Market Matters

APRIL 2014 HIGHLIGHTS

- Month-end results masked the challenging trading environment in April.
- Global equity markets experienced significant volatility within the month, affected by the escalating conflict in Ukraine, a re-pricing of the high-flying tech companies, uncertainty (and later relief) over corporate earnings and economic data results.
- The S&P/TSX composite index continued to be a strong performer among peers and posted its tenth-straight monthly gain in April. The Energy sector led the way.
- In the U.S., economic data released showed evidence that the economy was in fact emerging from the weather-imposed drag – helping to move equity markets back into positive territory, if only mildly.
- Income generation, continued demand, and even a slight drop in long-term yields, has resulted in healthy Canadian fixed income returns thus far in 2014.

ON THE WATCH LIST

Throughout the month the Russian/Ukraine crisis grew in both rhetoric and military operations. While the world is watching, Europe's economic ties to Russia are much greater than those of the U.S. or Canada. As a result, pressure applied via economic sanctions will have the greatest impact on the European economy, and additional pressures could stress their still-fragile recovery, which in turn may affect global economies. As such, ongoing uncertainty and concern over events are likely to evoke continued market volatility in the near future.

APPLE STANDS OUT

In the U.S., long-feared market words like 'bubble' were bandied about in relation to the information technology sector. Tech stocks experienced significant volatility – primarily to the downside, as investors questioned the prices they were willing to pay for projected future earnings versus actual current earnings. However, one company was a stand-out exception. Apple's corporate earnings beat expectations, they increased their quarterly buybacks to a record level of $18billion USD ($16billion was the previous record set in Q2 2013 by, you guessed it, Apple) and increased their dividend

Table 1
Summary of major market developments

Market returns*	April	YTD
S&P/TSX Composite	2.2%	7.6%
S&P 500	0.6%	1.9%
- in Canadian dollars	*-0.2%*	*5.0%*
MSCI EAFE	0.9%	0.7%
- in Canadian dollars	*0.3%*	*4.2%*
MSCI Emerging Markets	-0.4%	-1.3%
FTSE TMX Canada universe bond index **	0.5%	3.3%
FTSE TMX Canada corporate BBB bond index ***	0.6%	4.4%

*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	April	YTD
CAD per USD exchange rate	$0.912	0.8%	-3.1%
Oil (West Texas)*	$99.74	-1.8%	1.3%
Gold*	$1294	0.5%	7.3%
Reuters/Jefferies CRB Index*	$309.53	1.6%	10.5%

*U.S. dollars

Table 3
Sector level results for the Canadian market

S&P/TSX Composite sector returns*	April	YTD
S&P/TSX Composite	2.2%	7.6%
Energy	5.4%	14.6%
Materials	0.3%	9.6%
Industrials	2.6%	4.5%
Consumer discretionary	1.8%	5.6%
Consumer staples	2.8%	9.9%
Health care	-2.3%	10.0%
Financials	1.3%	3.2%
Information technology	2.6%	8.3%
Telecommunication services	-0.7%	2.3%
Utilities	0.6%	8.2%

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

rate. All this pleased investors very much and the stock was up an impressive 9.9% in month – pulling the entire sector's results up into positive territory.

ENERGY FUELS STRONG RESULTS

The Canadian stock market was a leader among developed markets, fuelled by the strong performance of the Energy sector. Tailwinds for both oil and natural gas continued to play out in April as they have for much of 2014.

OIL: The take-away capacity of Canadian oil has significantly increased over the course of several months. A combination of new pipelines, increased transport of oil by rail and greater refining capabilities has eased the logjam affecting the movement of oil downstream toward the end-users. Consider that estimates for the next year are for over 800,000 barrels of Canadian oil to travel by rail per day. That's more capacity than is projected for the entire southern leg of the Keystone XL project.

The improved take-away capacity has raised the price of Canada's oil to be much closer in line with the price of oil refined primarily in the Midwest and Gulf Coast regions in the U.S. At its widest price differential, Canada's oil sold at a $42.50 USD discount on December 14, 2012, whereas at the end of April that price differential had narrowed to an $18.75 USD discount (source: Bloomberg. West Texas Intermediate spot price - Western Canada Select spot price).

With little change to fixed costs (i.e. wage, production costs), the benefit of the improvement in relative price should flow through to the energy companies bottom line. Likewise, Canadian oil producers have benefited from the additional boost of a weaker Canadian dollar as the oil is sold in U.S. dollars and then converted back to Canadian dollars.

NATURAL GAS: Natural gas prices rose nearly 7% in April (up 10% so far this year). The jump in prices is directly related to the weather, as the chilly winter polar vortex dropped temperatures, increased household heating demands, and diminished inventories of natural gas across North America. While spring is now upon us, estimates suggest it will be months before those reserves can be built back up to normal levels. This has put natural gas providers in the unique position of having high, steady demand for their product for months to come – an advantage not lost on investors as has been reflected in the rising share prices of natural gas producers.

PACKING AN UMBRELLA

The movement in bond yields this year has, by and large, been range bound in both the U.S. and Canada, allowing for the income generating characteristics of bonds to continue to create decent returns. In April, long-term yields even dropped slightly as a result of continued uncertainty (from both a geopolitical and economic growth front). Meanwhile, the continued interest and investor demand (ranging from large pension plans to the large aging demographics in North America) for fixed income and yield products has kept a lid on rising interest rates.

The message is really one of balance and understanding the characteristics of each asset class held within a portfolio. Fixed income is not only a source of growth (which can wane in a rising interest rates environment), but the income generation can act as a stabilizing factor that mitigates equity market volatility and provide a measure of protection in periods of economic uncertainty. Bonds are to the investment market place as umbrellas are to springtime weather. They go for cheap on sunny days, but their value dramatically increases when the clouds roll in.