3 Reasons the TSX Index Crushed it Last Week

Description

The S&P/TSX composite index had a great week last week, rising 1.37% and clocking a 0.9% rally on Tuesday alone. By Friday, the gains were tempered by a slight selloff, but the index nevertheless ended the week way up. This comes after a relatively lacklustre spring, which saw the TSX shed value on trade tensions and a falling oil price.

Right now, it looks like the TSX is in a bullish phase. But to know whether it will last, we have to understand why it happened in the first place. The following are three factors that contributed to the TSX's impressive mid-late June bull run.

The price of oil spiked on U.S./Iran tensions

Probably the single biggest factor impacting the markets last week was the political standoff between the U.S. and Iran. After allegedly sabotaging a Japanese oil tanker and shooting a U.S. drone out of the sky, Iran became a major target of U.S. hawks. According to reports, President Trump had ordered strikes against the oil-rich country but called them off at the last minute after learning about potential casualties.

Iran sits on the crucial Strait of Hormuz, a small body of water through which Iranian and Arabian oil passes. Any war in the area would therefore cause a major supply shock, so it's no surprise that the energy-heavy TSX rallied on last week's news.

The TSX's three largest sectors rallied

It wasn't just oil and gas stocks that rallied last week. Spurred by high gold prices and positive macro signs in the U.S., mining and bank stocks shot up as well. **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), for example, rose 1.18% on Tuesday, likely because positive U.S. economic news bodes well for its U.S. retail business. The S&P/TSX materials index likewise rose 5% last week, thanks to higher commodity prices. Because energy, mining and financials make up the lion's share of the TSX, it's no surprise the index would rise on news that was favourable to all three sectors.

Buybacks are soaring

A final factor driving the TSX higher is the phenomenon of share buybacks, which have totaled over $50 billion over the past year.

Energy, transportation, and bank stocks are among the largest TSX components that are buying back their shares. TD, for example, announced in May that it would be buying back $1.1 billion of its common stock, while energy companies like **Suncor Energy** have been buying back shares at a frantic pace as well.

Buybacks indicate that management is confident in their own company's future and have a tendency to increase shareholder equity. In addition, the mere fact of a company buying its own shares tends to raise their market price in the short run, so a large spike in buybacks can easily trigger a quick bull run like the one we saw last week.

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