



2 Reasons the TSX Composite Index May Be Poised for a Late Rally

Description

The S&P/TSX Composite Index was up marginally in mid-morning trading on August 23. In 2017, the TSX recovered from stagnating for most of the year before pulling off an impressive surge from late August to the end of the year. Canadian stocks are facing unique headwinds in 2018, but economic performance remains strong, and it has failed to materialize for many financials equities, with the exception of bank stocks.

Higher oil and gas prices powered a run on the TSX from mid-April until now, but the index is still only up 0.8% in 2018 so far. Back in April, **Fiera Capital** ([TSX:FSZ](#)) asset manager Candice Bangsund [recommended the TSX](#) for value investors and also forecast that the index would reach 17,000 by the end of the year. Although gains on the TSX have been tepid in 2018, Fiera Capital reported an 11% year-over-year increase in assets under management in the second quarter — rising to \$139.4 billion. Quarterly revenues also jumped 15%.

Financial stocks would be in a fantastic position to receive a boost if the TSX follows its historical pattern of high performance in the latter half of the year. Let's look at three reasons investors may want to put their faith in an autumn surge for the TSX.

Bank earnings to the rescue

The next round of bank earnings has begun to trickle in, and so far the news has been good. **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) analyst Robert Sedan forecast a positive earnings season as banks have continued to benefit from gradual rate increases and stabilization in the housing market. CIBC posted earnings of \$1.4 billion, or \$3.01 per share, in the third quarter compared to \$1.1 billion, or \$2.60 per share, in the prior year.

The next batch of bank earnings is expected next week, and investors should remain optimistic that higher spreads will help the top financial institutions in Canada.

A breakout in trade relations?

Earlier this month, I'd discussed [progress in NAFTA negotiations](#). A deal before the November

midterms in the United States could be a huge catalyst for a late run for North American stocks. Canadian Minister of Affairs Chrystia Freeland said recently that she was “encouraged” by progress made between the U.S. and Mexican delegations. It appears that Canada is prepared to re-enter negotiations with summer winding to a close. This is a good sign as pressure mounts on Trump’s GOP ahead of the midterms. One more political win could be crucial in a very important race.

TSX could still be a bargain today

Gluskin Sheff + Associates (TSX:GS) chief economist David Rosenberg recently penned an investment editorial for the *Globe and Mail*. In it he demonstrated the technical strength of the TSX, which was in line with its American counterparts. So far the TSX has failed to post the gains of S&P 500 and the NASDAQ, but this has been unwarranted and is likely the result of a cloudy geopolitical outlook.

Assets under management as Gluskin Sheff + Associates were down from December 2017 in its fiscal 2018 third quarter report. Like other financials, it stands to gain in a big way from a late rally. Investors should be on the hunt for value buys, as the stars may be aligning again for the TSX.

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