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James Gauthier, CFA
Head of Funds Research

Edmund Fernandez
Senior Product Analyst

Monthly Overview

The equity market volatility that was so persistent during the first quarter of 2018 subsided to some extent during the second quarter as stocks in general ended the period on a high note. The quarterly gain for the S&P/TSX Composite was 6.8% and that was capped by a 1.7% upswing in June. The Canadian benchmark's quarterly surge topped all of the major indices we follow – a feat that has been highly unusual over the past two years.

The Canadian market often comes and goes with what happens in the energy complex, and a 14% jump in crude prices, along with a 7% boost to natural gas prices propelled Canadian energy stocks substantially higher during the quarter. The S&P/TSX Energy sector soared almost 16% during Q2, leading all other sectors. Health care stocks, led by the weed space, appreciated by 14.3% on average, and all sectors closed the quarter in positive territory, with the lone exception of the utilities space.

The loonie shed close to 3% versus the greenback during the second quarter, helping boost the returns of foreign markets in CAD terms. Note that all returns noted in this paragraph are in CAD terms. U.S. stocks, as measured by the S&P 500, finished the quarter 5.4% higher. The energy sector led the way there as well, but the consumer discretionary and information technology sectors are much larger components of the benchmark (combined, they account for 38% of the value of the S&P 500 index) and these jumped by 10.2% and 9.1% in Q2, respectively. Industrials and financials were the only two sectors from south of the border to see losses during the quarter.

International stocks, as measured by the MSCI EAFE index, managed a gain of 0.9% in Q2. This came in the wake of muted European returns and losses in Asia ex-Japan.

The strength of the U.S. dollar has taken a toll on emerging market stocks as well as currencies of many of these countries. The MSCI Emerging Markets index shed 6.1% in Canadian dollar terms during the second quarter. Positive momentum for the economy, along with expectations that the Fed will elect to move interest rates higher, have pushed the greenback higher. Higher interest rates in the U.S. mean it is more attractive for investors to move their money there, and this capital often flows out of emerging markets. In addition, much of the outstanding emerging market debt is denominated in U.S. dollars. When the greenback strengthens, it becomes more expensive for the emerging market borrowers to service the debt, putting pressure on these countries.

Canadian investment grade bonds eked out a small gain in Q2 and returns remained marginally positive on a YTD basis through June 30. Global sovereign bonds in general drifted slightly lower on the quarter while high yield issues posted a 2.9% upswing (all figures in CAD).

Turning briefly to commodities, WTI oil rocketed 14.2% higher in Q2 and was higher by 61.1% on a YoY basis to June 30. The price of gold ended Q2 5.2% lower.

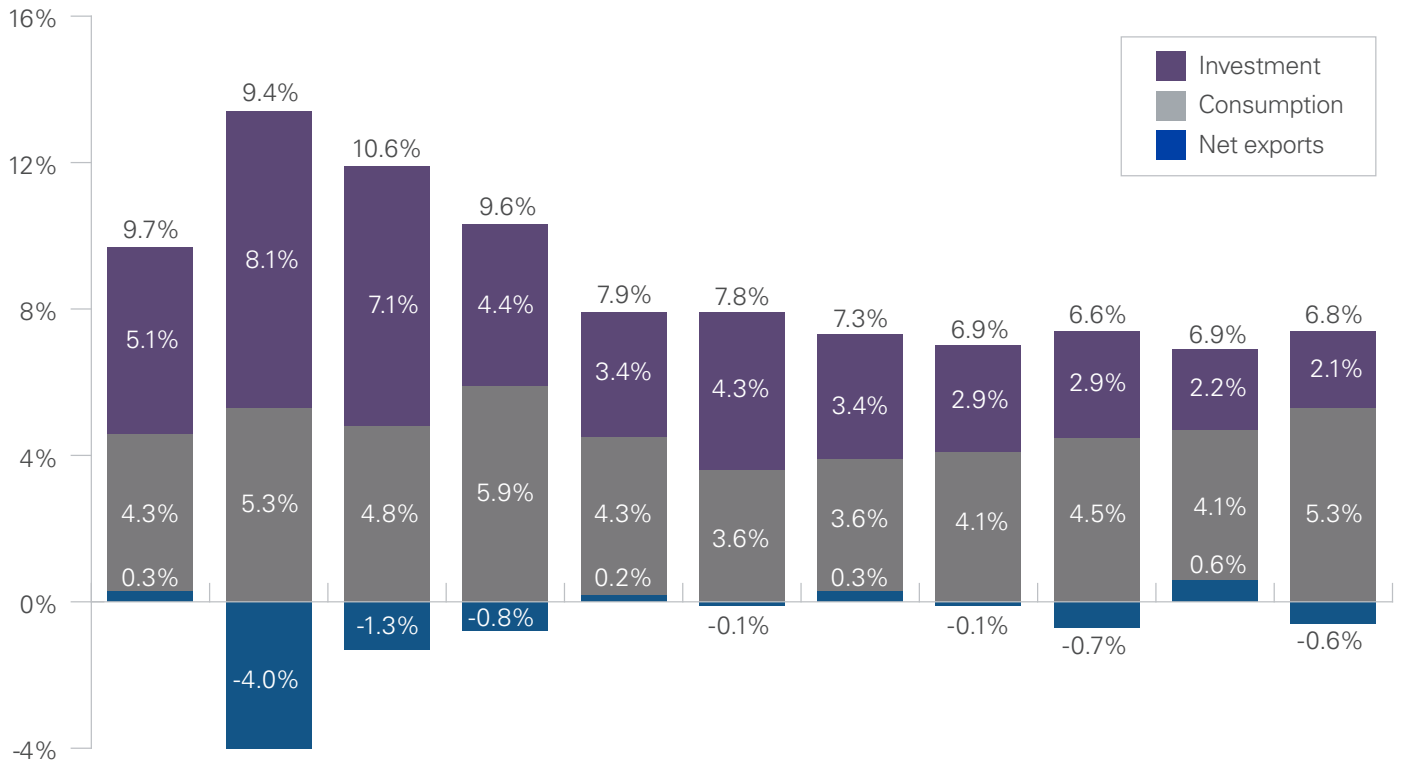
Finally, the Bank of Canada elected to keep its key rate steady at 1.25% at both of its policy meetings during Q2, while the U.S. Federal Reserve increased its policy rate by a quarter point to 1.75% at its June meeting.

Monthly Market Statistics

Data to June 30, 2018, unless otherwise indicated

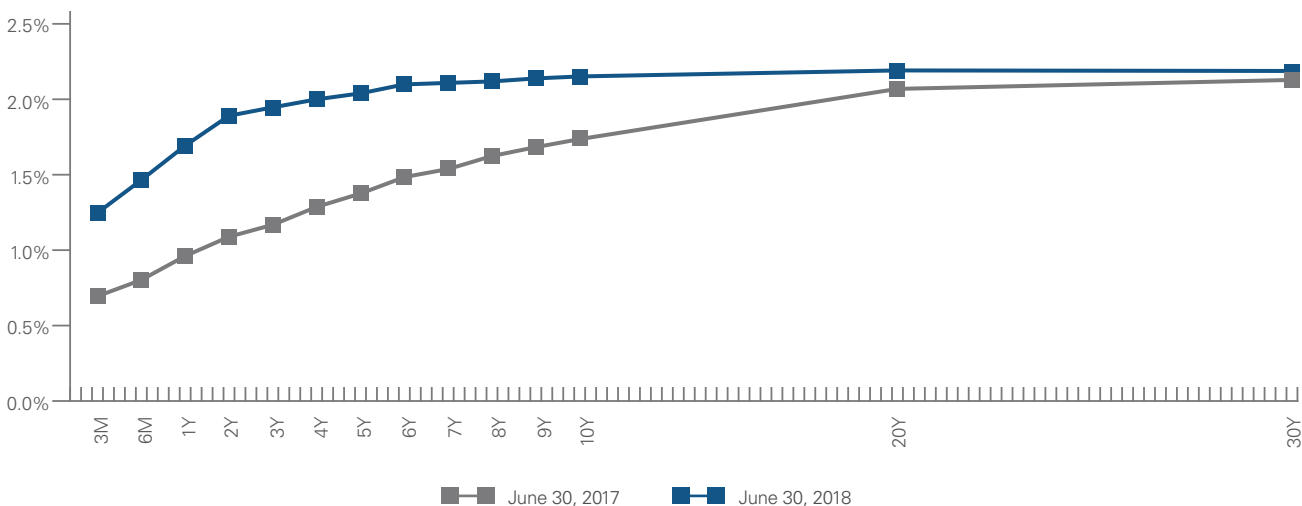
The blistering pace of Chinese economic growth has declined from where it was a few years ago, but the level of expansion remains impressive. Much of the slowdown has come from a slide in the amount of investment in infrastructure and residential construction. Domestic consumption on the part of households (the grey bar) continues to grow at a robust rate. Also note that net export growth has bounced around either side of zero over the past few years. The most recent reading of -0.6% means the amount of imports into the Chinese economy actually exceeded its exports. That was also the case in three of the past five calendar years.

Chart of the Month: Chinese Growth Deconstructed (year-over-year % change)



Source: FactSet

Canadian Sovereign Yield Curve



Source: Bloomberg

Monthly Market Statistics

Data to June 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	1.7	6.8	1.9	1.9	10.4	6.9	9.2	7.4
S&P/TSX Small Cap	-0.3	6.5	-1.7	-1.7	5.3	6.2	6.4	13.8
S&P 500	2.1	5.4	7.7	7.7	15.7	13.9	18.6	10.1
MSCI EAFE	0.3	0.9	2.4	2.4	8.7	7.3	11.9	12.1
MSCI World	1.4	3.9	5.7	5.7	13.0	11.0	15.6	10.4
MSCI World Small Cap	1.2	5.4	8.0	8.0	16.7	12.6	17.3	10.9
MSCI Europe	0.9	0.7	1.9	1.9	7.0	6.6	11.6	12.3
MSCI EM	-2.7	-6.1	-2.0	-2.0	9.8	7.9	10.2	15.9
MSCI AC Asia	-1.9	-1.4	1.6	1.6	11.7	9.2	12.9	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	0.6	0.5	0.6	0.6	0.8	2.0	3.5	3.4
Barclays Global Agg	1.0	-0.9	3.4	3.4	2.6	4.4	6.1	4.8
Barclays High Yield Very Liquid Index	1.9	2.9	4.6	4.6	2.8	6.3	9.3	5.8

Source: Bloomberg

Commodity Prices (Prices and Returns in USD)

Commodity	06/30/2018 Price (\$)	MoM Change (%)	YoY Change (%)
WTI Crude Oil/BBL	74.15	10.6	61.1
Natural Gas/mmBTU	2.92	-0.9	-3.7
Copper/pound	2.95	-3.7	9.3
Silver/oz	16.10	-2.2	-2.8
Gold/oz	1254.50	-3.5	1.0

Source: Bloomberg

Economic Data

Canada	
Real GDP - Q1 (q/q ann. % change)	1.3
Consumer Prices May (y/y % change)	2.2
Unemployment Rate, June '18	6.0
United States	
Real GDP - Q1 (q/q ann. % change)	2.0
Consumer Prices May (y/y % change)	2.8
Unemployment Rate, Jun '18	4.0

Source: Bloomberg, Stats Canada

One Month Sector Returns (% in CAD)

Sector	S&P/TSX Composite	S&P 500
Consumer Discretionary	0.7	5.1
Consumer Staples	3.2	6.0
Energy	5.4	2.2
Financials	0.1	-0.5
Health Care	6.0	3.1
Industrials	-0.4	-1.9
Info Tech	0.5	1.1
Materials	1.8	1.8
Real Estate	1.7	6.0
Telecom Services	1.7	3.9
Utilities	2.5	4.3

Source: Bloomberg

Exchange Rates

Cross	2018-06-30	6 Mos Ago	1Yr Ago
USD/CAD	1.31	1.26	1.30
EUR/CAD	1.53	1.51	1.48
GBP/CAD	1.73	1.70	1.69
CAD/JPY	84.33	89.66	86.71

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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Under review:	The fund's participation on the Recommended List is under review.

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