

# MONTH IN REVIEW



## May 2019

Global equities declined as U.S.-China trade tensions escalated in May, prompting fears about risks to global growth momentum.

The U.S. government's announcement that it would raise tariffs on \$200 billion worth of Chinese imports caught markets off guard. Officials on both sides had previously indicated that a trade deal was being worked out. China retaliated by hiking tariffs on \$60 billion worth of U.S. goods and also threatened to block exports of rare earth metals. The U.S. President also announced his plan to impose tariffs on Mexican imports.

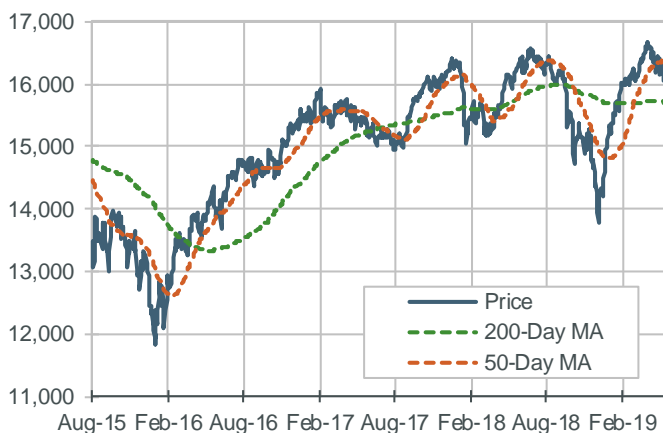
Elsewhere, Britain is at increased risk of a no-deal Brexit and a further slowdown in growth after Prime Minister Theresa May announced her resignation. Worries about a potential budget standoff between Italy and the European Union also dampened investor confidence.

In fixed income, U.S. Treasury bond yields declined (and prices rose) as investors sought safe-haven assets due to continued uncertainty about the outlook for global growth.

Indexes	Close	Monthly	YTD
S&P/TSX	16,037.49	-3.28%	11.97%
S&P500	2,752.06	-6.58%	9.78%
NASDAQ	7,453.15	-7.93%	12.33%
DJIA	24,815.04	-6.69%	6.38%
Russell 2000	1,465.49	-7.90%	8.67%
FTSE 100	7,161.71	-3.46%	6.44%
Euro Stoxx 50	3,280.43	-6.66%	9.30%
Nikkei 225	20,601.19	-7.45%	2.93%
Hang Seng	26,901.09	-9.42%	4.08%
Shanghai Comp.	2,898.70	-5.84%	16.23%
MSCI ACWI	492.12	-6.23%	8.00%
MSCI EM	998.00	-7.53%	3.34%
Fixed income	Close	Monthly	YTD
FTSE Canada Uni.	1,109.88	1.69%	5.56%
BBG Global Agg.	494.62	1.35%	3.28%
TSX Pref	1,460.55	-3.00%	-1.72%
Bond yields	Close	Monthly	bps chg
10 yr Canada Govt.	1.49%	-22.4	-47.9
10 yr U.S. Govt.	2.12%	-37.7	-56.0
30 yr Canada Govt.	1.77%	-22.3	-41.7
30 yr U.S. Govt.	2.57%	-36.0	-44.6
Commodities	Close	Monthly	YTD
Oil	53.50	-16.38%	13.11%
Natural gas	2.45	-6.23%	-11.09%
Gold	1,305.58	1.72%	1.80%
Silver	14.59	-2.40%	-5.81%
Copper	264.00	-9.09%	-0.04%
Currencies	Close	Monthly	YTD
CAD/USD	0.7398	-0.94%	0.93%
USD/EUR	0.8953	0.40%	2.66%
CAD EUR	0.6623	-0.56%	3.58%
USD/JPY	108.2900	-2.81%	-1.28%
USD/CNY	6.9050	2.53%	0.39%
USD/MXN	19.6165	3.54%	-0.17%
GBP/CAD	1.7078	-2.15%	-1.87%
GBP/USD	1.2629	-3.09%	-0.98%

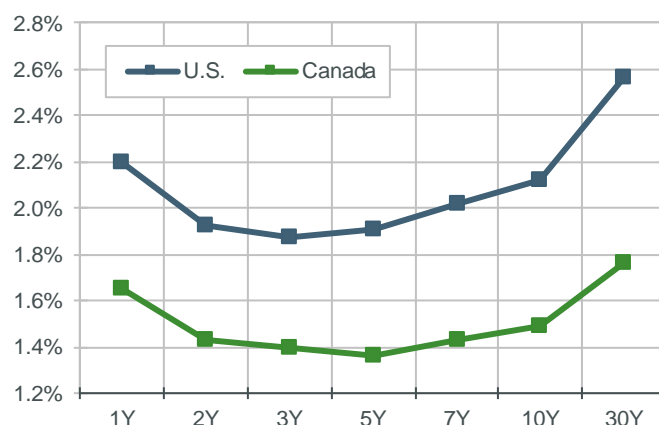
\* Please refer to Appendix for the above table in Canadian dollar terms.

## S&P/TSX Composite Index



Source: Bloomberg, DataStream.  
Index returns are in local currency. All equity indexes are price returns and do not include dividends.

## Treasury yield curves



Economic indicators	Period	Survey	Actual	Prior period
Canada GDP (MoM)	March	0.4%	0.5%	-0.2%
Canada unemployment rate	April	5.8%	5.7%	5.8%
Canada CPI (YoY)	April	2.0%	2.0%	1.9%
U.S. GDP annualized (QoQ)	Q1	3.0%	3.1%	3.2%
U.S. CPI (MoM)	April	0.4%	0.3%	0.6%
U.S. trade balance	March	-\$50.1bn	-\$50.0bn	-\$49.3bn
Eurozone GDP (QoQ)	Q1	0.4%	0.4%	0.4%
China manufacturing PMI	May	49.9	49.4	50.1

## Canada

Rising U.S.-China trade tensions weighed on Canadian equities. At a sector level, health care and consumer discretionary stocks came under pressure. Falling oil prices weighed on energy stocks. Conversely, information technology and utilities sectors ended the month posting positive returns.

At its latest policy meeting, the Bank of Canada left its benchmark rate of interest unchanged. The central bank also noted some early signs of a broad-based recovery in the Canadian economy. A resolution to the trade dispute with the U.S. and the likely approval of the USMCA was also seen in a positive light.

## U.S.

U.S. equities pulled back sharply over the month as investors fretted over U.S. trade relations with China and Mexico, and the implications for the global economy. The U.S. raised tariffs on \$200 billion of Chinese imports to 25%, from 10%, and threatened to impose tariffs on an additional \$325 billion of Chinese imports – essentially, the remainder of goods that the U.S. imports from China. The Trump administration effectively banned U.S. companies from doing business with China-based telecommunications company Huawei. Increasing U.S.-China trade tensions have proved problematic for Apple and several large chipmakers that have large parts of their supply chain in China.

Investor sentiment further weakened after the U.S. government announced plans to implement a 5% tariff on Mexican goods beginning June 10,

that will gradually increase to 25% by October. This move is aimed at pressuring Mexico to stop the flow of illegal immigration to the U.S. Shares of auto companies, such as General Motors and Ford, slipped, given their exposure to Mexico.

The U.S. Treasury yield curve inverted; that is, the yield of the ten-year U.S. Treasury note fell below that of the three-month T-bill. This event has historically been viewed as an indicator of a likely recession in the U.S. economy.

## Rest of the world

Continuing U.S.-China trade tensions and Brexit-related uncertainty dragged on major European markets. U.K. Prime Minister Theresa May announced her resignation after she was unable to have her Brexit deal approved by the British Parliament.

Meanwhile, Chinese equities slumped on faltering trade talks with the U.S. Rhetoric on both sides worsened in May. China threatened to ban rare earth exports to the U.S. Given the U.S.' heavy reliance on these minerals in its supply chains, such a move could cripple the American tech, defence and manufacturing industries.

## Looking ahead

Economic indicators	Date	Survey	Prior period
Canada unemployment rate	7-June	5.7%	5.7%
Canada housing starts	10-June	-	235.5K
Canada CPI inflation (YoY)	19-June	-	2.0%
Canada retail sales (MoM)	21-June	-	1.1%
Canada GDP (YoY)	28-June	-	1.4%
U.S. trade balance	6-June	-\$50.6bn	-\$50.0bn
U.S. change in nonfarm payrolls	7-June	185k	263k
U.S. unemployment rate	7-June	3.6%	3.6%
U.S. CPI (YoY)	12-June	1.9%	2.0%
U.S. GDP (QoQ)	27-June	-	3.1%

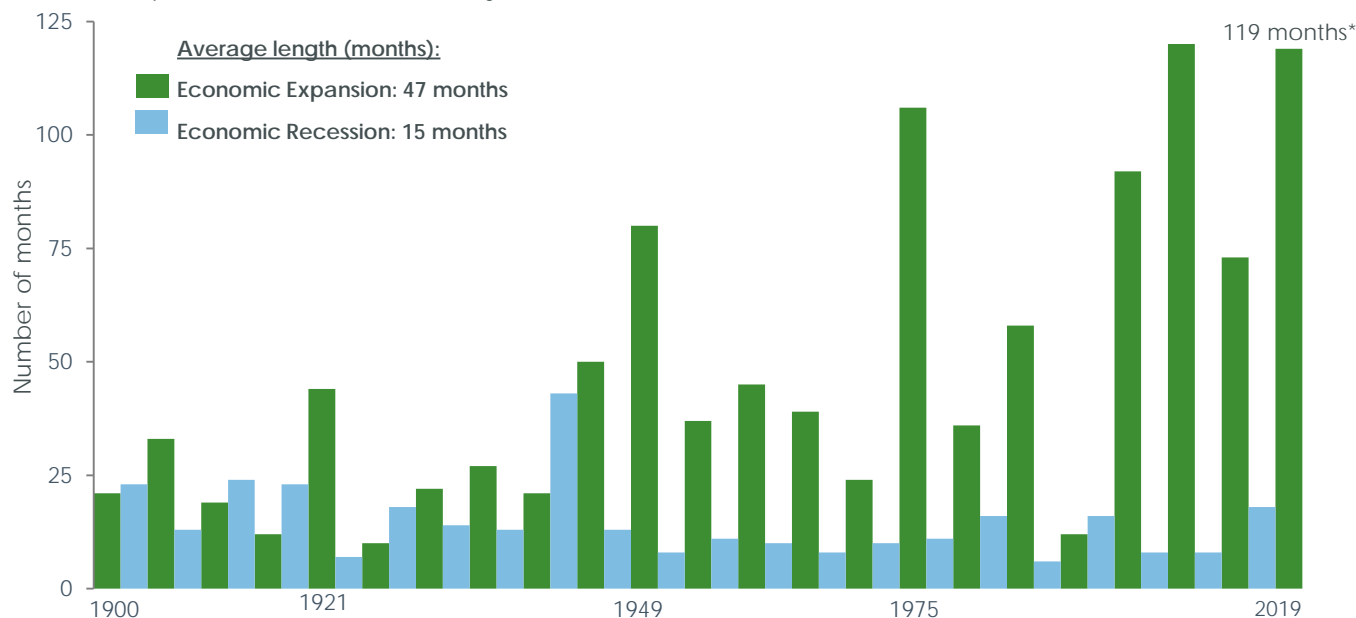
Central bank meetings			
Central banks	Date	Probability of change	Current rate
European Central Bank	6-Jun-19	-0.3%	0.00%
Federal Open Market Committee	19-Jun-19	-16.6%	2.50%
Bank of Japan	20-Jun-19	-14.7%	-0.10%
Bank of England	20-Jun-19	-0.1%	0.75%
Bank of Canada	10-Jul-19	-9.1%	1.75%

Source: Bloomberg, June 5, 2019. Probability of change implies the possibility of a central bank hiking interest rates during their upcoming meeting. A negative number in this case means chances of a rate cut rather than a hike.

## Spotlight

### Recessions vs. expansions

Economic expansions often last much longer than recessions (periods of significant decline in economic activity spread across the economy). The chart shows that since 1900, the average expansion has been approximately 47 months, and the average recession ended after around 15 months. The current expansion is among the most sustained periods of economic expansion, but there is little evidence that an age of economic expansion must lead inevitably to a recession.



Source: The National Bureau of Economic Research, as of May 2019. \*Chart assumes current expansion started in July 2009 and continued through May 2019, lasting 119 months so far. Expansions start at the trough of a business cycle and end at the peak. Recessions (contractions) start at the peak of a business cycle and end at the trough.

# Appendix

## Global markets (Returns in Canadian dollar terms)

Indexes	Close	Monthly	YTD
S&P/TSX	16,037.49	-3.28%	11.97%
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Commodities	Close	Monthly	YTD
Oil	72.32	-15.59%	12.07%
Natural gas	3.32	-5.34%	-11.90%
Gold	1,764.56	2.67%	0.89%
Silver	19.70	-1.63%	-6.69%
Copper	356.85	-8.23%	-0.96%
Currencies	Close	Monthly	YTD
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