MONTHLY

InvestmentMonitor

MAY 2014

April in Review

Canadian markets continued to trend higher in April with the S&P/TSX Composite Index rising 2.42%, after climbing 6.06% in the first quarter. Bonds were flat for the month, up marginally but continuing to post gains for the year. U.S. markets, as represented by the S&P 500 Index, closed slightly lower, down 0.07% in Canadian dollar terms. Developed markets inched up 0.26%, while emerging markets retreated 0.44%.

Weather woes hit the economy The Bank of Canada (BoC) reduced its growth forecast for 2014 to 2.3% from 2.5%, due to the harsh winter. With this in mind, the BoC elected to keep the overnight interest rate at 1.0%, with the expectation that the lower rate will help continue to stimulate borrowing and spending among consumers, which the BoC believes the economy needs for continued growth.

Economic engine keeps humming According to Statistics Canada, manufacturing sales hit their highest level since right before the recession began in July 2008, rising 1.4% to $51.2 billion in February. Transportation equipment, petroleum and coal products all had higher sales and were the main contributors to the gain.

U.S. delays Keystone XL pipeline decision again The U.S. has delayed making a decision on whether or not to approve the Keystone XL pipeline until after the November mid-term elections. This pipeline would connect oil producers in Alberta, which lacks refining capacity, to refineries in the Gulf Coast who have the capacity to process the oil. The pipeline is currently being debated by supporters who argue the pipeline would reduce U.S. dependence on Middle East oil, and by opponents who argue that the pipeline would pose a danger to the environment.

Europe is carefully watching inflation data European Central Bank (ECB) President Mario Draghi is closely watching the inflation numbers for signs of weakness, and said that if the outlook worsens, the ECB will take action. Similar to the response used by the U.S. Federal Reserve Board in 2008, the ECB would utilize broad-based asset purchases as a way to combat a prolonged period of low inflation.

Sanctions take effect on Russian economy The crisis in Ukraine is starting to impact the Russian economy, with capital flight and sanctions weighing on first quarter growth. Economic activity slowed dramatically in Q1, with GDP growth coming in at 0.8%, a fraction of the 2.5% forecast by the Russian Economic Development Ministry. Faced with uncertainty over the last few months, investors have pulled their money out of Russia, which has added to the downturn.

Words from the Wise

"Those who invest with patience will be rewarded in time, as they always have been."

Jason Gibbs, *Portfolio Manager, Scotia Canadian Dividend Fund, April 2014*

INDEX (C$)†	1 Mth	Change (%) YTD	1 Yr	Index Level
Treasury bills‡ (FTSE TMX Canada 60 Day T-Bill)	0.06	0.28	0.96	156
Bonds‡ (FTSE TMX Canada Universe Bond)	0.51	3.29	0.21	912
Canadian equities (S&P/TSX Composite)	2.42	8.63	21.29	14,652
U.S. equities (S&P 500)	-0.07	5.67	30.91	2,063
Global equities (MSCI World)	0.26	5.60	27.43	1,848
Emerging markets (MSCI EM)	-0.44	3.04	7.08	1,090

CURRENCIES†	1 Mth	Change (%) YTD	1 Yr	Exchange Rate
C$/US$	0.81	-3.09	-8.10	0.9123
C$/ Euro	0.09	-3.96	-12.74	0.6578
C$/ Pound	-0.44	-4.89	-15.40	0.5407
C$/ Yen	-0.16	-5.90	-3.59	93.2680

COMMODITIES (US$)†	1 Mth	Change (%) YTD	1 Yr	Price
Gold Spot ($/oz)	0.59	7.12	-12.54	1,291.55
Oil WTI ($/barrel)	-1.81	1.34	6.72	99.74
Natural Gas ($/MMBtu)	10.16	13.83	10.87	4.82

† As at April 30, 2014. Source: Bloomberg

‡ As part of FTSE TMX Global Debt Capital Markets' new naming convention, the DEX 60 day T-Bill Index has been renamed FTSE TMX Canada 60 Day T-Bill Index and the DEX Universe Bond Index has been renamed FTSE TMX Canada Universe Bond Index.

Scotiabank®

Two sides to every coin

While Canadians pay particular attention to the exchange rate between Canada and the U.S. when planning a vacation, Canadian businesses pay attention to currency movements on an ongoing basis. Unlike the Canadian traveller who is generally rooting for a strong Canadian dollar, for business, the balancing act is not as clear cut.

Impact on business

When the loonie strengthens against the U.S. dollar, products and services can be purchased from the U.S. at a lower price. This can positively impact businesses that are focused on importing, as a favourable currency exchange allows importers to price their goods more competitively and gives consumers the opportunity to potentially pay reduced prices. Travellers will notice that their money goes a little further while on vacation.

On the flip side of the coin, exporters generally prefer a weaker Canadian dollar when compared to importers, as it makes Canadian goods more affordable for U.S. customers and means better margins for the exporter after converting back to Canadian dollars. And scale matters. For large, global exporters, even a small drop in the Canadian dollar can have a significant impact on profits.

Impact on investors

It's not just tourists and businesses that are impacted by currency changes either. For investors holding U.S. investments in Canadian dollars, as long as the unit price stays the same, goes up, or drops less than the difference in the exchange rate, those assets increase in value when the U.S. dollar rises and the Canadian weakens.

When thinking about foreign exchange rates, it really is a matter of perspective. While it is easy to think that a strong loonie is what we should be rooting for, in fact, the reality is a little more complex.

Did you know? ScotiaFunds with foreign securities may hedge currency exposure to help protect investors from the short-term effects of currency fluctuations.