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## Market Bulletin

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### Summary

**Economic Analysis:** Canadian economy lost 28,900 jobs in April, stark contrast to the U.S. economy's 288,000 gain. Few positives in Canadian jobs report, which weighed down the C\$.

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### Commentary – Three reasons why the sell-off in momentum stocks may not engulf the broad market

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Last week, as the sell-off accelerated in momentum stocks like Twitter (down 56% from its recent high), Tesla (-32%), Netflix (-30%) and Facebook (-21%), the possibility of this correction spreading to the broad market undoubtedly crossed many investors' minds. After all, the "tech wreck" of 2000-02 began with a similar steep correction in Nasdaq high-fliers, while the savage bear market of 2008-09 commenced shortly after global equity markets had reached all-time highs, much like the present time. While the possibility does exist, here are three reasons why the momentum stocks' sell-off may not engulf the broad market, in our opinion –

1. **Limited frothiness:** The stocks bearing the brunt of this sell-off are those with the most rapid rise and hence the most egregious valuations in specific technology sectors such as social media, and in other sectors like biotech and alternative energy. While these have certainly been market leaders in recent months, they constitute a relatively small part of the market, more so in Canada where the recent advance has been led by energy and commodity stocks that had previously not participated in this five-year bull run.
2. **Value stocks have held their own:** One unique feature of this bull market has been the performance of value stocks, which have matched growth stocks neck-and-neck in this rally. Since March 2009, the S&P 500 Value Index has advanced 180% and generated annual returns of 25.1%, compared with a 171% increase for the S&P 500 Growth Index (annual returns 23.4%). While growth stocks generally outperform value stocks in strong bull markets, the outperformance of value stocks this time may be attributed to record low interest rates and the desire for safer stocks after the 2008-09 global bear market. The performance of value stocks may be further proof of limited frothiness.
3. **Limited retail participation:** Based on empirical evidence, our view is that the action in momentum stocks has been largely driven by institutions, which have a much higher capacity to ride out market swings than retail investors. Cocktail chatter and taxi-driver tips on hot stocks are a strong indication of over-exuberant market sentiment, but that phase does not yet seem to be upon us.

## Economic Analysis

### Few positives in Canada's jobs report for April

#### *Loonie beats a retreat from near four-month high*

There were few positives in Canada's jobs report for April, where the second jobs loss in three months led to the loonie beating a hasty retreat from its highest level in almost four months. The Canadian economy unexpectedly lost 28,900 jobs (Table 1), compared with economists' expectations for an increase of 12,000. The unemployment rate remained at 6.9% as over 25,000 left the work force, resulting in the participation rate falling by 0.1 percentage point to 66.1%, the lowest since November 2001. Here are three negatives from the jobs report –

- The jobs decline was wholly on account of full-time jobs (-30,900).
- The decline was largely due to a loss of employee positions (-46,000), partly offset by an increase of 17,200 in the number of self-employed.
- The drop in employee positions was led by the private sector (-28,600), which is generally the job-creation engine in an economy.

Job losses were led by goods producers (-16,200) in sectors such as natural resources and utilities, while declines in the service sector (-12,600) were led by accommodation & food services and finance/insurance/real estate. Provincially, Quebec and Alberta had a significant decline in full-time positions, while Ontario added jobs led by full-time positions. British Columbia lost 3,700 jobs (-5,000 full-time, +1,300 part-time); the jobless rate remained at 5.8%.

**Bottom-Line:** Last month's jobs loss follows a familiar pattern since November, with job gains in one month followed by losses in the next. Not surprisingly, the Canadian economy has seen little employment growth since August 2013, according to Statistics Canada. While the loonie had rocketed higher earlier in the week on strong housing starts data, it declined on Friday, paring its gain for the week to 0.7%. Expect continued volatility in the C\$ in the weeks ahead.

**Table 1: Canadian employment metrics (Source: Statistics Canada)**

	Jan. '14	Feb. '14	Mar. '14	Apr. '14
<b>Unemployment Rate</b>	7.0%	7.0%	6.9%	6.9%
<b>Employment (net change)*</b>	29,400	-7,000	42,900	-28,900
Full-time	50,500	18,900	12,800	-30,900
Part-time	-21,100	-25,900	30,100	2,000
<b>Worker classificn. (net change)</b>	29,400	-7,000	42,900	-28,900
Employees	1,100	-15,500	43,200	-46,000
Self-employed	28,300	8,600	-500	17,200
<b>Public/private sector (net chg.)</b>	1,100	-15,500	43,200	-46,000
Public sector	14,700	-50,700	39,300	-17,400
Private sector	-13,600	35,200	3,900	-28,600
*totals may not add up due to rounding				

## Market Snapshot

At close on Friday, May 9, 2014

S&P TSX	14534.06	-11.97	Commodities			Yields (%)	Can.	US
TSX Venture	991.10	-0.91	Canadian \$ (US cents)	91.78	-0.54	90 Day T-Bill	0.90	0.03
DJIA	16583.34	+32.37	Gold (Spot)-US\$	1288.85	-0.45	2-Year Bond	1.06	0.38
S&P 500	1878.48	+2.85	Oil (WTI-June)	100.06	-0.20	10-Yr. Bond	2.36	2.62
NASDAQ	4071.87	+20.37	CRB Index	304.57	-1.58	30-Yr. Bond	2.89	3.47

## Thought for the Day

“One of the secrets in life is to make stepping stones out of stumbling blocks.”

– Jack Penn

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