Market Snapshot – July 2015

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Sophocles Could Not Have Written a Better Play, But We Prefer the Soothing Words of Sir Mick

Intro by James Gauthier

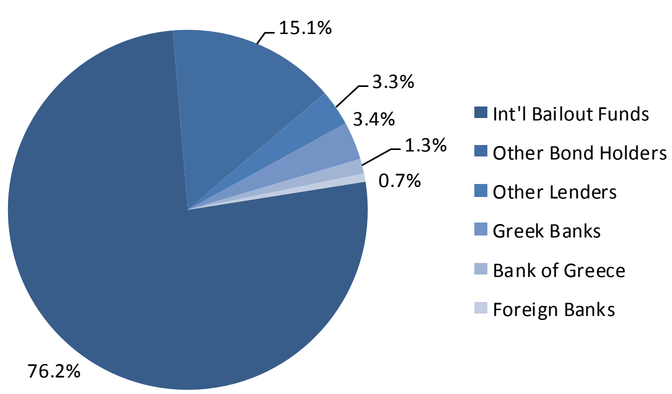
Greek voters shot down conditions set forth by international creditors in rather overwhelming fashion, as a 61% majority checked the "No" box in Sunday's referendum. The next steps for Greece and those who have extended it loans are uncertain, although discussions between European leaders and Greece are ongoing. The drama of this situation has been building for years and this has indeed been the longest running Greek tragedy in history.

What is certain is that Greek banks will remain closed until some level of confidence has been restored and that the magnitude of the economic stress faced by the Greeks will increase in the short-term as restrictions on what they are able to withdrawal from their bank accounts remain in place. And while the situation in Greece has whipsawed financial markets for several months now, the "No" vote so far has not been viewed as a "Lehman moment" by market participants. Sure, the euro has weakened and stocks continue to face volatility, but market participants are not betting that the shock, ensuing pain and contagion following Lehman's bankruptcy announcement in September 2008 are likely consequences in this situation. Further, sovereign debt spreads are a good measure of market stress. They have been getting wider for the likes of Italy, Spain and Portugal, indicating a moderate level of concern for some of Europe's more challenged economies, but are nowhere near where they were in 2011/2012.

The S&P 500 shed 4% the day after Lehman failed and that was soon followed by the failure and/or nationalization of numerous financial institutions, a rapid deterioration of liquidity and credit conditions, and ultimately, the onset of the most serious financial crisis since the Great Depression.

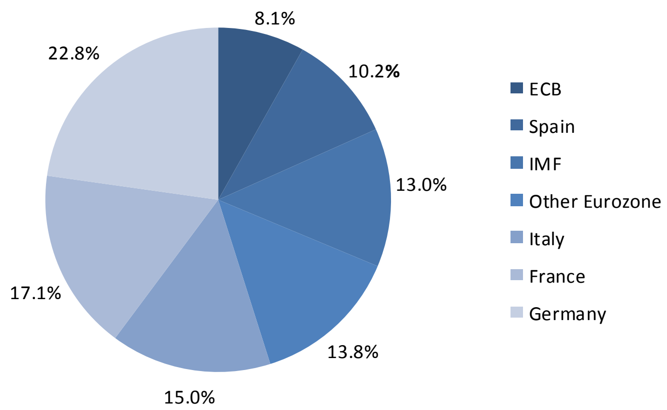
A major problem during the financial crisis of 2008/2009 was the interconnectedness of the world's financial institutions. When firms that were potentially "too big to fail" did just that, the immediate consequences were brutal for credit and equity markets.

Chart I: Who Are Greece's Biggest Creditors



Sources: Open Europe, IMF, EFSF, Bank of Greece, Greek Ministry of Finance

Chart II: Breakdown of the International Bailout Funds From Chart I



Sources: Open Europe, IMF, EFSF, Bank of Greece, Greek Ministry of Finance

It seems as though markets are taking a bit comfort in the fact that foreign banks hold less than 1% of all outstanding Greek sovereign debt. Greek banks themselves hold 3.4% of the nation's debt, but market participants appear to have insulated themselves to a large degree from pain that would come with an outright failure of the Greek banking system. In the event of a disorderly default, debt write-down, or exit from the Eurozone, foreign banks should fare relatively well. The biggest losers in such a scenario would be those entities that have provided the bulk of Greece's bailout funds, namely, Germany, France, Italy as well as the IMF and the ECB.

Arguably, these entities are better equipped to handle a default, and as a result, markets do not have a fear of a rapid unravelling of the financial system no matter what the outcome is for Greece. While a systematic failure may not be in the cards at this point, continued uncertainty is never favoured by markets, so expect volatility to continue until the Greek issue is resolved.

The Political Unknown

Greece's largest creditors in Europe must now decide whether they should continue to work with Greece on a resolution (and for how long they are willing to work) or prepare for a Grexit. That decision comes with layers of complexity, but the one thing policy makers need to ensure is that they avoid making it appear as though they are rolling out the red carpet for bad behaviour from other sovereigns. Ensuring the Greek experience does not set a precedent for an easy escape for nations such as Italy, Spain and Portugal from in the event of a debt-related crisis in those regions is imperative. The words and actions of the EU must make it clear that Greece is an isolated case and not the first domino.

Greece's debt of 330 billion euros pales in comparison to the combined debt of the aforementioned nations, which comes in at more than four trillion euros, and the overall financial system is much more tied into the fate of the balance sheets of those countries.

Should Greece Matter to Long-Term Investors?

Asset prices are impacted by macro-economic events, such as what's happening with Greece, as well as by events that are security-specific. Such events can trigger severe short-term swings to either the upside or the downside, and in most cases, the events unfold in a fashion that is far from being predictable. Prices adjust to the market's expectations of what the events will ultimately mean for the asset.

For retail investors, betting on what is inherently unpredictable may lead to financial gain, but such action frequently leads to financial loss and goes against whatever long term plan is in place. Investors saving for retirement, a child's education, or some other event that is far off into the future can take advantage of what's known as "time arbitrage". While short-term ups and downs may cause investors with time horizons of 10, 20 or 30 years to wince, longer-term time horizons mean short-term events become less relevant. The table below highlights a number recent history's most severe financial crises. Many of these events created strains for equity markets in the short-term, and in some instances, the medium-term; however, patient investors with geographical diversification would have been rewarded by taking the long road, with very few exceptions.

Table I: Cumulative Returns From Crisis Starting Point, Returns in CAD

LatAm Sovereign Debt Crisis (Aug 12, 1982)							
	1 Day	**1 Month**	**6 Months**	**1 Year**	**3 Years**	**5 Years**	**Today**
S&P500 TR	0.3%	17.1%	40.6%	56.0%	99.3%*	244.7%*	286.2%*
S&P/TSX Composite TR	0.0%	15.9%	55.9%	78.6%	124.1%	251.2%	247.9%
MSCI EAFE TR	-0.1%	4.6%	20.3%	30.0%	101.9%	452.5%	335.2%
Black Monday (Oct 19, 1987)							
	1 Day	**1 Month**	**6 Months**	**1 Year**	**3 Years**	**5 Years**	**Today**
S&P500 TR	-20.5%	-14.2%	-11.8%	-6.2%	8.1%*	45.6%*	234.0%*
S&P/TSX Composite TR	-11.3%	-18.6%	-4.8%	-2.6%	-5.4%	6.7%	162.8%
MSCI EAFE TR	-4.3%	-14.9%	-3.4%	-6.4%	-11.7%	-16.3%	67.5%
Tequila Crisis (Dec, 20, 1994)							
	1 Day	**1 Month**	**6 Months**	**1 Year**	**3 Years**	**5 Years**	**Today**
S&P500 TR	0.0%	4.2%	19.7%	35.5%	127.1%	261.6%	171.6%
S&P/TSX Composite TR	0.0%	0.3%	11.6%	15.2%	68.0%	114.9%	162.6%
MSCI EAFE TR	0.5%	0.9%	2.5%	9.8%	25.8%	94.9%	61.1%
Barings Bank Goes Bust (Feb 23, 1995)							
	1 Day	**1 Month**	**6 Months**	**1 Year**	**3 Years**	**5 Years**	**Today**
S&P500 TR	0.0%	2.7%	13.3%	37.0%	130.9%	217.3%	154.0%
S&P/TSX Composite TR	0.0%	3.8%	13.0%	23.7%	78.4%	144.5%	178.5%
MSCI EAFE TR	-0.4%	0.6%	6.2%	14.9%	40.2%	97.0%	69.1%
Asian Crisis (Jul 2, 1997)							
	1 Day	**1 Month**	**6 Months**	**1 Year**	**3 Years**	**5 Years**	**Today**
S&P500 TR	0.0%	6.5%	13.9%	38.9%	82.7%	28.0%	52.1%
S&P/TSX Composite TR	1.7%	6.5%	4.9%	16.2%	65.7%	19.6%	157.4%
MSCI EAFE TR	-0.1%	0.1%	-5.8%	14.7%	45.8%	2.8%	71.1%
Russian Crisis (Aug 17, 1998)							
	1 Day	**1 Month**	**6 Months**	**1 Year**	**3 Years**	**5 Years**	**Today**
S&P500 TR	2.5%	-2.4%	15.9%	23.9%	17.3%	-8.6%	0.6%
S&P/TSX Composite TR	1.7%	-6.0%	2.3%	13.7%	25.5%	27.1%	150.8%
MSCI EAFE TR	0.3%	-3.8%	5.8%	15.9%	4.3%	-14.0%	29.3%
Failure of LTCM (Sep 23, 1998)							
	1 Day	**1 Month**	**6 Months**	**1 Year**	**3 Years**	**5 Years**	**Today**
S&P500 TR	0.0%	5.8%	24.6%	23.7%	-0.1%	-6.3%	-6.4%
S&P/TSX Composite TR	0.0%	0.7%	14.2%	20.2%	16.7%	40.7%	161.8%
MSCI EAFE TR	1.4%	8.9%	18.1%	26.0%	-7.9%	-5.0%	27.7%
Dot-Com Bubble (March 10, 2000)							
	1 Day	**1 Month**	**6 Months**	**1 Year**	**3 Years**	**5 Years**	**Today**
S&P500 TR	0.0%	8.2%	8.6%	-5.5%	-37.9%	-23.3%	-31.5%
S&P/TSX Composite TR	0.0%	0.7%	15.6%	-12.6%	-29.2%	13.0%	56.9%
MSCI EAFE TR	0.2%	0.4%	-6.3%	-14.2%	-47.7%	-16.3%	-15.2%
Global Financial Crisis (Sep 15, 2008)							
	1 Day	**1 Month**	**6 Months**	**1 Year**	**3 Years**	**5 Years**	**Today**
S&P500 TR	-4.2%	-12.9%	-26.3%	-11.9%	-5.1%	46.9%	131.9%
S&P/TSX Composite TR	-4.0%	-21.8%	-33.6%	-8.0%	5.3%	15.8%	40.4%
MSCI EAFE TR	-1.8%	-14.2%	-29.9%	-6.3%	-13.4%	22.8%	61.4%

**Not Total Return*

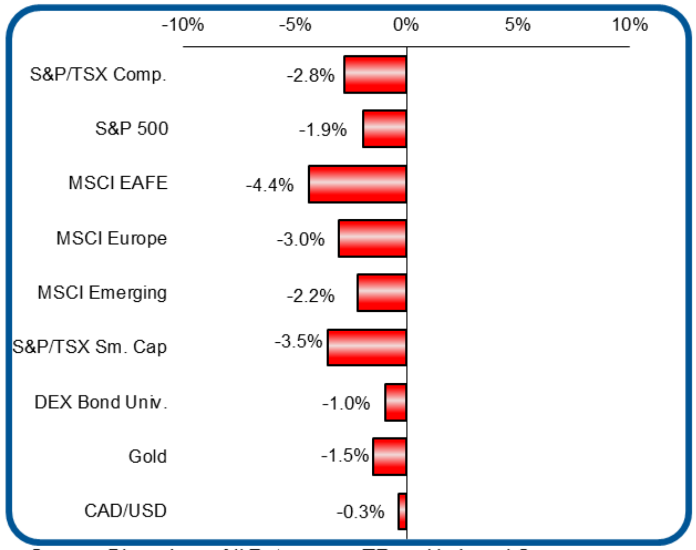
Source: Bloomberg

Our advice is to let short-term traders grapple with what the ramifications of a Grexit might be for Spanish bonds, crude oil and the stock market. Retail investor should be most concerned about sticking with the plan they've established with their financial advisor. During times like this, going back to the old Rolling Stones collection and putting "Time Is On My Side" not only makes for good listening, but good advice too.

MONTHLY OVERVIEW

Most major equity markets posted losses during June. The S&P/TSX Composite Index closed down 2.8% for the month, wrapping up the second quarter with a 1.6% loss overall; however, the index remained slightly higher on a year-to-date basis. Turning to the U.S., the S&P 500 also experienced a modest loss, shedding 1.9%. In Europe, amidst the backdrop of the Greek debt crisis, the Stoxx Europe 600 Index shed 4.6%. After posting a 50% year-to-date gain to the start of June, the Shanghai Composite Index lost 7.3% during the month.

1 MONTH RETURNS



Source: Bloomberg, All Returns are TR and in Local Currency

The spotlight throughout June was on the drama surrounding the Greek debt crisis. In order to extend the bailout program, creditors of the highly indebted nation had permitted it to roll its four IMF payments due in June, totalling €1.6B, into a single payment at the end of the month. Under the proposed extension, Athens would have received access to an additional €10.9B in aid to help remain solvent over the period. Rounds of negotiations carried on, as the Syriza government stood firm with its appeals that Greece be forgiven a large portion of its debt, whereas the IMF and other Eurozone creditors demanded more tax hikes and pension cuts. While Greece potentially moves closer to an exit from the Eurozone, the only known is that these developments are unprecedented and market caution surrounding these issues will likely continue.

Last week, the highly anticipated Canadian GDP figure for April was released, with the reading coming in at a 0.1% decrease; a disappointment versus analysts' expectations of a 0.1% increase. This data point is particularly significant given it marks the fourth consecutive monthly decrease in GDP growth this year. In the wake of the news of the economy's lackluster growth, investors are beginning to consider the likelihood of another rate cut this year by the Bank of Canada in order to provide more stimulus. The next Bank of Canada interest rate announcement is set for July 15 where it will also update its growth forecasts for the second quarter, which currently stands at 1.8%.

Turning to China, the stock market that had seen gains of over 50% at the beginning of June, has since given way to large selloffs. The reality of the economic slowdown faced by the country may finally be setting in. Exports, a key driver to the economy, experienced a third consecutive monthly decline, falling by an annualized rate of 2.5% in May, after a 6.4% decrease in April. Imports also fell 17.2% and 16.2% in May and April. The drop in exports could be explained in part by a stronger yuan; however the reverse effect was not experienced on imports. In addition, CPI increased 1.2% from a year earlier, below the 1.5% rise in April and below the forecast of 1.3%. Producer prices also fell, for a 38th consecutive month, to 4.6% from a year earlier; suggesting that deflationary pressure may be strengthening. Towards the end of June, the People's Bank of China took drastic steps to prop up the market which, included an additional quarter-point rate cut and further lowering banks' reserve requirements; this is coupled with a move by the finance and social security ministries to allow pension funds to invest up to 30% of their net asset values into securities, potentially freeing up 600B yuan.

The macro picture in the U.S. is much rosier. Retail sales rose strongly in May, jumping 1.2% month-over-month. This comes after upwardly revised gains of 0.2% and 1.5% in April and March, respectively. Improved retail sales growth provides evidence that the effects of the harsh winter on consumer spending may be diminishing. Existing home sales have also picked up, exhibiting increased demand, as data for May showed an increase of 5.1% over the year, marking the highest level of resale activity since November 2009. In addition, the Fed's preferred inflation measure, personal consumer expenditure, increased by 0.9%, which was stronger than expected and reflects positively on the possibility of improving growth.

MARKET OUTLOOK

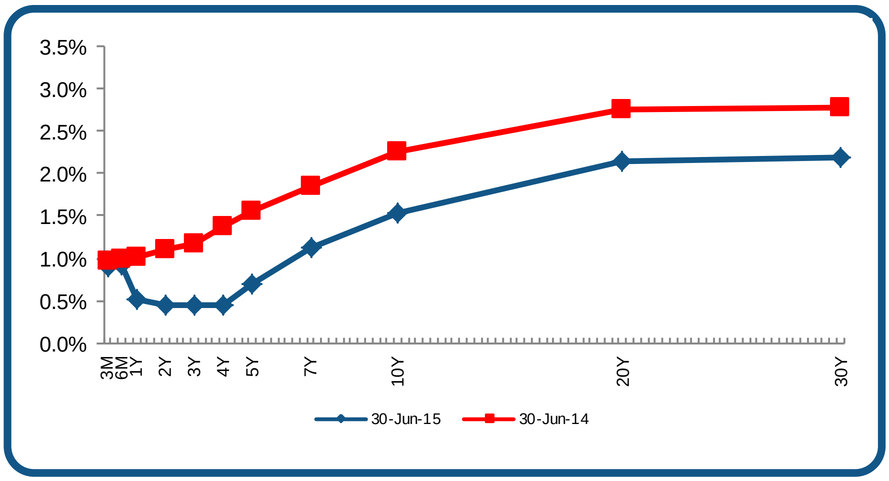
Moving forward, a market focus in the West will be on how the Fed views the international issues at hand as a precondition to rate hikes. In Canada, the BoC is expected to revise its Q2 growth forecast downward at the next meeting; average monthly GDP gains of 0.3% in May and June would be needed to end Q2 in the green.

Monthly Market Statistics: June 2015

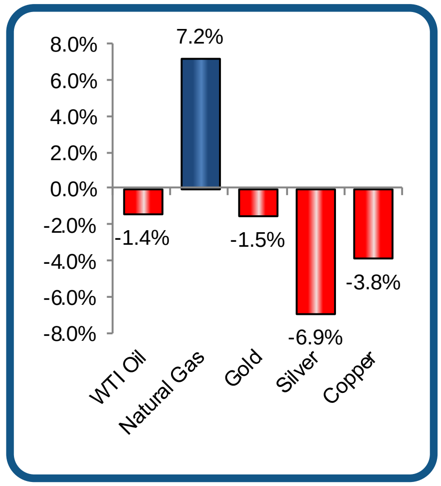
Total Return Index Returns (Annualized After One Year)

	Local Currency Returns							Canadian Dollar Returns						
	1M	3M	6M	YTD	1YR	3YR	5YR	1M	3M	6M	YTD	1YR	3YR	5YR
TSX Composite	-2.8%	-1.6%	0.9%	0.9%	-1.2%	11.1%	8.3%	-2.8%	-1.6%	0.9%	0.9%	-1.2%	11.1%	8.3%
S&P 500	-1.9%	0.3%	1.2%	1.2%	7.4%	17.3%	17.3%	-1.8%	-1.3%	8.8%	8.8%	25.7%	25.5%	21.2%
MSCI EAFE	-4.4%	-1.6%	9.2%	9.2%	12.3%	18.6%	11.8%	-2.7%	-0.7%	13.8%	13.8%	12.6%	20.3%	13.6%
MSCI World	-2.9%	-0.5%	4.5%	4.5%	9.0%	17.7%	14.4%	-2.1%	-1.1%	10.6%	10.6%	19.3%	23.0%	17.5%
MSCI Pacific	-3.4%	2.3%	12.1%	12.1%	21.9%	24.3%	13.6%	-2.2%	-0.4%	17.1%	17.1%	20.5%	19.2%	12.6%
MSCI Emerging	-2.2%	0.8%	5.8%	5.8%	6.6%	9.0%	7.3%	-2.4%	-0.7%	10.8%	10.8%	11.5%	11.4%	7.4%
TSX Small Cap	-3.5%	1.3%	1.1%	1.1%	-16.4%	4.1%	3.2%	-3.5%	1.3%	1.1%	1.1%	-16.4%	4.1%	3.2%
Global Small Cap	-1.5%	0.8%	7.7%	7.7%	8.7%	20.0%	16.3%	-0.7%	0.0%	14.1%	14.1%	19.4%	25.2%	19.2%
CDA Bond Uni.	-0.6%	-1.7%	2.4%	2.4%	6.3%	3.8%	5.1%	-0.6%	-1.7%	2.4%	2.4%	6.3%	3.8%	5.1%
CDA 1-5 Yr Bond	7.8%	0.2%	2.1%	2.1%	3.4%	2.7%	3.0%	7.8%	0.2%	2.1%	2.1%	3.4%	2.7%	3.0%

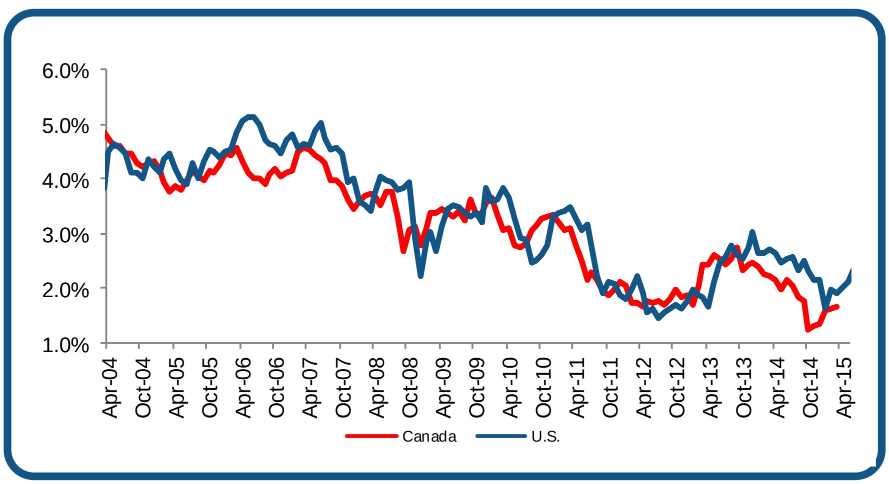
Canadian Yield Curve



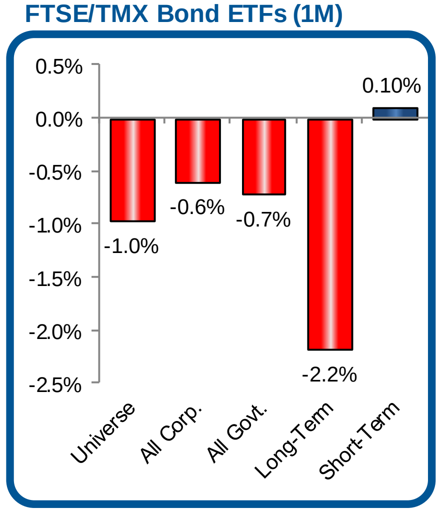
Commodities Performance (1M)



10YR Government Bond Yields



FTSE/TMX Bond ETFs (1M)



Source: Bloomberg, iShares.ca

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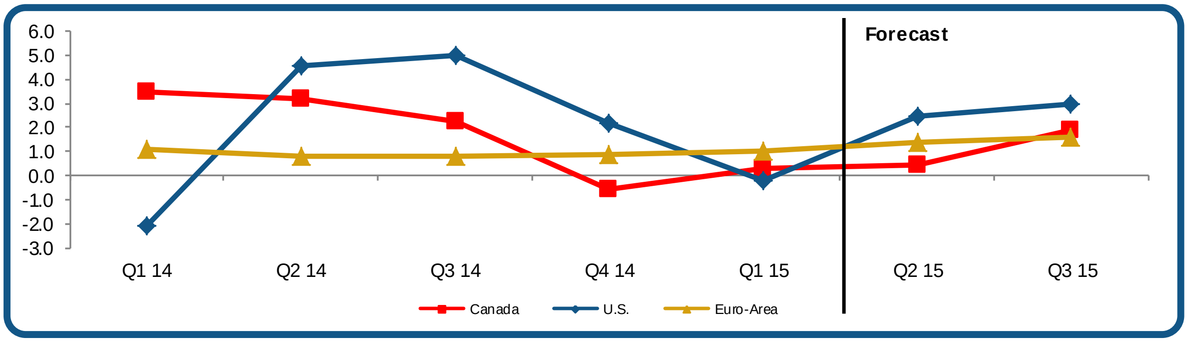
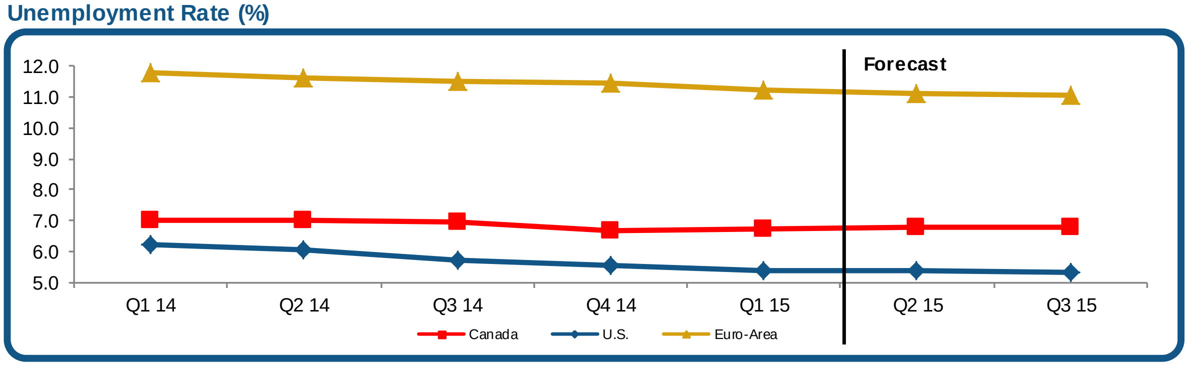
Economic Statistics

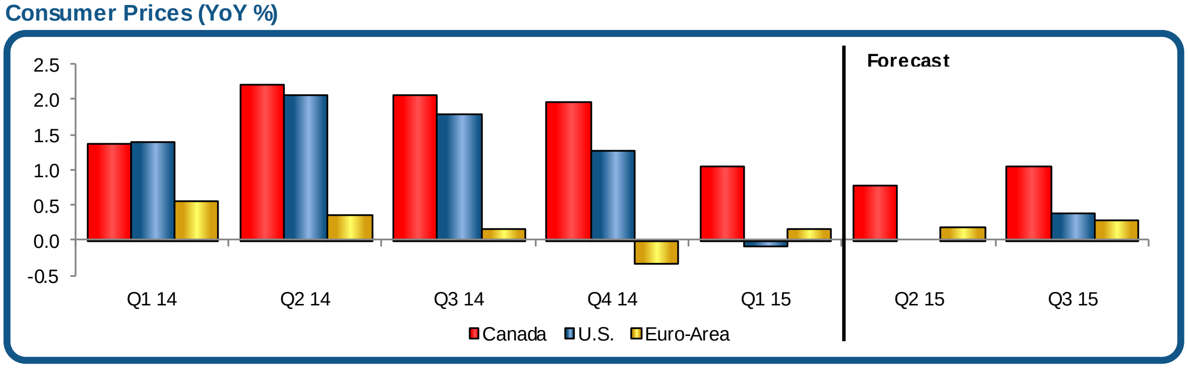
Real GDP (%)



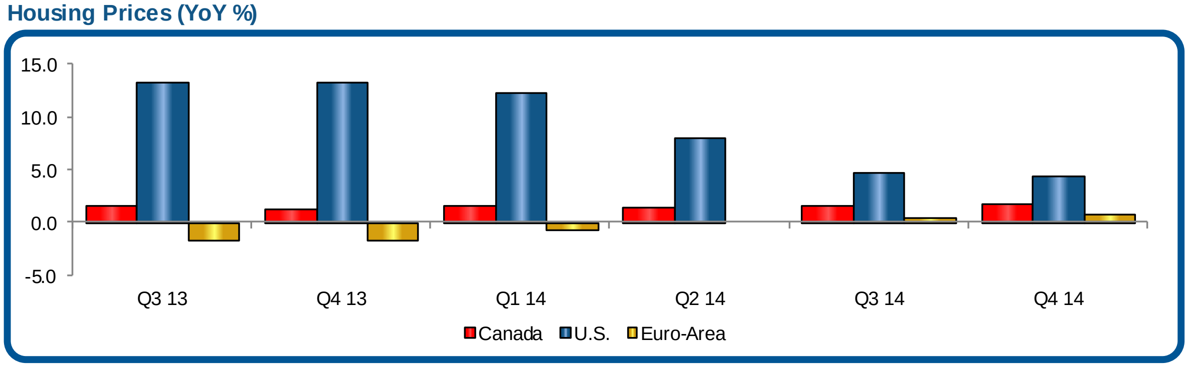
Unemployment Rate (%)



Consumer Prices (YoY %)



Housing Prices (YoY %)



Source: Bloomberg

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