospects of a revamped NAFTA deal, but converged back to 0.77 U.S.$ per C$ as Q2-2018 GDP marginally missed expectations. After rallying extensively in the first half of August, the U.S. dollar index reversed course but still closed on a stronger note, supported by higher risk aversion amid uncertainty over the outlook for global trade.

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