Davidson Professional Wealth Management

of RBC Dominion Securities

Your Money, Well Managed

Summer Market Commentary

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The Greek Crisis

•The headlines over the past three months have been dominated by the events unfolding in Greece. The potential for a "Grexit" has given equity markets a pause as investors attempt to gauge the impact that Greece leaving the Eurozone would have on global markets

•Greece first restructured their debt back in May of 2010, which was followed by a second bailout in 2011. Most investors are well aware of the problems in Greece and have had ample opportunity to limit their direct exposure.

•Greece has a population of just over 11 million people and a GDP of $238 billion which accounts for less than 2% of European GDP. It is important to keep this situation in proper context, this is not a new problem.

Photo courtesy of: The Telegraph

•The Greek populace voted to reject the current European Council terms of restructuring, leading many to feel that an exit by Greece is imminent. Since that event both sides have come back to the table and are currently working towards a new solution.

Canadian Interest Rates and GDP

•Canadian interest rates have been under pressure since the Bank of Canada unexpectedly cut their Overnight rate back in January in response to the plunge in oil prices.

•Canadian GDP declined 0.1% MoM in April. Weakness in the oil and gas sector was not the sole source of weakness in this report as utilities, mining, construction and manufacturing all contracted in April.

•As of July 15th the Bank of Canada has reduced their overnight rate target to ½ percent in an effort to stimulate the slowing Canadian economy.

Market is Pricing in a Greater Probability of a Rate Cut After Disappointing April GDP Data

Source: Bloomberg, RBC DS

China

•China's economy is undergoing a massive transformation as it moves from an investment intensive infrastructure focus to a consumer driven model similar to the US. This transition will be difficult to execute for the second biggest economy in the world and will not be without hiccups and missteps.

•One of the main challenges that they currently face is their desire to balance free market economic benefits while maintaining firm control over market forces. Equity and debt markets allow for the efficient free flow of capital from lenders to borrowers and provide liquidity, a critical ingredient in the free market economy.

•China's stock market more than doubled between July of 2014 and May of 2015, creating a speculative bubble as individuals and corporations borrowed to invest. This was facilitated by changes to certain rules around leverage and collateral requirements. Bloomberg has created a detailed timeline that is included on the following page which outlines their recent market challenges.

•Unfortunately this lead to a bubble in equity valuations and a significant market correction. The central government is now scrambling to curtail the damage by imposing market restrictions on selling shares and allowing investors to use the value in the homes to shore up margin accounts.

•The Chinese government may find a greater challenge in their efforts to build a command market in the same model they built a command economy. Money has a tendency to take flight when it becomes fearful, something infrastructure and real estate can't do.

A recent history of China's recent equity market challenges

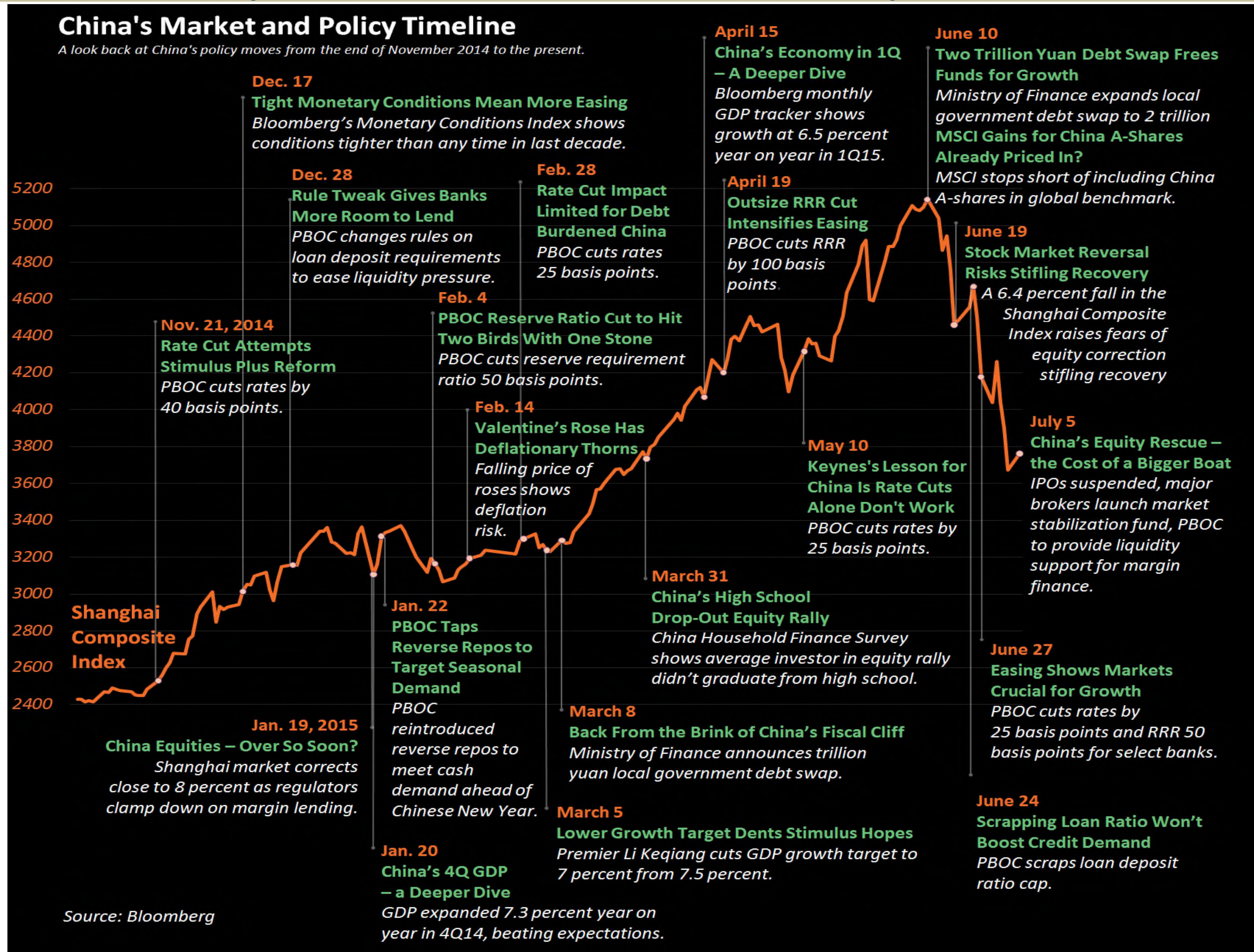


Chart Courtesy of Bloomberg

Market Recap

Events in Greece roiled equity markets by adding an element of uncertainty to a tepid European recovery already under pressure from the Ukrainian conflict. Global growth slowed in the 2nd quarter of 2015 across nearly all major markets. Expectations for the second half are mixed with the economists forecasting rebounding US growth coupled with moderating Chinese activity.

The Canadian market is still feeling the knock-on effects of lower oil prices. We have yet to see a significant correction in housing prices in Canada with even Calgary remaining relatively resilient in the face of low oil prices. The Bank of Canada's rate cut in July may yet forestall any real estate correction by making debt more affordable in the near term. The hope is that when US economic growth picks up the additional benefit to the Canadian economy will offset the impact of low oil prices.

We are well positioned for the current market volatility and continue to focus on good quality companies that have a strong commitment to shareholders. As such we continue to favour dividend paying and growing equities and tactical management of cash levels.

Clients within our Private Investment Management program (PIM) and Third Party Pension Management program will receive their quarterly update and personalized portfolio reports within the next week.

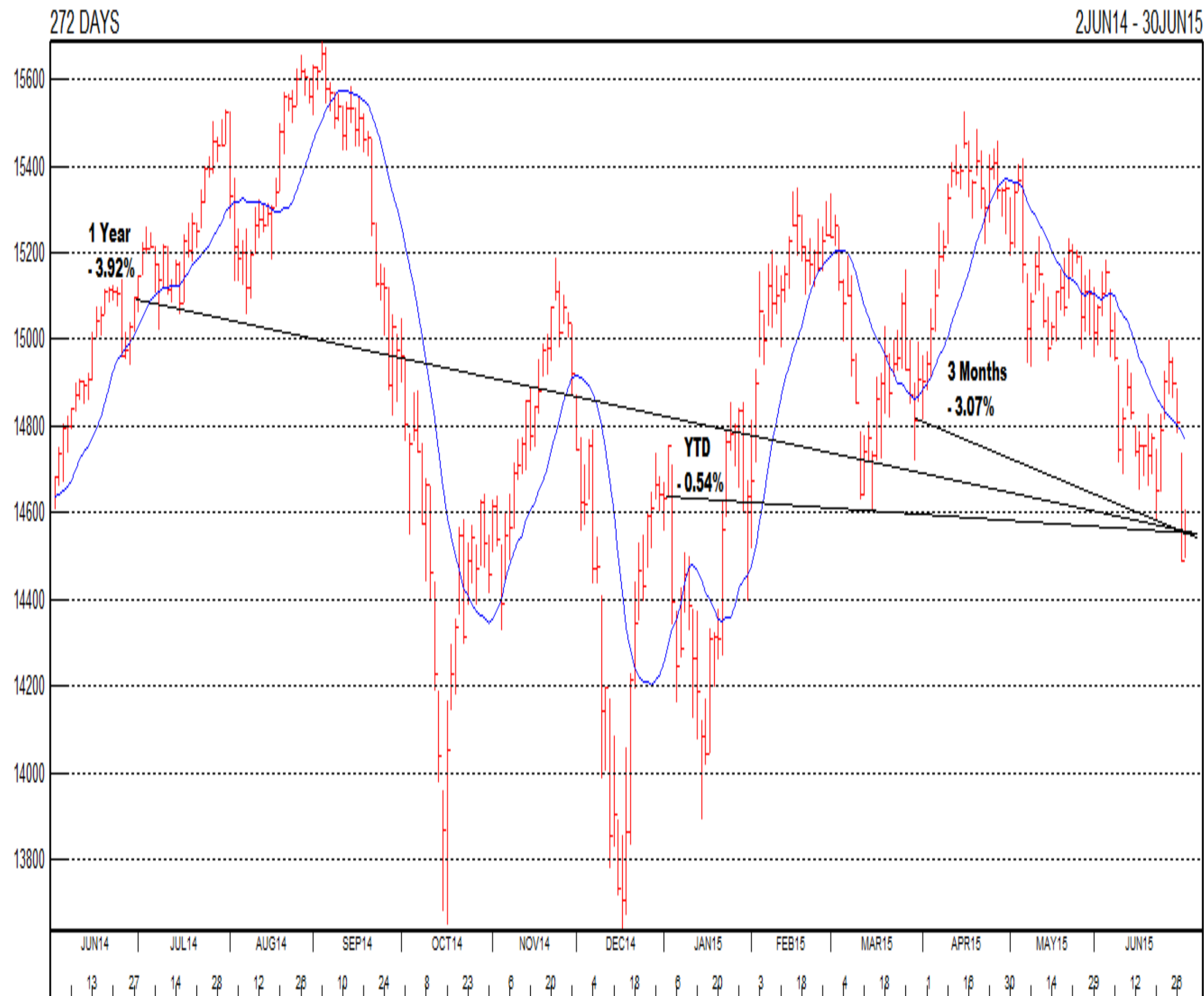
TSX Performance: Annual, YTD & 3 Months

- Canadian equity markets have been under pressure again this quarter, led by industrial goods and commodities.

- Financial companies continue to trade within a narrowing range but have not revisited the highs of last fall/winter.

- Pockets of strength have appeared in some sectors such as healthcare and consumer goods but their small number and size relative to the overall Canadian market mean little to the index as a whole.

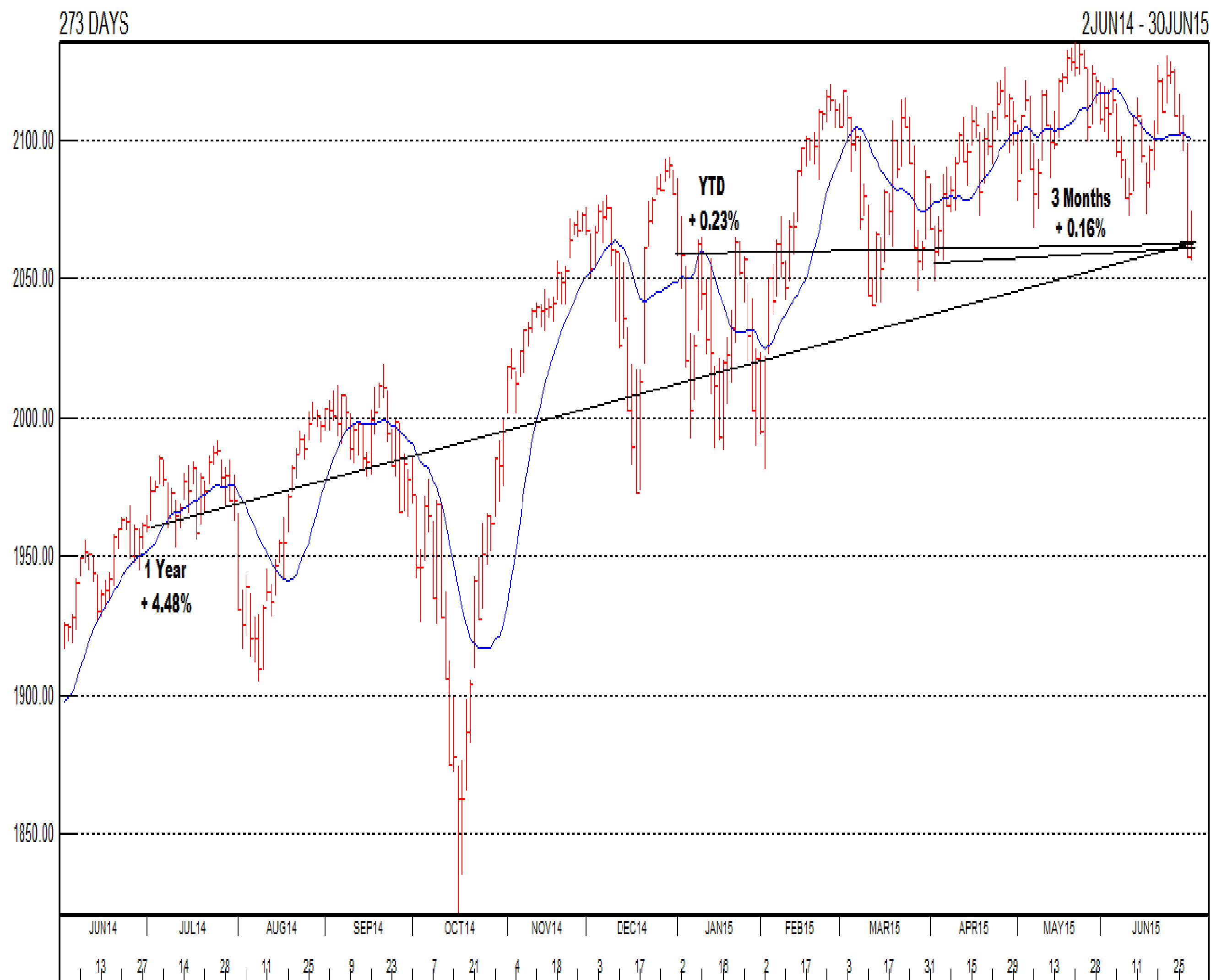
Data Source: Trend & Cycle



S&P Performance: Annual, YTD & 3 Months

- The US market has made no real headway over the past three months but is finding a comfortable trading range.
- The energy sector has been hard hit but at less than 8% of the makeup of the S&P500 it represents only a small slice of the overall US market.
- The US markets appear to be taking a pause from the strong run of 2011-14 as investors await more clarity to economic growth for the balance of the year.

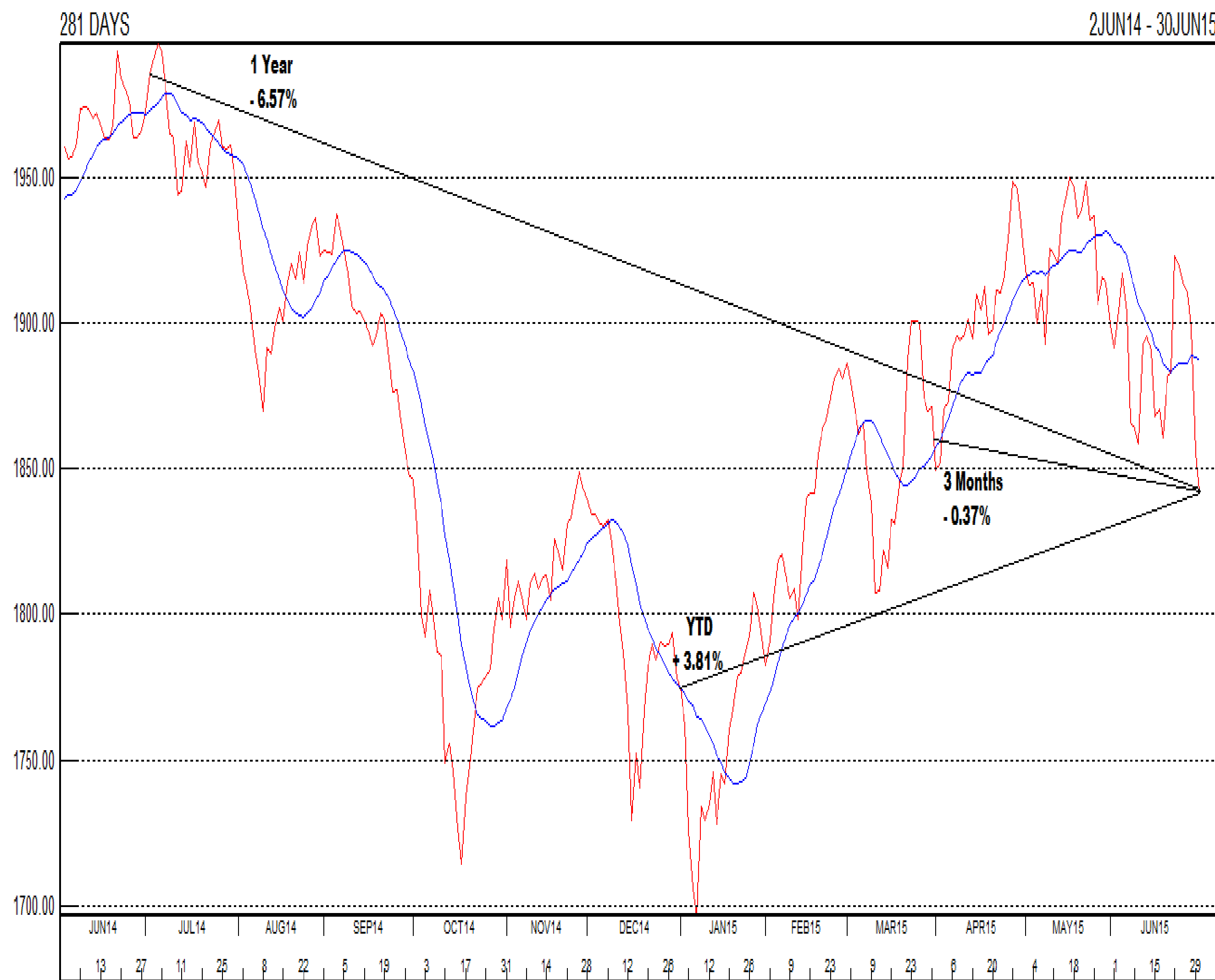
Data Source: Trend & Cycle



EAFE Performance: Annual, 6 & 3 Months

- The rally that European markets enjoyed through the first four months of the year ended as the Greek crisis unfolded.
- European economic stimulus remains firmly in place but will take time to feed through to the broad economy.
- Valuations in Europe remain attractive relative to other parts of the world. As the Greek tensions ease and economic activity accelerates that valuation gap should close.

Data Source: Trend & Cycle

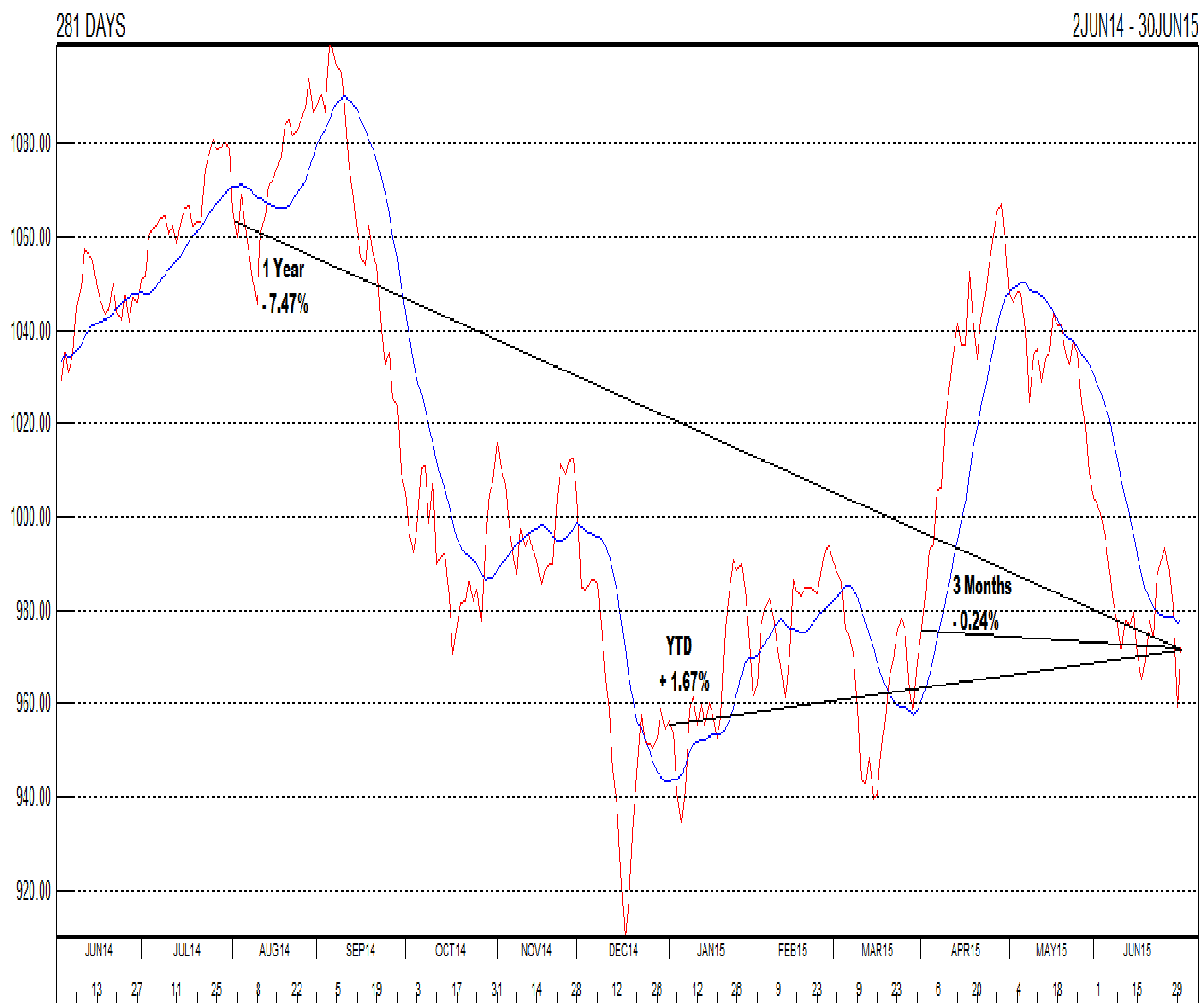


EAFE = Europe, Australasia, and Far East Developed Markets

Emerging Markets Performance: Annual, YTD & 3 Months

- Emerging markets have been riding a rolling coaster, driven predominantly by the Chinese equity market experiences.
- While year to date numbers are marginally positive it masks the underlying volatility investors have experienced
- Valuations in this market are more difficult to evaluate given the opacity of the Chinese market and uncertainty as to where their "new normal" growth rate will settle.

Data Source: Trend & Cycle



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