

September 2018

Monthly Overview

August was a mixed period for equity markets globally. The contrast in North America was stark, with the S&P/TSX Composite sliding 0.8% during the month. At the same time, U.S.-based stocks, as measured by the S&P 500, were 3.7% higher in CAD terms. Weakness in materials and energy stocks weighed on the Canadian market. Those sectors posted respective declines of 8.1% and 3.6%. Stocks from the info tech space were up by more than 5%, but the Canadian market's big winner was health care, which rocketed 28% higher, as pot stocks picked up significant momentum. The health care sector's weighting in the broader index stands at just under 2%, meaning its contribution to the overall level of the broader index remains limited.

Technology stocks led the way for the U.S. market in August. The gain there was 7.4%. Consumer discretionary stocks jumped 5.6% on the month, as Amazon's 13% surge provided strong support for the sector (all returns in this and the following paragraphs are in CAD). There was also decent strength in U.S. health care and telecom stocks. Energy and materials were the only two S&P 500 sectors that ended up in the red during the month.

International markets faced headwinds in August, with the MSCI EAFE sliding 1.5%. European stock, which dipped 2.8%, were the biggest contributors to that weakness. Emerging markets stocks tumbled 2.3% in August and were off by more than 8% for the six months ended August 31 as a strong USD and trade tensions put a dent in investors' confidence.

Canadian bond yields eked lower in August, leading to a gain for the Canadian investment-grade index. The high yield index also sported a gain in August, while global bonds were flat in Canadian dollar terms. The yield on the U.S. 10 Year note breached the 3% level early on in August, but ended the month at 2.85%.

The loonie was virtually unchanged relative to the greenback during the month. Energy prices were slightly higher on a month-over-month basis, while metals prices slid across the board.

The Canadian economy grew at an impressive annual pace of 2.9% in the second quarter, its biggest gain in a year. The expansion was pushed by higher exports, which jumped by an annualized 12.3% in Q2, led by energy, aircraft and pharmaceutical products. Imports were higher by 1.6%, resulting from higher refined-energy imports to offset an expected shutdown of Canadian refineries. Business investment growth, however, was slowed to its lowest level since the end of 2016, and this could cast some doubt over the otherwise rosy economic picture. Canada's inflation hit the 3% mark for the first time since 2011 in July, quickening from 2.5% a month earlier. The nation's jobless rate returned to four-decade lows in July on stronger-than expected employment gains. The unemployment rate declined to 5.8% from 6% in June, matching the lowest level since the 1970s. The economy added 54,100 jobs.

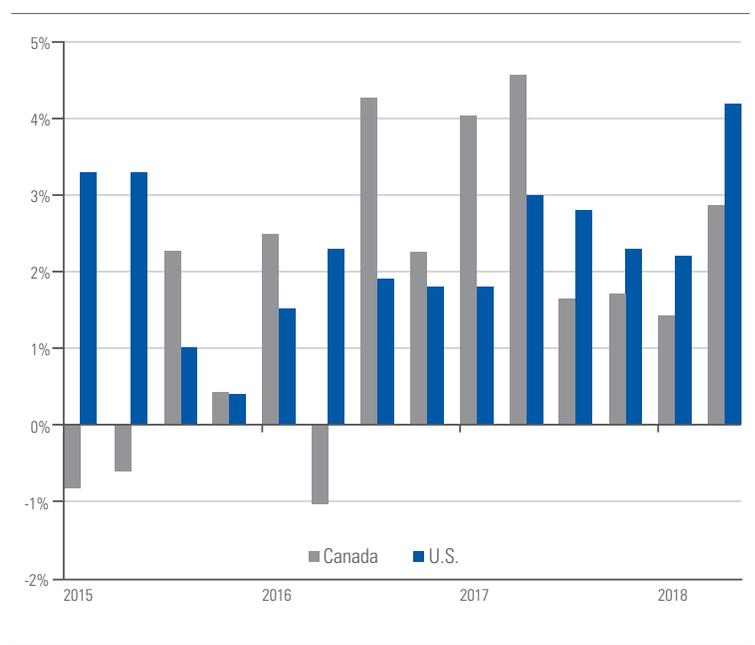
Meanwhile, U.S. economic growth rocketed to an annualized 4.2% in Q2, its highest figure in nearly four years. U.S. consumer spending extended gains into July with inflation hitting a six-year high, rising 2.3% in the 12 months ended in July. Consumer confidence also rose in August to its highest level since October 2000, with the Conference Board's index climbing to 133.4. And while there was an increase in jobless claims as August neared a close, the underlying trend continued to point to a robust labour market. Federal Reserve Chairman Jerome Powell indicated that he expects the Fed to continue steadily raising rates if the U.S. economic expansion remains solid.

Monthly Market Statistics

Data to August 31, 2018, unless otherwise indicated

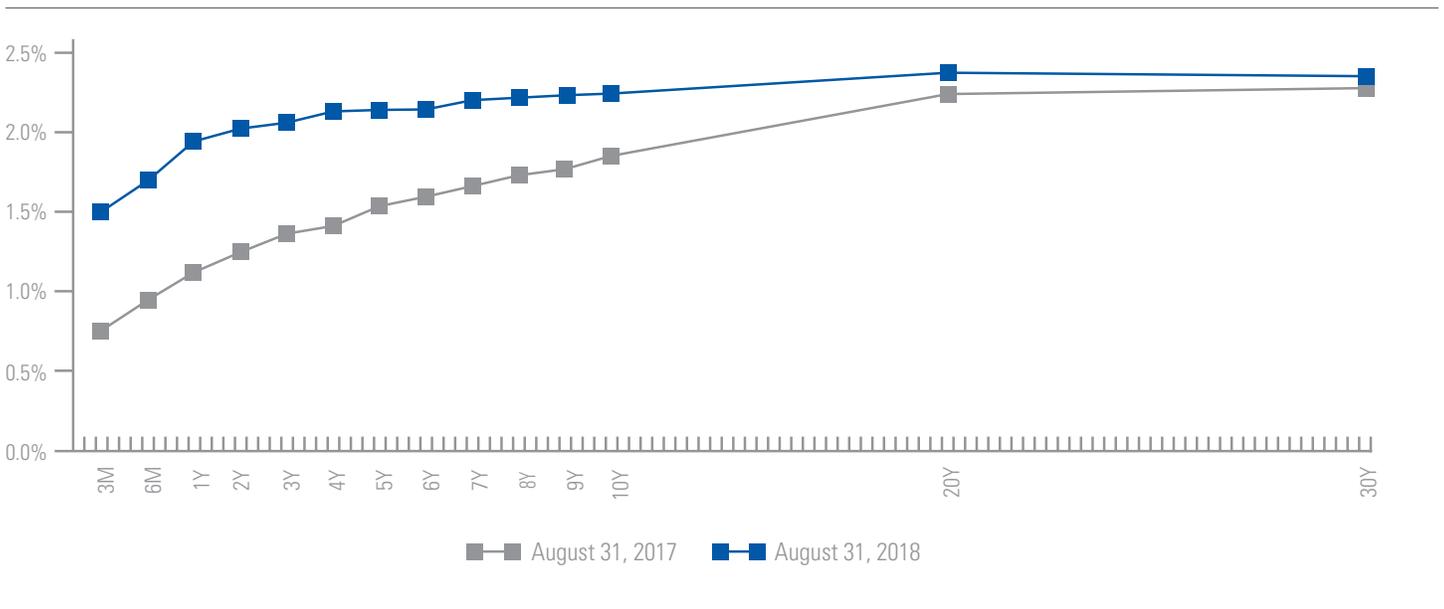
Economic growth picked up in both the U.S. and Canada during the second quarter, but it was the U.S. economy that really shone. Annualized GDP growth for the U.S. most recently registered in at 4.2%, the fastest pace of growth since late 2014. This figure was boosted by a surge in net exports, in addition to expanded consumer spending and business investment, both of which came on the back of the Trump tax cuts. Time will tell if there is sustainability in the factors that drove Q2 growth. The question moving forward is, what impact will continued growth at a 4%-plus clip have on inflation? Higher-than-expected inflation could put pressure on interest rates, and higher rates, ironically, could ultimately lead to a slowdown in economic growth.

Chart of the Month: Canadian and U.S. Quarterly GDP Growth



Source: Bloomberg

Canadian Sovereign Yield Curve



Source: Bloomberg

Monthly Market Statistics

Data to August 31, 2018, 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 | -0.8 | 2.0 | 7.0 | 3.1 | 10.1 | 8.7 | 8.3 | 7.1 |
| S&P/TSX Small Cap | -0.5 | -1.8 | 3.6 | -2.7 | 3.4 | 9.0 | 4.8 | 13.0 |
| S&P 500 | 3.7 | 8.6 | 10.1 | 10.6 | 24.8 | 15.6 | 19.5 | 10.2 |
| MSCI EAFE | -1.5 | 0.1 | -0.3 | 3.9 | 9.4 | 7.2 | 11.0 | 12.0 |
| MSCI World | 1.7 | 5.3 | 6.3 | 7.9 | 18.6 | 12.1 | 15.8 | 10.4 |
| MSCI World Small Cap | 2.6 | 4.0 | 9.2 | 8.2 | 21.7 | 13.7 | 17.0 | 10.8 |
| MSCI Europe | -2.8 | 0.3 | -0.2 | 4.2 | 7.3 | 5.9 | 10.2 | 14.9 |
| MSCI EM | -2.3 | -3.8 | -8.2 | -0.8 | 3.9 | 11.4 | 10.1 | 15.3 |
| MSCI AC Asia | -0.2 | -2.2 | -3.1 | 1.4 | 10.3 | 11.1 | 12.7 | 12.9 |

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 | 0.8 | 0.6 | 1.3 | 0.6 | 1.3 | 1.8 | 3.6 | 3.3 |
| Barclays Global Agg | 0.1 | -0.5 | -1.8 | -1.6 | -1.4 | 2.4 | 1.3 | 4.8 |
| Barclays High Yield Very Liquid Index | 1.2 | 3.3 | 4.3 | 4.8 | 7.0 | 5.7 | 9.4 | 5.6 |

Source: Bloomberg

Commodity Prices (Prices and Returns in USD)

| Cross | 08/31/2018 Price (\$) | MoM Change (%) | YoY Change (%) |
|---------------|-----------------------|----------------|----------------|
| WTI Crude Oil | 69.80 | 1.5 | 47.8 |
| Natural Gas | 2.92 | 4.8 | -4.1 |
| Copper | 2.65 | -6.4 | 14.0 |
| Silver | 14.44 | -7.2 | -17.4 |
| Gold | 1201.60 | -1.8 | -8.9 |

Source: Bloomberg

Economic Data

| Canada | |
|-----------------------------------|-----|
| Real GDP – Q2 (q/q ann. % change) | 2.9 |
| Consumer Prices (y/y % change) | 3.0 |
| Unemployment Rate, Aug. '18 | 5.8 |
| United States | |
| Real GDP – Q2 (q/q ann. % change) | 4.2 |
| Consumer Prices (y/y % change) | 2.9 |
| Unemployment Rate, Aug '18 | 3.9 |

Source: Bloomberg, Stats Canada

One Month Sector Returns (% in CAD)

| Sector | S&P/TSX Composite 1M returns | S&P 500 1M returns |
|------------------------|---------------------------------|-----------------------|
| Consumer Discretionary | -3.5 | 5.6 |
| Consumer Staples | -1.7 | 0.9 |
| Energy | -3.6 | -2.9 |
| Financials | 1.2 | 1.8 |
| Health Care | 28.4 | 4.8 |
| Industrials | 0.7 | 0.7 |
| Info Tech | 5.1 | 7.4 |
| Materials | -8.1 | -0.1 |
| Real Estate | 2.4 | 2.9 |
| Telecom Services | -0.9 | 3.5 |
| Utilities | -0.7 | 1.5 |

Source: Bloomberg

Exchange Rates

| Cross | 08/31/2018 | 6 Mos Ago | 1 Yr Ago |
|---------|------------|-----------|----------|
| USD/CAD | 1.30 | 1.28 | 1.25 |
| EUR/CAD | 1.51 | 1.56 | 1.49 |
| GBP/CAD | 1.69 | 1.77 | 1.61 |
| CAD/JPY | 85.18 | 83.14 | 88.11 |

Source: Bloomberg

Investment Recommendation Rating System

| | |
|-------------------|---|
| 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. |
| Sell: | The fund is no longer on recommended list. |
| Under review: | The fund's participation on the Recommended List is under review. |

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