



September Market Update: Wall Street Clinches Best August Since 2014; NAFTA Rattles Canadian Stocks

U.S. stocks soared to record highs in August, defying a historical downtrend that typically sees the market fall at the end of summer. Strong corporate earnings, pro-growth optimism and the easing of trade tensions with China all contributed to a stellar month for Wall Street.

North of the border, Canadian stocks finished the month in negative territory after strained NAFTA negotiations rattled investors' confidence.

August a Record Month for Wall Street

U.S. stocks secured their best August in four years on the strength of corporate earnings and signs of better than expected growth.

The S&P 500 Index returned to record territory for the first time since January, while the Nasdaq Composite Index resumed its record-setting pace after a one-month hiatus. The Nasdaq returned 5.7% during the month for its best August since 2000. The S&P 500 and Dow Jones Industrial Average finished August up 3% and 2.1%, respectively.[1]

Second-quarter earnings for U.S. companies were among the strongest since the financial crisis. The blended earnings growth rate for S&P 500 companies was 25%, the highest since Q3 2010, according to FactSet.[2]

NAFTA in the Crosshairs

Canada and the United States failed to reach a trade agreement last week, with the Trump administration vowing to ditch NAFTA in favour of a bilateral trade agreement with Mexico. The Trudeau government is under renewed pressure to get a deal done after the U.S. and Mexico successfully negotiated a new pact without Canada.

Canada and the U.S. remain far apart on several key issues, chief among them being Chapter 19 of the current North American Free Trade Agreement. High-stakes talks resumed Wednesday as Canada's trade envoy returned to Washington.

According to The Wall Street Journal, negotiators are racing toward a new deadline on Sept. 30. That's when the Trump administration needs to make public final text for a trade deal that could be signed two months later when Mexico's current leader leaves office.[3]

Canadian Stocks Lag Behind

Canada's benchmark TSX Composite Index diverged sharply from its American peers as lingering trade doubts triggered a panic sale in the final week of August. The TSX declined 0.8% in the final two trading days of August before shedding another 0.8% in the first sessions back after Labour Day.

The TSX is under pressure from ongoing trade negotiations and threats from the Trump administration that a trade deal with Canada is not needed. Negotiations took a turn for the worse on Aug. 31 after the Toronto Star reported that President Trump had no intention to compromise on a new trade deal. The report, which cited private discussions between Bloomberg journalists and the president, suggested that the Trump administration was planning to strongarm Canada into a deal.[4] Trump did not deny the reports.

Emerging Market Risks

Emerging market stocks and currencies sold off anew last month, as political turmoil and brewing financial crises raised the threat of contagion in key regions of the globe. Turkey was in the centre of the storm after a diplomatic row with the United States triggered a full-blown currency crisis for the lira, which fell in August to its lowest level on record.[5]

Argentina was also in the headlines after its central bank raised interest rates to 60% in an effort to stem its currency collapse. The Argentine government would later announce new taxes on exports in order to balance the budget by fiscal 2019.

Meanwhile, South Africa's economy entered a recession for the first time since 2009, with the country's agriculture sector the hardest hit.

The Month Ahead

Trade talks, monetary policy and economic data are back in the spotlight in September - a month notorious for volatility. September is the worst month of the year for the S&P 500 Index, a trend that goes all the way back to 1945.

In monetary policy, the U.S. Federal Reserve is widely expected to raise interest rates on Sept. 19 for the third time this year. The Bank of Canada, meanwhile, just voted to keep monetary policy on hold.

If you have any questions regarding this summary, or your investment portfolio, please call us.

Sincerely,

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[1] Michael Sheetz, Thomas Franck and Alexandra Gibbs (August 31, 2018). "Stocks clinch best August performance in over 4 years despite trade turmoil." CNBC.

[2] FactSet (August 31, 2018). Earnings Insight.

[3] Paul Vieira and William Mauldin (September 4, 2018). "U.S., Canada Face Tough Issues as They Resume Nafta Talks." The Wall Street Journal.

[4] Sam Bourgi (August 31, 2018). "Market Update: U.S. Stocks on Edge amid NAFTA Doubts; Bitcoin Price Claws Back Above \$7,000." Hacked.com

[5] Sam Bourgi (August 16, 2018). "Trending: Turkey's Generational Crisis Ripples Through Global Markets; Trade Rift Weighs on China." ETFdb.com

