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MARKET SUMMARY—Canadian equity markets were flat to slightly down with the broad based S&P/TSX Composite index delivering a negative 0.32% total return for July. Canadian equity markets have lagged most of the developed world and have barely eked out a positive total return with year-to-date performance of +0.59%. The recurring theme of resource and commodity price weakness continues to weigh heavily on the energy and materials sectors, as valuations succumb to renewed pressures and corporate cash flow retracement driven by production cutbacks and further curtailment to corporate exploration programs. On a more positive note, the telecom, healthcare, and consumer staples sectors have performed reasonably well, and have kept the broader Canadian equity markets above water so far.

In the United States, the S&P500 index rose 2.10% on a total return basis for July, while the larger cap DJIA delivered a more measured result, rising by a modest +0.52% total return. Year-to-date returns for U.S. equities, while not stellar, have been firmly positive and less volatile than in Canada, primarily as a result of greater sector diversification and lower overall exposure to energy and materials.

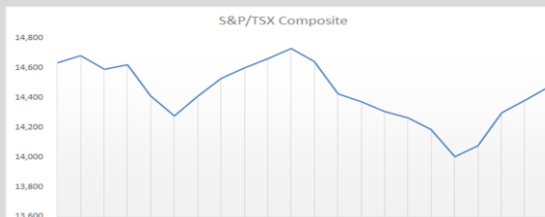
European equity markets rose sharply in July on the back of an announced agreement by creditors to offer Greece a financial lifeline in exchange for wider and deeper austerity measures and debt restructuring. The EuroSTOXX 50 index rose +5.22% in July, lifting the year-to-date total return to just under 19%. Continued ECB monetary support and accelerating economic improvement have propelled Eurozone equities to the front of the global performance line in 2015.

The Emerging Markets have and will likely continue to experience ongoing pressure as economic deceleration leads major economies and equity markets in the region downward. The MSCI Emerging Markets index fell -6.93% through July, marking a July year-to-date total return of -4.19%. With declining growth prospects for the region not expected to abate anytime soon, we maintain an underweight recommendation to EM equities.

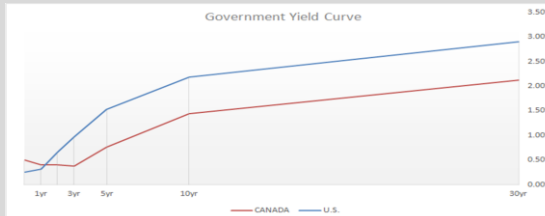
As two of the world's largest economies, the United States and China have shown episodic weakness, global economic growth has visibly decelerated in recent months. The United States has advanced to a more mature phase of the economic cycle, and a "super-tantrum" in the bond market (a sharp spike in yields) is possible as the U.S. Federal Reserve seeks to shift direction in monetary policy and begin raising short-term interest rates before the end of this year.

MARKET DIARY -- MONTH AT A GLANCE

Equities	Close Jul 31	MoM TotRet	YTD TotRet
S&P/TSX Composite	14,468.44	-0.32%	0.59%
S&P/TSX Venture	594.31	-11.47%	-14.41%
Dow Jones	17,689.86	0.52%	0.55%
S&P500	2,103.84	2.10%	3.35%
NASDAQ	5,128.28	2.88%	9.05%
FTSE 100	6,696.28	2.76%	4.11%
EURO STOXX 50	3,600.69	5.22%	18.99%
Nikkei 225	20,585.24	1.73%	16.93%
MSCI EAFE	5,244.59	2.08%	7.72%
MSCI Emerging Markets	384.71	-6.93%	-4.19%



Fixed Income	Yield	MoM Chg	YTD Chg
			
BoC Overnight Rate	0.50%	-25 bps	-50 bps
3mos Canada T-Bill	0.39%	-18 bps	-52 bps
2yr Canada	0.41%	-8 bps	-60 bps
10yr Canada	1.44%	-24 bps	-35 bps
30yr Canada	2.12%	+18 bps	-21 bps
			
Fed Funds Rate	0.25%	n/c	n/c
90d U.S. T-Bill	0.06%	+4 bps	-47 bps
2yr UST	0.66%	+2 bps	0 bps
10yr UST	2.18%	+7 bps	+1 bps
30yr UST	2.91%	+7 bps	+6 bps



Currencies	Jul 31	MoM Chg	YTD Chg
CAD/USD	0.7641	-4.52%	-11.20%
USD/CAD	1.3091	+4.78%	+12.65%
CAD/EUR	0.6955	-3.21%	-2.21%
CAD/JPY	94.6420	-3.47%	-8.16%
CAD/GBP	0.4891	-4.00%	-11.46%

Market Factors	Jul 31	MoM Chg	YTD Chg
Volatility Meter – VIX	1.80	-0.38	+0.39
Advance/Decline – TSX	0.89	-0.83	+0.79

Source: Bloomberg

China's economic problems have exacerbated further (the People's Bank of China has reduced interest rates four times since last November) and GDP growth is likely cooling more than official statistics now indicate. Despite sluggish growth, the global economy has benefited from accelerating prospects across the Eurozone, and to a lesser extent a more positive trajectory for Japan. Three key forces: (1) low global bond yields, (2) low oil prices, and (3) depreciating foreign exchange rates (relative to the U.S. dollar), have provided a powerful economic backdrop that have supported sustained growth in significant segments of the global economy—these forces remain intact today, however, are having a lower marginal impact. Financial stimulus has been partially unwound in key economic regions, and bond yields while remaining stimulative, have risen over the past month. Oil prices have retested prior lows for the second time since July 2014 (but for how long?), and the U.S. dollar while gaining convincingly against most world currencies this year, has fallen back somewhat over the past two months. In the context of these financial impulses, expectations are not without their risks, but overall the consensus outlook remains accommodative and generally supportive. When (U.S.) monetary policy begins to tighten later this year, the pace and degree of the rise in yields is expected to be gradual. Overall sluggish economic growth, a high demand for “safe” assets, and monetary stimulus in other parts of the world (i.e. Eurozone, China, and Japan) will reduce the need for aggressive or prolonged tightening—central bankers should have the luxury to be patient and transparent, mitigating any threat that normalization of monetary conditions could destabilize markets and the global economy.

The bull market for stocks has drawn considerable strength from a solid recovery in corporate profitability and from expansion of P/E multiples driven by improving corporate confidence and a low interest rate environment. Global equity valuations have now generally reached fair value and are now at the highest levels seen since the global financial crisis of 2008. For equities prices to continue along their current upward trajectory, albeit at a slower expected pace, corporate earnings will need to play a larger role in driving valuations forward. Consensus expectations continue to favour this outcome, and likely the global equity rally has some legs left. With this in mind, we continue to believe that stocks will outperform bonds and will remain relatively attractive for the foreseeable future.

CANADA—Weakness in the energy sector continued to weigh heavily on Canadian GDP growth, resulting in a 0.2% drop in activity in May and marking the fifth consecutive monthly decline. Equally disconcerting was the unexpected drop in manufacturing activity which suggests that even with strengthening U.S. growth and a weaker Canadian dollar, Canada's manufacturing exports are not being met with increased demand. Output in service-producing industries also decreased, although only by a marginal -0.1% that followed a +0.2% gain for April. But the fact that the decline was relatively broadly based, with 11 of 15 sub-components moving lower was more relevant. The retrenchment in May GDP indicates that the weakness in the energy sector is not being offset by increased demand elsewhere in the economy, including the manufacturing sector. With negative results for April and May, it appears likely that Q2 annualized GDP will be negative, and this follows an annualized decline of -0.6% for Q1.

With two consecutive quarterly declines in GDP growth all but confirmed, it appears that the Canadian economy is currently in recession (the classical technical definition). An assessment of the duration, depth, and scope of the downturn however will dictate the impact and more practical implications. At this point, it is difficult to say that the Canadian economy is undergoing a broad-based downturn—there has been little evidence of a slowdown in the labour market, and this fact likely suggests that the overall impact of the downturn will be shallow and short. By its very nature, the word “recession” evokes images of job losses, spending cuts, falling home prices, and stock market corrections, among other things. But thus far, none of these events have occurred in any significant way. In this respect, it may be more appropriate to consider the current environment as “recession lite”.

The Bank of Canada cut its overnight rate by 25 basis points in July in response to GDP growth disappointment, and the continuing downward trajectory for commodity prices (particularly oil). With the bar set fairly low for the second half of this year and non-energy activity expected to pick up, the Bank of Canada is likely to remain on hold through to the end of the first half of 2016.

UNITED STATES—Real GDP rose at a 2.3% annualized rate in the preliminary estimate for Q1. This represents a rebound in activity, from a revised GDP growth rate of 0.6% for the first quarter. Consumer spending was strong (led by strength in durables), as was trade activity, and business fixed investment was soft (partly reflecting a further decline in energy exploration).

The acceleration in consumer spending and gains in housing sector activity came as no surprise given the persistent strength in the U.S. labour market. In the first half of 2015, non-farm payroll gained an average 211k per month, and the unemployment rate fell to 5.3%, edging closer to the Fed's estimate range for full employment of 5.0%-5.2%. Labour market conditions continue to improve with unemployment at a post-recession low.

Shortly after Fed Chair Janet Yellen's monetary policy testimony in mid-July, the odds of a September U.S. rate hike were about even. That outlook reflected the uncertainty in the economic data that would arrive between then and the next FOMC meeting on September 16-17. However, just two weeks later, the financial evidence is increasingly pointing to a likely delay.

GLOBAL— The European Central Bank (ECB) stands ready to intervene further if unfavourable developments arise but as risks surrounding Greece abate, and a recovery in Eurozone growth continues, expectations point to the current policy stance being maintained. Continued albeit modest growth and reduced deflationary pressure have left the ECB comfortable with its current policy setting (asset purchases at a rate of approximately 60 billion euros per month). Consensus expectations are that the ECB will maintain quantitative easing levels (asset purchases) until at least the third quarter of 2016.

Greece and its creditors have finally agreed on a framework for a bailout program worth 82 to 86 billion euros, and while hurdles to its implementation remain, the probability of a "Grexit" (Greek withdrawal from the European currency union) have vastly been reduced. Bridge financing has allowed Greece to meet recent repayment obligations and the ECB has increased emergency liquidity assistance (ELA) to the Greek banking system.

Emerging markets continue to experience economic deceleration that has ushered in a period of sustained weak global commodity prices, in addition to direct repercussions on global growth. China, given the size of its economy is of particular concern, and expectations are not favourable for a quick turnaround in situation. That said, other larger emerging market countries may be closer to providing the type of impetus required to provide more sustainable support for the region, notably India. With overall prospects generally constrained for the near term, we continue to recommend an underweight position for the region.

ASSET ALLOCATION —TACTICAL POSITIONING

Strategic asset mix addresses the blend of the major asset classes offering the risk/return trade-off best suited to an investor's profile. It can be considered to be the benchmark investment plan that anchors a portfolio through many business and investment cycles, independent of a near-term view of the prospects for the economy and related expectations for capital markets. Tactical asset allocation refers to fine tuning around the strategic setting in an effort to add value by taking advantage of shorter term fluctuations in markets.

Fixed Income	<i>Underweight</i>
Canadian Equities	<i>Neutral</i>
U.S. Equities	<i>Overweight</i>
International Equities	<i>Overweight</i>
Emerging Markets	<i>Underweight</i>

- *Overweight equities versus fixed income*
- *Underweight government debt versus investment grade credit*
- *Overweight exposure to U.S. and international equities*
- *Sector diversify; favoured Consumer Discretionary, defensive Consumer Staples, Technology and Healthcare*
- *Focus on quality*
- *With volatility likely to be elevated, time entry points—buy on pullbacks*

KEY ECONOMIC INDICATORS – CANADA



Event	Date	Consensus Est.	Prior
RBC Canadian Manufacturing PMI (Jul)	Aug 4	50.8 A	51.3
Bloomberg Nanos Confidence (Jul)	Aug 4	52.3 A	53.4
Int'l Merchandise Trade (Jun)	Aug 5	-\$2.90Bil (-0.48Bil A)	-\$3.34Bil (-3.37Bil R)
Unemployment Rate (Jul)	Aug 7	6.8% (6.8% A)	6.8%
Net Change in Employment (Jul)	Aug 7	5.0k (6.6k A)	-6.4K
Participation Rate (Jul)	Aug 7	65.9% (65.7%)	65.8%
Housing Starts (Jul)	Aug 11	195k (193k A)	202.8k (203.1k R)
New Housing Price Index YoY (Jun)	Aug 13	n/a	1.2%
Manufacturing Sales MoM (Jun)	Aug 14	2.5%	0.1%
Existing Home Sales MoM (Jul)	Aug 14	n/a	-0.8%
Int'l Securities Transactions (Jun)	Aug 17	n/a	-5.45Bil
Wholesale Trade Sales MoM (Jun)	Aug 20	n/a	-1.0%
CPI YoY (Jul)	Aug 21	n/a	1.0%
CPI Core YoY (Jul)	Aug 21	n/a	2.3%
Retail Sales MoM (Jun)	Aug 21	n/a	1.0%
Retail Sales Ex Auto MoM (Jun)	Aug 21	n/a	0.9%
Industrial Product Price MoM (Jul)	Aug 28	n/a	0.5%

A=actual; R=revised

Source: Bloomberg

KEY ECONOMIC INDICATORS – U.S.



Event	Date	Consensus Est.	Prior
Personal Income (Jun)	August 03	0.3% (0.4% A)	0.5% (0.4% R)
Personal Spending (Jun)	August 03	0.2% (0.2% A)	0.9% (0.7% R)
Real Personal Spending (Jun)	August 03	0% (0% A)	0.6% (0.4% R)
Markit US Manufacturing PMI (Jul F)	August 03	53.8 (53.8 A)	53.8
Construction Spending MoM (Jun)	August 03	0.6% (0.1% A)	0.8% (1.8% R)
ISM Manufacturing (Jul)	August 03	53.5 (52.7 A)	53.5
Wards Total Vehicle Sales (Jul)	August 03	\$17.2Mil (17.46Mil A)	\$17.11Mil (16.95Mil R)
Wards Domestic Vehicle Sales (Jul)	August 03	\$13.5Mil (13.92Mil A)	\$13.34Mil (13.21Mil R)
Factory Orders (Jun)	August 04	1.8% (1.8% A)	-1.0% (-1.1% R)
Trade Balance (Jun)	August 05	-\$43Bil (-43.84Bil A)	-\$41.87Bil (-40.94Bil R)
Initial Jobless Claims (Aug 1)	August 06	272k (270k A)	267k
Change in Nonfarm Payrolls (Jul)	August 07	225k (215k A)	223k (231k R)
Unemployment Rate (Jul)	August 07	5.3% (5.3% A)	5.3%
Average Hourly Earnings YoY (Jul)	August 07	2.3% (2.1% A)	2.0%
Labor Force Participation Rate (Jul)	August 07	62.6% (62.6% A)	62.6%
Consumer Credit (Jun)	August 07	\$17Bil (\$20.74Bil A)	\$16.086Bil (\$16.519Bil R)
Wholesale Inventories MoM (Jun)	August 11	0.4% (0.9% A)	0.8% (0.6% R)
Wholesale Trade Sales MoM (Jun)	August 11	0.5% (0.1% A)	0.3% (0.2% R)
Retail Sales Advance MoM (Jul)	August 13	0.6%	-0.3%
Retail Sales Ex Auto MoM (Jul)	August 13	0.4%	-0.1%
Import Price Index YoY (Jul)	August 13	-10.7%	-10.0%
Business Inventories (Jun)	August 13	0.3%	0.3%
PPI Final Demand YoY (Jul)	August 14	-0.9%	-0.7%
PPI Ex Food and Energy YoY (Jul)	August 14	0.5%	0.8%
Industrial Production MoM (Jul)	August 14	0.3%	0.3% (0.2% R)
Capacity Utilization (Jul)	August 14	78%	78.4% (77.8% R)
U. of Mich. Sentiment (Aug P)	August 14	93.5	93.1
Housing Starts (Jul)	August 18	1190k	1174k
Housing Starts MoM (Jul)	August 18	1.4%	9.8%
Building Permits (Jul)	August 18	1217k	1343k (1337k R)
Building Permits MoM (Jul)	August 18	-9.0%	7.4% (7.0% R)
CPI YoY (Jul)	August 19	0.2%	0.1%
CPI Ex Food and Energy YoY (Jul)	August 19	1.9%	1.8%

Existing Home Sales (Jul)	August 20	5.41Mil	5.49Mil
Philadelphia Fed Business Outlook (Aug)	August 20	6.2	5.7
Existing Home Sales MoM (Jul)	August 20	-1.5%	3.2%
Markit US Manufacturing PMI (Aug P)	August 24	n/a	53.8
S&P/Case-Shiller US HPI YoY (Jun)	August 25	n/a	4.39%
New Home Sales (Jul)	August 25	n/a	482k
New Home Sales MoM (Jul)	August 25	n/a	-6.80%
Consumer Confidence Index (Aug)	August 25	n/a	90.9
Durable Goods Orders (Jul)	August 26	n/a	3.4%
Durables Ex Transportation (Jul)	August 26	n/a	0.8% (0.6% R)
GDP Annualized QoQ (2Q S)	August 27	n/a	2.30%
Personal Income (Jul)	August 28	n/a	0.4%
Personal Spending (Jul)	August 28	n/a	0.2%

A=actual; R=revised

Source: Bloomberg

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