

May 2018

James Gauthier, CFA  
Head of Funds Research

Denise Davids, MBA  
Senior Manager, Investment Funds

## Monthly Overview

Global equity markets calmed themselves and were generally higher in April. The S&P/TSX Composite index leapt 1.8% on the month. This came thanks in part to the 7% surge in energy stocks. The information technology and industrials areas were up by 2.4% and 2.9%, respectively. Not much support was provided by the index's biggest weighting, the financial services sector, as that space only managed an increase of 0.6% on the month. At the opposite end of the spectrum, healthcare stocks were dragged down by weakness in the marijuana space. The sector dipped nearly 4%, but its 1% weighting index meant that the negative impact there was contained. Utility and real estate stocks also saw declines, mostly on the back of concerns regarding higher interest rates.

Foreign stocks were generally higher in April, with the notable exception of those from south of the 49th parallel. The S&P 500 benchmark slid 0.2% (all returns in this paragraph are in CAD). Corporate earnings reports were coming out in bunches as the month came to a close. Despite impressive growth across the board, the market's immediate reaction was ho-hum. The greatest weakness from a sector standpoint was experienced in the consumer staples space. There, stocks were off 4.9%. Industrials dipped 3.4%, while telecom names were in the red to the tune of 1.6%. Energy stocks rocketed higher by almost 9% during the month thanks to a big surge in crude prices. What's interesting, however, is that the energy sector only makes up 6% of the S&P 500 index, meaning the strong performance there had a much more limited impact than it would have had in Canada, where the energy sector represents a 20% of the S&P/TSX Composite index.

European and Asian stocks were higher in April, with the MSCI EAFE index jumping nearly 2% (all returns in this paragraph in CAD). Asian stocks eked out a small gain,

while European names tacked on 2.3%. Emerging markets were laggards, however, with the MSCI EM benchmark sliding 0.9%.

Bond yields drifted higher during the month, leading to a decline of nearly one percent for Canada's investment grade fixed income benchmark. South of the border, the yield on the 10-year Treasury bond, which is a key consideration for many financial matters including mortgage rates, pierced the 3% level for the first time in more than four years.

The loonie was flat versus the greenback on a month-over-month basis, as the Bank of Canada kept its policy rate steady at 1.25% in April. The lack of movement in the Canadian dollar came despite a 5.6% uptick in the price of WTI oil prices. Higher oil prices are often associated with a stronger loonie, but the gooey stuff most Canadian oil companies produce is subject to a price that is known as Western Canadian Select, which trades at a discount to the better known WTI, or West Texas Intermediate price. More on this in the "Chart of The Month," but the discount on Canadian oil could mean that strong oil prices don't have the same positive impact our currency they once did.

Elsewhere in the commodities space, natural gas prices managed a 1.1% gain, while gold and silver were relatively flat.

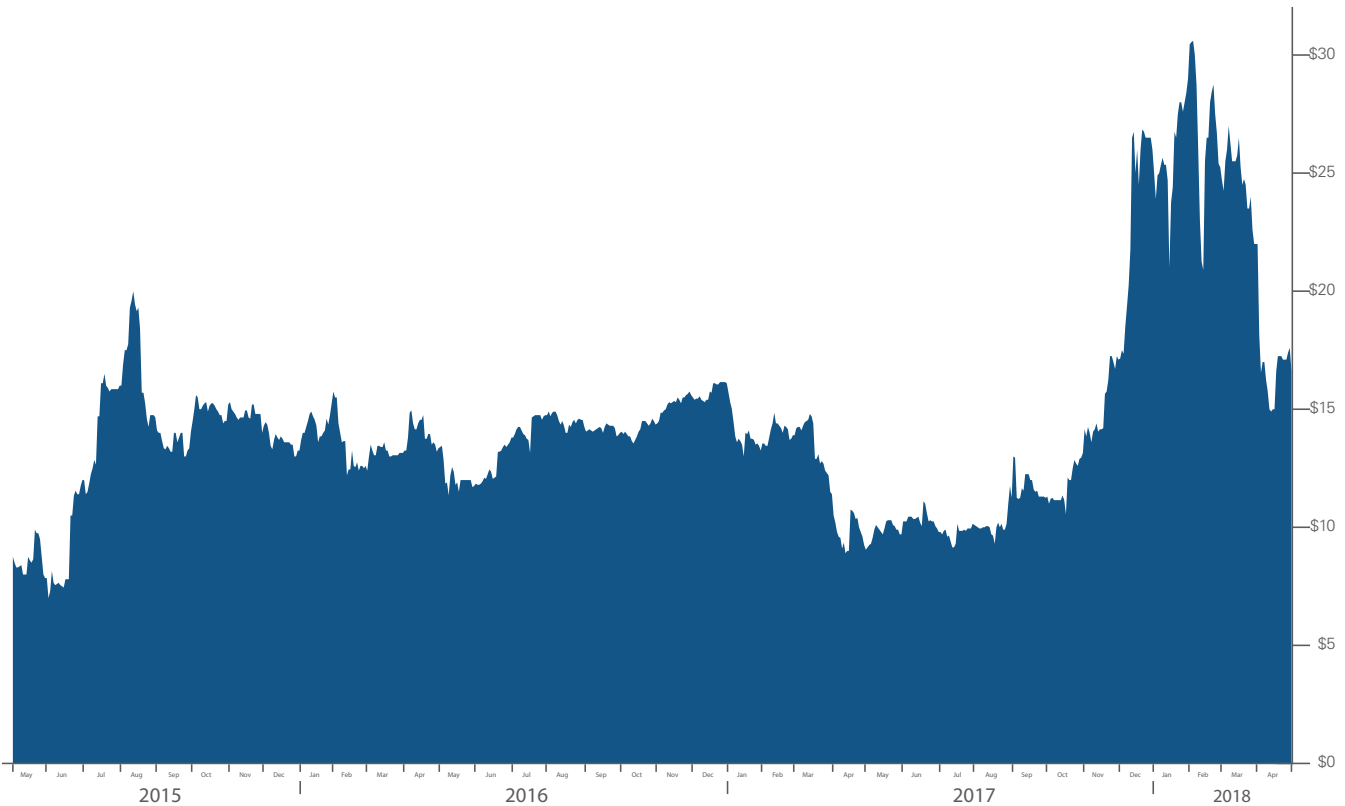
The latest quarterly GDP growth tally for Canada came in at 1.7%, which was less than the consensus estimates. That compares to the same measure in the U.S., which registered a higher-than-expected increase of 2.3%. Inflation held in at a comfortable level in both Canada and the U.S. Canada's unemployment rate to the end of March came in at 5.8%, which is still close to a 40-year low, and the U.S. level of unemployment held steady at 4.1% for the sixth month in a row.

# Monthly Market Statistics

Data to April 30, 2018, unless otherwise indicated

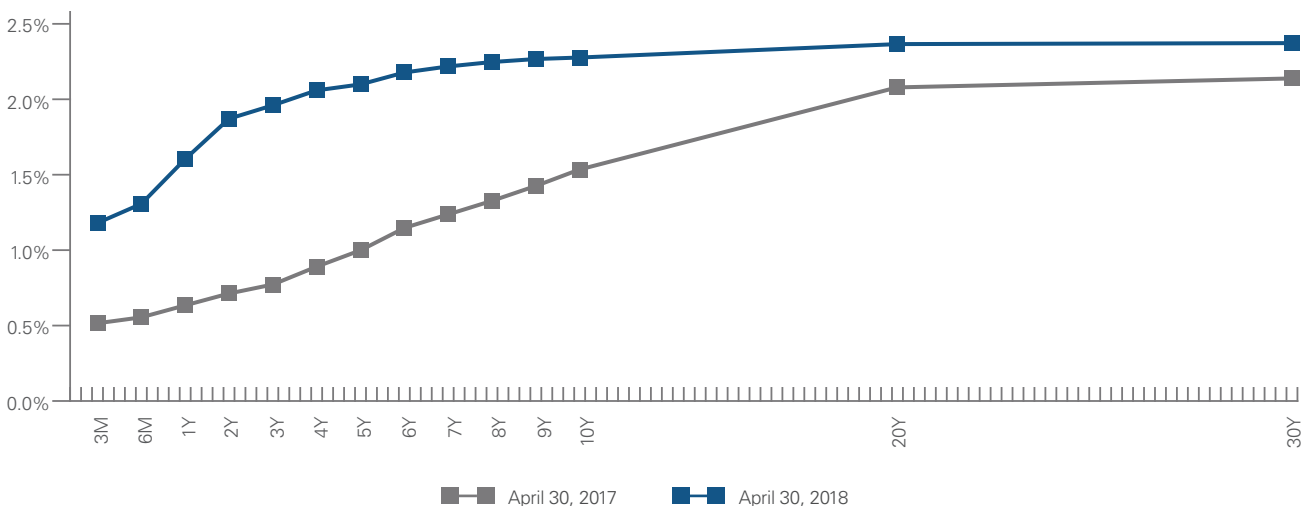
In Canada's oil patch, most of the stuff that comes out of the ground is what's known as Western Canadian Select, or WCS. This substance is composed mostly of bitumen, and it is either upgraded to a higher grade of oil, processed into asphalt or combined with other crudes and refined into things like diesel and gasoline. The stuff is often referred to as "heavy" oil. WCS tends to trade a discount to WTI oil because WTI is a higher grade product (when you see the price of oil quoted on TV or on the front page of the business section, that is in all likelihood the per barrel price of WTI). Recently, however, WCS' discount has deepened because of limited pipeline capacity. Alberta is landlocked and these pipelines are necessary to move the oil out of the province. Several pipelines are in the works, but political and environmental concerns have grown and this has put even more pressure on WCS prices.

## Chart of the Month: Discount at Which Western Canadian Select Oil Trades to WTI Oil



Source: Bloomberg

## Canadian Sovereign Yield Curve



Source: Bloomberg

# Monthly Market Statistics

Data to April 30, 2018, unless otherwise indicated

## Equity Index Returns (% in CAD)

Index	1 Mo	3 Mo	6 Mo	YTD	1Yr	3Yr	5Yr	3Yr Std Dev
S&P/TSX Composite	1.8	-1.4	-1.2	-2.8	3.1	3.9	7.8	7.3
S&P/TSX Small Cap	5.0	-1.0	-0.2	-3.1	0.1	4.5	5.5	14.0
S&P 500	-0.2	-1.9	3.2	2.0	6.4	12.7	18.5	10.3
MSCI EAFE	1.9	0.1	3.1	3.3	8.1	7.6	11.8	12.1
MSCI World	0.7	-1.1	3.1	2.4	6.9	10.3	15.4	10.6
MSCI World Small Cap	0.4	1.1	3.7	2.9	8.2	12.2	17.0	11.0
MSCI Europe	2.3	0.3	2.4	3.4	7.4	6.9	12.0	12.3
MSCI EM	-0.9	-2.9	4.3	3.4	14.7	8.5	10.3	15.9
MSCI AC Asia	0.4	-0.8	4.2	3.3	12.9	9.5	12.5	13.2

Source: Bloomberg

## Fixed Income Returns (% in CAD)

Index	1 Mo	3 Mo	6 Mo	YTD	1Yr	3Yr	5Yr	3Yr Std Dev
FTSE TMX Canada Universe Bond	-0.9	0.0	-0.4	-0.8	-0.9	1.4	2.5	3.4
Barclays Global Agg	-2.1	2.6	0.6	2.1	-2.2	4.3	5.9	5.0
Barclays High Yield Very Liquid Index	0.1	3.1	-1.3	1.7	-3.9	5.8	8.8	5.8

Source: Bloomberg

## Commodity Prices (Prices and Returns in USD)

Commodity	04/30/2018 Price (\$)	MoM Change (%)	YoY Change (%)
WTI Crude Oil/BBL	68.57	5.6	39.0
Natural Gas/mmBTU	2.76	1.1	-15.7
Copper/pound	3.05	0.9	17.6
Silver/oz	16.31	0.3	-5.1
Gold/oz	1319.20	-0.3	4.0

Source: Bloomberg

## Economic Data

Canada	
Real GDP - Q4 (q/q ann. % change)	1.7
Consumer Prices (y/y % change)	2.3
Unemployment Rate, March '18	5.8
United States	
Real GDP - Q1 (q/q ann. % change)	2.3
Consumer Prices (y/y % change)	2.4
Unemployment Rate, March '18	4.1

Source: Bloomberg, Stats Canada

## One Month Sector Returns (% in CAD)

Sector	S&P/TSX Composite	S&P 500
Consumer Discretionary	1.2	1.8
Consumer Staples	-1.3	-4.9
Energy	6.9	8.7
Financials	0.6	-1.0
Health Care	-3.6	0.6
Industrials	2.9	-3.4
Info Tech	2.4	-0.5
Materials	0.4	-0.4
Real Estate	-0.3	-1.2
Telecom Services	0.7	-1.6
Utilities	-1.6	1.5

Source: Bloomberg

## Exchange Rates

Cross	2018-04-30	6 Mos Ago	1Yr Ago
USD/CAD	1.28	1.29	1.37
EUR/CAD	1.55	1.50	1.49
GBP/CAD	1.77	1.71	1.77
CAD/JPY	85.14	88.17	81.67

Source: Bloomberg

## General Disclosures

The information and opinions contained in this report were prepared by Industrial Alliance Securities Inc. ('iA Securities'). iA Securities is owned by Industrial Alliance Insurance & Financial Services Inc. ('iA Financial'). iA Financial is a TSX Exchange listed company and as such, iA Securities is related to iA Financial. The opinions, estimates and projections contained in this report are those of iA Securities as of the date of this report and are subject to change without notice. iA Securities endeavours to ensure that the contents have been compiled or derived from sources that we believe to be reliable and contain information and opinions that are accurate and complete. However, iA Securities makes no representations or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to iA Securities that is not reflected in this report.

Nothing contained in this report is or should be relied upon as a promise or representation as to the future. The pro forma and estimated financial information contained in this report, if any, is based on certain assumptions and management's analysis of information available at the time that this information was prepared, which assumptions and analysis may or may not be correct. There is no representation, warranty or other assurance that any projections contained in this report will be realized.

Opinions, estimates and projections contained in this report are our own as of the date hereof and are subject to change without notice. This report is not to be construed as an offer or solicitation to buy or sell any security. The reader should not rely solely on this report in evaluating whether or not to buy or sell securities of the subject company. The reader should consider whether it is suitable for your particular circumstances and talk to your investment advisor.

## Definitions

"The author" means any partner, director, officer, employee or agent of iA Securities who is held out to the public as a publisher of Investment Fund Research or whose responsibilities to iA Securities include the preparation of any written investment fund research report for distribution to clients or prospective clients of iA Securities.

## Conflicts of Interest

The author and or associates who prepared this report are compensated based upon (among other factors) the overall profitability of iA Securities, which may include the profitability of investment banking and related services. In the normal course of its business, iA Securities may provide financial advisory services for issuers. iA Securities will include any further issuer-related disclosures as needed.

## The Authors' Certification

The author whose name appears on the front page of this report hereby certifies that (i) the opinions expressed in the report accurately reflect the author's personal views about the marketplace and are the subject of this report and all strategies mentioned in this report that are covered by such the author and (ii) no part of the author's compensation was, is, or will be directly or indirectly, related to the specific views expressed in this report.

## Dissemination of Reports

iA Securities uses its best efforts to disseminate its investment fund research reports to all clients who are entitled to receive the firm's investment fund research reports, contemporaneously on a timely and effective basis in electronic form, via fax or mail.

**For Canadian Residents:** This report has been approved by iA Securities, which accepts responsibility for this report and its dissemination in Canada. Canadian clients wishing to effect transactions should do so through a qualified salesperson of iA Securities in their particular jurisdiction where their iA is licensed.

**For U.S. Residents:** This report is not intended for distribution in the United States.

**For E.U. Residents:** This report is not intended for distribution in the European Union.

**For U.K. Residents:** This report is not intended for distribution in the United Kingdom.

## Intellectual Property Notice

The materials contained herein are protected by copyright, trademark and other forms of proprietary rights and are owned or controlled by iA Securities or the party credited as the provider of the information.

## Regulatory

Industrial Alliance Securities is a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada.

## Copyright

All rights reserved. All material presented in this document may not be reproduced in whole or in part, or further published or distributed or referred to in any manner whatsoever, nor may the information, opinions or conclusions contained in it be referred to without in each case the prior express written consent of iA Securities.



**INVESTED IN YOU.**