

May in Review

It was a mixed month for global equities, as positive corporate earnings were offset by increased geopolitical concerns and ongoing global trade tensions. Geopolitical uncertainty following the U.S.'s decision to withdraw from the Iran nuclear deal pushed the price of WTI Crude Oil higher in early May. Early gains in crude were more than offset by potential increases in output by the Organization of Petroleum Exporting Countries (OPEC) and a surprise buildup in inventories in the U.S., with WTI Crude Oil ending the month 2.10% lower.

At the end of the month, the U.S. announced that a 25% tariff on steel imports and 10% tariff on aluminum imports will be imposed on the European Union, Canada and Mexico. The announcement added to weakness in European equities, but was not enough to offset gains in North American markets. The S&P/TSX Composite Index and S&P 500 Index finished the month up 3.12% and 2.41% respectively, with the majority of GICS sectors in both Canada and the U.S. positive for the month.

Canadian dollar declines as U.S. mulls auto tariffs, oil prices fall. The Canadian dollar retreated 0.89% against its U.S. counterpart in May, pressured by lower oil prices and the potential imposition of U.S. tariffs on auto imports. The Trump administration has launched a national security investigation into car and truck imports that could lead to new U.S. tariffs, similar to those imposed on imported steel and aluminum in March. Canada, a major exporter of autos and auto parts to the United States, could be hurt by any new auto tariffs or failure to reach a deal on NAFTA.

Solid economic data bolsters U.S. Treasuries. The U.S. Labor Department released a report in May indicating that the number of Americans on unemployment fell to its lowest level since 1973. The latest figures added to a growing narrative that the labour market is approaching full employment, with the jobless rate near a 17-year low of 3.9%. Amid the solid data, the yield on the benchmark 10-year Treasury climbed to 3.12%, its highest mark since July 8, 2011. Short-term rates also topped multi-year highs, with the yield on the two-year U.S. Treasury note reaching nearly 2.6%, its highest since August 2008.

Italy seeks end to political turmoil. European stocks staged a partial recovery late in May, buoyed by optimism that Italy may avoid a potentially damaging general election. The recovery was partly driven by news that Italy's two anti-establishment parties were renewing efforts to form a government, rather than force the country to the polls for the second time this year. The late-month gains came after a selloff in European equities when an attempt by the two parties to form a new government collapsed and raised the prospect of an early election.

Did you know?

Investors who earn less than the rate of inflation on their investments are challenged by reduced purchasing power when their investments are converted back to cash. Over the long term, this means that the cost of a comfortable retirement may keep climbing. To help ensure your investments will meet your long-term retirement needs, contact a Scotiabank advisor today.

INDEX [†]	1 Mth	Change (%) YTD	1 Yr	Index Level
Treasury Bill (FTSE TMX Canada 60 Day T-Bill)	0.11	0.47	0.88	161
Bonds (FTSE TMX Canada Universe Bond)	0.80	0.04	-0.98	1037
Canadian Equities (S&P/TSX Composite)	3.12	0.25	7.73	16,062
U.S. Equities (S&P 500, US\$)	2.41	2.02	14.37	2,705
Global Equities (MSCI World, US\$)	0.69	0.75	12.20	2,093
Emerging Markets (MSCI Emerging Markets, US\$)	-3.52	-2.57	14.42	1,121

CURRENCIES [†]	1 Mth	Change (%) YTD	1 Yr	Exchange Rate
C\$/US\$	-0.89	-2.99	4.19	0.77
C\$/Euro	2.39	-0.39	0.20	0.66
C\$/Pound	2.62	-1.41	1.01	0.58
C\$/Yen	-1.35	-6.33	2.35	83.98

COMMODITIES (US\$) [†]	1 Mth	Change (%) YTD	1 Yr	Price
Gold Spot (\$/oz)	-1.55	-1.41	0.69	1,304.70
Oil WTI (\$/barrel)	-2.10	12.18	36.65	67.04
Natural Gas (\$/MMBtu)	5.43	5.28	1.83	2.95

[†]Total Return, as at May 31, 2018. Indices are quoted in their local currency.
Source: Bloomberg

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