



## May Market Update: Stocks Rally with Geopolitics in Focus

North American stock markets advanced briskly in May, as rebounding oil prices and the easing of geopolitical tensions boosted appetite for riskier assets.

On the trade front, the Trump administration announced it will impose tariffs on steel and aluminum products from Europe, Mexico and Canada in a move that drew an immediate response.

In terms of monetary policy, the Bank of Canada (BOC) kept its benchmark interest rate on hold last month but gave a strong signal that rates could rise as early as July.

### Equities Rise

Wall Street and Canadian stocks rebounded sharply in May, as capital flowed back into riskier assets following a volatile three-month stretch. In New York, the major indexes gained between 1.3% and 4.4%, with the technology-heavy Nasdaq Composite Index reaching its highest level since March.

Canada's benchmark TSX Composite Index advanced 2.8% on the month, outpacing the S&P 500 Index and Dow Jones Industrial Average.

The TSX, which is overweight energy and financial stocks, benefited from oil's multi-year high and speculation that the central bank will raise interest rates more aggressively in the second half of 2018.

In delivering its rate verdict, the BOC acknowledged that economic growth picked up in the first quarter thanks to rising exports and investment. The upsurge in oil prices is also expected to produce stronger inflationary pressures in the near term, thereby justifying higher interest rates.<sup>i</sup>

### U.S.-North Korea Summit

A planned summit between U.S. President Donald Trump and North Korea's Kim Jong-un is back on after both sides threatened to walk away from negotiations last month. President Trump confirmed June 1 that the meeting will go ahead as planned in Singapore on June 12, though talks are expected to be high level.

Trump made the announcement after meeting with a top aide to Kim Jong-un in Washington late last week. The president said the summit is "going to be a process," adding that "relationships are building and that's a very positive thing."<sup>ii</sup>

U.S. Secretary of Defense James Mattis recently told a group of defense ministers that North Korea will get relief from international sanctions only when it gives up its nuclear arsenal. He warned that the U.S. and its allies “can anticipate at best a bumpy road to the negotiations.”<sup>iii</sup>

### Trade War?

In a surprise move, the Trump administration announced it will impose new trade tariffs targeting steel and aluminum from Canada, Mexico and Europe. The announcement triggered a landslide in global equity markets as Canada and the European Union announced swift countermeasures.

Prime Minister Justin Trudeau responded with a list of tariffs on more than 100 U.S. products ranging from food and drinks to home appliances. The tariffs are said to be worth up to \$16.6 billion and will come into force July 1.<sup>iv</sup>

China has threatened to withdraw from prior commitments to purchase more U.S. goods should the Trump administration go ahead with its plan to tax more than \$50 billion worth of Chinese goods.

“If the United States introduces trade sanctions including a tariff increase, all the economic and trade achievements negotiated by the two parties will not take effect,” China said in a statement via Xinhua News Agency.<sup>v</sup>

Washington’s trade deficit with China ballooned in 2017 to its highest level on record, giving the Trump administration more leeway – and urgency – in pursuing protectionist policies.

### The Month Ahead

Geopolitics, trade and monetary policy are all on the agenda this month. In addition to the U.S.-North Korea summit on June 12, investors will also be eyeing an upcoming meeting of the Federal Reserve scheduled for the same week. The Fed is widely expected to raise interest rates this month, placing more pressure on bonds and equities.

The economic calendar will feature a steady stream of market moving events, including the latest reports on inflation, consumer spending and industrial production.

Sincerely,

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## Sources

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- <sup>ii</sup> Sam Bourgi (June 4, 2018). "Market Update: Asian Stocks Follow Wall Street Higher as Trade, Geopolitics in Focus." Hacked.com.
- <sup>iii</sup> Keith Zhai (June 2, 2018). "North Korea Gets Relief Only When It Gives Up Nukes, Mattis Says." Bloomberg.
- <sup>iv</sup> Daniel Dale (May 31, 2018). "From auto manufacturing to bourbon: How Canadians could see price increases because of Trump, Trudeau tariffs." The Star.
- <sup>v</sup> Jonathan Lemire (June 3, 2018). "China threatens to pull U.S. trade deal if Trump's tariffs continue." Global News.