Market Matters

AUGUST 2014 HIGHLIGHTS

- Equity markets pushed higher, pausing only briefly mid-summer in response to heightened geopolitical concerns.
    - S&P 500 closed above the 2000 threshold for the first time ever on August 26th.
    - The S&P/TSX closed at an all-time high of 15,625.73 late in August, and its monthly gain of 1.9% was its 13th monthly gain of the last 14 months.
- Defying consensus expectations for 2014, fixed income indices saw strong performance across the board as sovereign bond yields continue to fall.
    - Mid and long-term bonds performed best, while investment grade corporate bonds continued their positive momentum.
- Central banks are ultra-accommodative in an effort to renew, and/or sustain, economic growth.
    - The Bank of Canada held its overnight rate at 1%, the same level it has held for the last four years.
    - The U.S. Federal Reserve also stuck to its ultra-low 0.25% overnight rate (since Dec.2008).
    - The European Central Bank cut its benchmark interest rates to new record lows (in early September 2014) and remains poised to introduce quantitative easing as economic growth weakened.
- Increasingly improving North American economies are separating from the rest of the major overseas economies:
    - Economic data improved in Canada and the U.S., exceeding expectations on housing, manufacturing, services, durable goods, payrolls, and overall GDP growth.
    - Europe and Japan are struggling again, the outlook for Chinese growth has weakened, and a number of emerging markets find themselves on shaky ground.
- In contrast to the strong equity markets, oil prices weakened as North American oil production remains strong, Middle Eastern conflicts have not significantly affected oil production in the region, and fears of declining demand for oil out of Europe and China emerged.

Table 1
Summary of major market developments

Market returns*	August	YTD
S&P/TSX Composite	1.9%	14.7%
S&P 500	3.8%	8.4%
- in Canadian dollars	***3.5%***	***10.8%***
MSCI EAFE	0.7%	1.8%
- in Canadian dollars	***-0.7%***	***2.7%***
MSCI Emerging Markets	1.8%	7.7%
FTSE TMX Canada Universe Bond Index**	1.1%	6.6%
FTSE TMX Canada Corporate BBB Bond Index***	0.8%	7.6%

*Local currency (unless specified); price only
**Total return, Canadian bonds, previously known as DEX Universe Bond Index
***Total return, Canadian bonds, previously known as DEX Corporate BBB Bond Index

Table 2
Other price levels/change

	Level	August	YTD
CAD per USD exchange rate	$0.919	0.2%	-2.4%
Oil (West Texas)*	$95.96	-2.3%	-2.5%
Gold*	$1288	0.4%	6.8%
Reuters/Jefferies CRB Index*	$292.75	-0.6%	4.5%

*U.S. dollars

Table 3
Sector level results for the Canadian market

S&P/TSX Composite sector returns*	August	YTD
S&P/TSX Composite	1.9%	14.7%
Energy	3.2%	20.2%
Materials	0.3%	16.9%
Industrials	4.1%	19.7%
Consumer discretionary	6.2%	16.1%
Consumer staples	2.1%	18.8%
Health care	0.6%	2.4%
Financials	0.5%	11.4%
Information technology	0.8%	15.6%
Telecommunication services	1.5%	4.2%
Utilities	1.9%	8.0%

*Price only
Source: Bloomberg, MSCI Barra, NB Financial, FTSE TMX Global Debt Capital Markets Inc.

Geopolitical headlines have been a constant distraction this summer as crisis or near-crisis conditions unfolded within Ukraine, Iraq, and the Israel/Gaza zone. And yet capital markets (usually rattled by such unrest) perplexed market watchers with a mix of ‘risk-on’ and ‘risk-off’ signals.

RISK-ON EQUITIES

Equity markets marched forward, quickly recovering from the slight stumble at the end of July. North American stock markets found support in positive earnings momentum, benign interest rate environment, and improving macro economic backdrop. Canadian and U.S. second quarter annualized GDP readings came in better than expected at 3.1% and 4.2% respectively, reflecting a nice rebound from snow-bound first quarter readings.

The risk-on attitude of equity investors brought the S&P 500 bull market into its 66th month (the fourth longest since 1928), and pushed it to all-time highs, past the 2,000 level and a long, long way from its infamous 666 intraday low in March 2009.

Canadian stocks continue to outperform in 2014, up 14.7% and also setting a new record close of 15,625.73. In Canada, corporate earnings have increased notably since the beginning of the year and economic data on consumer spending, housing and exports are showing strength. Perhaps a more encouraging point to make is that there is growing evidence that Canada is finally benefiting from the upswing in U.S. activity, as well as a lower dollar and thus more competitive exchange rate.

The Canadian stock story that caught the most attention this month was the whopper of a deal (yes, of course the pun was intended) that Burger King will acquire Tim Hortons, creating the world’s third largest fast-food empire. Both stocks surged in August on the news.

RISK-OFF FIXED INCOME

The seemingly never-ending bond love affair continued over the summer as fixed income markets told a decidedly risk-off story. The decline in long-term government bond yields has puzzled many investors in 2014. The 10-year Government of Canada bond yield fell to 2.00%, the lowest level since the end of May 2013 and down from 2.8% at the start of the year. The U.S. 10-year Treasury bond wrapped up the summer month at 2.3%.

Rates are being influenced by many factors including the various geopolitical risks already mentioned within this report driving a flight to safety response. Many also point to the paltry yields on European government debt, making North American yields, where we have an improving (and contrasting) economic backdrop, look attractive in comparison. Demand for intermediate and long-term North American government bonds has been high and has driven yields lower despite some strong economic data. A theme that could continue as the Eurozone’s economic growth struggles and short-term inflation expectations are at record lows.

The situation in Ukraine remains tenuous and further economic sanctions could derail an already faltering recovery in the Eurozone. The yield on 10-year German government bonds, called bunds, reached a record low of 0.88% in August.

SEPTEMBER’S BALANCING ACT

New schedules, old schedules, re-adjusting to having a schedule…it all happens in September, making it one of the most challenging months of the year to find your ideal work/life balance. Strong capital markets, like those we had this summer, can also make it difficult to remember the importance of finding the right balance for our investment portfolios. Even well-diversified portfolios will experience imbalances as different investments ebb and flow over time. Take the time to meet with your favourite investment teacher/guidance counsellor/coach/advisor to ensure that you’ve got the right balance of cash, fixed income and equity holdings to comfortably meet your investment goals, risk tolerances and time horizons. Of course you can do this anytime, but trust us when we say ‘it’s more fun to do when markets are up’!