Credential
Market Insights | MONTHLY

Month in Review

For the month ended November 30th, 2018

Overall Highlights

- **TSX rises.** Despite reports of a slowdown of economic and spending activity in the third quarter, the S&P/TSX Composite ended a volatile month on an up note and mustered a gain. However, the big surprise was the muted reaction of the fall in crude prices given the Energy sector is a large component of the index. Support for the TSX occurred following positive news from the G20 Summit meetings between U.S. President Donald Trump and China's Xi Jinping, as well as comments from the U.S. Federal Reserve. The Composite closed November at 15,198, a 1.1% monthly gain, while for the year it is down 6.2%
- **Dollar lower.** The Loonie had little to cheer about in November as weak GDP and inflation data signaled a potential slowdown in economic growth. As well, because of the reliance of our dollar on the price of crude oil, the latter's decline has had an impact on government coffers and our petro-currency. In November, the Loonie ended at US75.18 cents for one Canadian dollar, a monthly decline of 1.2%.
- **Gold shines.** The yellow metal found footing for the second straight month as the safe-haven asset fell into favour. Uncertainly of the U.S. political landscape following the November mid-term elections, ongoing trade tensions and issues in Europe over Brexit and issues in Italy added to an increased risk-off mentality with investors. A February contact for gold closed the month at US$1,226.00, an increase of 0.8%.
- **Oil slips and falls.** Crude oil had its worse monthly decline in a decade as its rout continued for a second consecutive month. Persistent worries of over-supply adding to a global glut concerned investors, causing prices to steeply decline over the past eight weeks as major oil producers mull production cuts to support the commodity. The strength of the U.S. dollar did little to help prices. A January contract for a barrel of WTI crude ended trading at US$50.93, a 21.6% drop for the month, almost doubling the previous month's decline.
- **GDP lower.** Economic growth in Canada shrank in September as business investment and consumer spending fell.
- **Inflation rises.** Year-over-year inflation ticked up in October according to data released by Statistics Canada. The consumer price index (CPI) increased by 2.4% on the year, up from the 2.2% pace reported for September.
- **Unemployment falls.** The national jobless rate declined in October as full-time hires outpaced a drop in part-time employment. The month's 5.8% reading was the lowest since July and below analyst expectation.
- **Canada's retail sales rise.** Canada's retail sector performed better than expected in September, according to data released by Statistic Canada.
- **U.S. Q3 GDP growth slows.** The Commerce Department reported its second estimate of Q3 GDP growth. Q3 GDP grew at an annualized rate of 3.5%
- **U.S. CPI rises.** Consumer prices rose at their fastest pace in nine months in October, according to the Labor Department.
- **U.S. non-farm payrolls rise.** The U.S. economist pumped out a lot more jobs than expected in October, according to the Labour Department, as non-farm payrolls increased by 250,000 in October.
- **Eurozone Q3 GDP growth slows.** The 19-member economic bloc grew at its slowest pace in four years in Q3, according to Eurostat.
- **ECB stays it course.** The ECB reiterated its plan to wind down its massive bond purchase program by the end of the year and to raise interest rates sometime after next summer.
- **Japan Q3 GDP shrinks.** Japan's economy contracted by an annualized 1.2% in Q3 after posting robust Q2 growth.
- **China manufacturing PMI falls.** The official manufacturing purchasing managers' index (PMI) fell to 50.0 in November, down from October's reading of 50.2.

Index/Commodity/Currency		
Close	**Month Change**	**YTD Change**
S&P/TSX Composite		
15,197.82	170.5	-1,011.3
	1.1%	-6.2%
BMO Nesbitt Burns Small Cap		
796.48	-30.4	-139.9
	-3.7%	-14.9%
Dow Jones Industrial Average		
25,538.46	422.7	819.2
	1.7%	3.3%
S&P 500		
2,760.17	48.4	86.6
	1.8%	3.2%
NASDAQ Composite		
7,330.54	24.6	427.2
	0.3%	6.2%
MSCI-EAFE Index		
1,809.56	-5.6	-241.2
	-0.3%	-11.8%
WTI Crude Oil (per barrel, in $US)		
50.93	-14.1	-9.2
	-21.62%	-15.3%
Gold (per ounce, in US$)		
1,226.00	9.3	-79.0
	0.8%	-6.1%
Canadian Dollar (¢ per US$)		
75.18	-0.9	-4.5
	-1.2%	-5.7%

Sources: Bloomberg, PC Bond

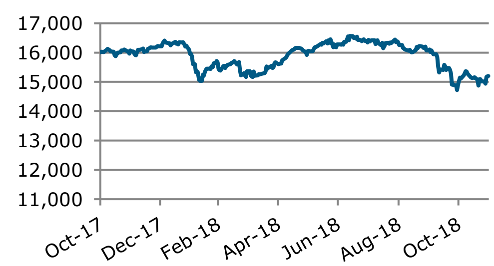
Canadian Markets

- **GDP lower.** Economic growth in Canada shrank in September as business investment and consumer spending fell. For the month, GDP growth was -0.1%, lower than August's 0.1% and the first monthly decline since the beginning of the year, as goods production fell 0.7%. On a quarterly basis, GDP ended on a weak note as the annualized pace was 2%, on par with economist forecasts but steeply lower than the 2.9% at the end of the second quarter. Three-month period growth was at 0.5%, down from 0.7% in the previous three months.
- **Inflation rises.** Year-over-year inflation ticked up in October according to data released by Statistics Canada. The consumer price index (CPI) increased by 2.4% on the year, up from the 2.2% pace reported for September. Economists were expecting the gauge to stay flat. The CPI common, the central bank's preferred gauge of inflation, remained at 1.9% on a year-over-year basis.
- **Unemployment falls.** The national jobless rate declined in October as full-time hires outpaced a drop in part-time employment. The month's 5.8% reading was the lowest since July and below analyst expectation of 5.9% as the economy added 11,200 jobs, ahead of the 10,000 positions forecasted. For the 12-month period, employment was 1.1% higher, with 205,900 people able to find work and 173,000 of those jobs being full-time in nature. The participation rate fell slightly to 65.2% from 65.4% in September.
- **PPI higher.** Increased demand for meat, dairy, and fish products helped push producer input prices higher in October. The gain was 0.2%, which matched September, and markedly better than analyst predictions of a -0.5% decline. On an annual basis, the Producer Price index fell to 5.3% from 6.3% a month earlier.
- **Manufacturing sales rise.** Factory sales rose in September, bettering a revised 0.4% decline seen in August due to decreased auto output because of production shutdowns. For the month, manufacturing sales increased 0.2% to $58.5B in total receipts as eight of the 21 sectors followed rose, led by the transportation equipment industry. Analysts forecasted an increase of 0.3%.
- **Ivey PMI rebounds.** Business activity in Canada expanded faster in October. The Ivey purchasing managers' index (PMI) surged from September's reading of 56.5 to 64.6 in October. Both the employment index and inventories index were up.
- **Canada's retail sales rise.** Canada's retail sector performed better than expected in September, according to data released by Statistic Canada. Retails sales rose 0.2% in September, beating economists' forecast of a 0.1% increase. Retail sales declined 0.1% in August. Strong growth in food stores and auto dealers were driving the increase.
- **Canada Housing News:**
  - **Building permits rise.** The value of applications to build rose by 0.4% in September, on par with analysts' predictions, to $8.1B as August's reading was revised lower to 1.1%, as reported by Statistics Canada. Residential intentions rose 0.3%, its first increase in three months, while non-residentials also gained, rising 0.6% led by institutional building demand. Compared to a year earlier, building permits are down 0.6%.
  - **Canada housing starts increase.** Canada Mortgage and Housing Corp (CMHC) reported that the seasonally adjusted annual rate of housing starts increased to 205,925 units, up from September's pace of 189,730 units. Economists were expecting an annual pace of 200,000 units. Multiple urban starts increased by 16.8% while single-detached starts fell 10.7%.
  - **New home prices flat.** For a second straight month, the prices of a new home in Canada was unchanged as 20 out of the 27 markets tracked by StatCan posted flat o declining prices. Much of this can be attributed to rising interest rates and tighter mortgage regulations as gains were observed in London, ON (+0.5%) and Vancouver, BC (+0.4%). Year-over-year, prices have risen 0.2%.
  - **Home sales lower.** Sales activity of existing homes fell in October by 1.6% with half of the metros followed by CREA seeing declines, led by Hamilton-Burlington, Montréal, and Edmonton. New listings were also lower by 1.1% for the same period, while on a year-over-year basis, sales and the national average price has dropped 3.7% and 1.5%, respectively.

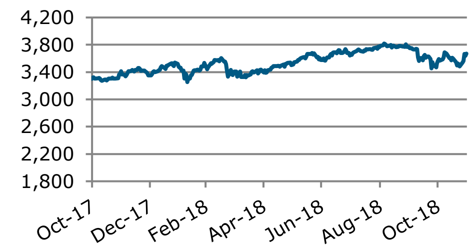
S&P/TSX Composite Index
Sector Snapshot

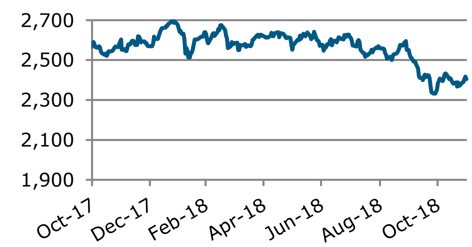
Sector	Month Return	YTD Return	Weight (%)
Energy	-2.95	-15.38	17.80
Communication Service	6.97	-1.62	5.90
Industrials	1.32	6.19	10.70
Consumer Staples	7.59	1.88	3.80
Utilities	3.85	-10.25	4.00
Financials	1.77	-5.57	34.20
Consumer Discretionary	2.68	-9.90	4.40
Health Care	-5.83	0.12	1.60
Materials	-0.05	-15.12	10.20
Information Technology	2.86	18.70	4.10
Real Estate	0.12	2.14	3.20

S&P/TSX Composite - 1Y Return



U.S. Markets





- **U.S. market rebounds.** After a horrendous October, the U.S. stock market closed the month higher. It was a volatile month featuring several headline events driving market sentiment, including the mid-term election, Jerome Powell's 'dovish' tone, and speculation around the meeting between Donald Trump and Xi Jinping at the G20 summit. The broad-based S&P 500 index rose 1.8% for the month, ending at 2,760. The Dow Jones Industrial Average moved up 1.7%, closing the month at 25,538. After a big correction in October, the tech-heavy Nasdaq remained this month's underperformer, up only 0.3% and ending the month at 7,331.
- **U.S. Q3 GDP growth slows.** The Commerce Department reported its second estimate of Q3 GDP growth. Q3 GDP grew at an annualized rate of 3.5%, unchanged from the first estimate. Q2 GDP was reported to grow at an annualized pace of 4.2%.
- **Fed likely to raise rates in December.** According to the November meeting minutes, the Fed was ready to raise its benchmark interest rates by another quarter point in December. "…almost all participants expressed the view that another increase in the target range for the federal funds rate was likely to be warranted fairly soon if incoming information on the labor market and inflation was in line with or stronger than their current expectations," the minutes stated. However, some participants expressed concern about tariffs and the high level of debt in the economy.
- **U.S. CPI rises.** Consumer prices rose at their fastest pace in nine months in October, according to the Labor Department. The consumer price index (CPI) rose 0.3% in October, the biggest gain since January. On a year-over-year basis, CPI was up 2.5%. Core CPI, which excludes food and energy prices, climbed 0.2% for the month and was up 2.1% on the year.
- **U.S. non-farm payrolls rise.** The U.S. economist pumped out a lot more jobs than expected in October, according to the Labour Department. Non-farm payrolls increased by 250,000 in October, up from 134,000 reported in September, also blowing past expectation of an increase of 200,000. The unemployment rate remained at 3.7%. Average hourly earnings rose 3.1% on the year, a tick higher than consensus estimate of 3%.
- **U.S. 'flash' composite PMI.** Business activity in U.S. slowed down in November according to the 'flash' composite PMI. The 'flash' composite purchasing managers' index (PMI) fell from October's reading of 54.8 to 54.4, missing forecasts of 54.8. Manufacturing PMI slid from 55.9 to 55.4, in line with economists' estimate. Services sector PMI declined to 54.4 from 54.7, marginally missing forecast of 54.5.
- **U.S. industrial production increases.** The Federal Reserve reported that industrial production rose 0.1% in October, missing economists' expectation of a 0.2% increase. On the year, output was up 4.1%. Growth in manufacturing was offset by declines in mining and utility production.
- **U.S. PPI jumps.** Producer price index jumped the most in six years in October, according to the Labor Department. The producer price index (PPI) moved up 0.6% in October, after a 0.2% rise in September. Economists were expecting a 0.2% increase. On the year, PPI was up 2.9%.
- **U.S. retail sales rebounds.** After slipping in September, retail sales rebounded strongly in October. The Commerce Department reported that retail sales increased by 0.8% in October, handily beating economists' expectation of a 0.5% rise. Retails sales fell 0.1% September.
- **U.S. consumer sentiment worsens**. Consumer sentiment fell more than expected in November according to a report by the University of Michigan. The final reading of the university's consumer sentiment index dropped to 97.5 in November, down from the prior month's reading of 98.6; economists were expecting a reading of 98.3. November's reading was the lowest level since August.
- **U.S. Housing**
  - **U.S. housing starts rise.** Homebuilding rose in October, according to data released by the Commerce Department. Housing starts rose 1.5% to a seasonally adjusted annual pace of 1.23 million units; Economists were expecting an annual pace of 1.24 million units. Despite the overall increase, single-family homebuilding dropped 1.8% to a rate of 865,000 units in October, falling for the second straight month. Building permits slipped 0.6% to a rate of 1.26 million, in line with expectation.
  - **U.S. existing home sales rise.** Existing home sales rose for the first time in six months in October according to data released by the National Association of Realtors. October sales increased by 1.4% to a seasonally adjusted annual pace of 5.22 million units, slightly above economists' estimate of 5.21 million units. On a year-over-year basis, sales were down 5.1%.
  - **U.S. home prices rise.** Home prices remained on an upwards trajectory despite the pace of increase slowing down. According to the S&P Core Logic Case-Shiller National Home Price Index, home prices rose 5.5% annually in September, down from August's pace of 5.7%. The 20-city index rose 5.1%, missing forecasts of a 5.3% increase. Las Vegas, San Francisco, and Seattle continued to lead the group in terms of percentage increase.
  - **U.S. new home sales drop.** New home sales plunged in October and was negative in four of the past five months. The Commerce Department reported that sales of new homes fell 8.9% in October to a seasonally adjusted annual rate of 544,000 units, missing economists' expectation of 575,000 units. On a year-over-year basis, sales were down 12%. Rising mortgage rates were believed to cut into affordability for some potential buyers.
  - **U.S. pending home sales drop.** The National Association of Realtors reported that pending home sales dropped 2.6% in October, missing economists estimate of a 0.5% increase. On a year-over-year basis, pending home sales were down 6.7%.

European Markets

- **Eurozone Q3 GDP growth slows.** The 19-member economic bloc grew at its slowest pace in four years in Q3, according to Eurostat. Q3 GDP growth was confirmed at 0.2%, matching economists' forecast; it was the slowest growth pace since Q2 2014. On a year-over-year basis, GDP grew 1.7%. Generally regarded as the economic locomotive within the zone, Germany saw a rare contraction of 0.2% for the quarter.
- **Euro-zone inflation eases.** Inflation within the Euro-zone fell in November thanks to a pullback in oil prices. The 'flash' harmonised index of consumer prices (HICP) rose 2% year-over-year in November, down from 2.2% reported in October. Economists were expecting an annual increase of 2.1%. A recent plunge in crude oil prices was believed to be the major factor driving down inflation.
- **Euro-zone unemployment rate remains low.** The jobless rate within the 19-member economic bloc remained at a near decade low of 8.1% for the third straight month. Economists were expecting the jobless rate to ease further to 8%.
- **ECB stays it course.** The ECB reiterated its plan to wind down its massive bond purchase program by the end of the year and to raise interest rates sometime after next summer. October's meeting minutes revealed that central bankers realized that recent economic data was weaker than expected but expressed that the economy remained healthy and inflation was rising gradually.
- **Euro-zone 'flash' composite PMI falls.** Business activity within the 19-member economic bloc cooled off in November. The 'flash' composite purchasing managers' index (PMI) fell from October's final reading of 52.7 to 52.4, missing economists' estimate of 53.0. Manufacturing PMI dropped from 52.1 to 51.5 while services sector PMI declined slightly from 53.3 to 53.1.

Asian Markets

- **Japan Q3 GDP shrinks.** Japan's economy contracted by an annualized 1.2% in Q3 after posting robust Q2 growth. Economists were expecting a small decline of 1%. Natural disasters were the major factor dampening Q3's business activity. Exports declined by 1.8% from Q2, the largest drop in more than three years.
- **Japan CPI remains steady.** Consumer inflation in Japan stayed steady in October. The headline consumer price index (CPI) rose 0.2% for the month and 1.4% on the year, both rising slightly from previous month's pace. Bank of Japan's preferred inflation gauge, the so-called core-core CPI which excludes fresh food and energy, increased by 0.4% year-over-year. This measure remained far off BOJ's inflation target of 2%.
- **Household spending in Japan drops.** In October, Japanese tightened up their wallets for the first time in three months, according to the Internal Affairs and Communications Ministry. Household spending fell 1.6% year-over-year in September, missing economists' expectation of a 1.6% increase. Natural disasters were believed to be a major factor causing the slowdown, as they pushed up the prices of necessities such as fresh food and vegetables.
- **China manufacturing PMI falls.** The official manufacturing purchasing managers' index (PMI) fell to 50.0 in November, down from October's reading of 50.2. Economists were expecting a reading of 50.2. The 50-point reading indicated that the sector was neither expanding nor contracting. It was the first time in two years that the manufacturing sector in China stalled.
- **Economic data out of China.** Several pieces of economic data for October were reported out of China. Fixed asset investment grew 5.7% year to date, beating economists' estimate of a 5.5% growth. Industrial production was up 5.9% year-over-year, higher than economists' expectation of 5.8%. Retails sales rose 8.6% year-over-year, missing forecast of a 9.2% increase.
- **China's producer inflation slows.** Producer price inflation cooled in October while consumer prices steadied. The National Bureau of Statistics reported that the producer price index (PPI) rose 3.3% year-over-year, slowing from September's pace of 3.6% and matching forecast. The consumer price index (CPI) rose 2.5% year-over-year, matching economists' expectation and previous month's pace.

Key Take-Aways

Health in the Eurozone. Almost a decade ago, the Eurozone was in the midst of a sovereign debt crisis that had many believe the euro-currency adopted by 19 countries would collapse and send one of the largest economic unions globally into disarray. With unemployment at a record high, a stagnant economy, and deflationary fears, there were few people able to solve the problems and even fewer options available to fix it. It eventually took the ECB, led by Mario Draghi, to drop interest rates to historical lows, where they still remain, and inject billions of Euros into the financial system to jump start growth. After years of austerity measures, economic growth has picked up with inflation and unemployment rising and falling, respectively. The Eurozone is markedly much healthier today than back in 2009. However, the increased market volatility lately, due to concerns around slowing global growth because of geopolitical and trade tensions, will be a good test of the economy's resilience as the ECB looks to begin winding down its QE bond purchasing program after nine and a half years.

America Votes. Just like they did two years earlier, Americans cast their ballots during a divided political environment to determine who and how the government will be run the for next two years. Many expected the Republicans to cede full control of Congress, losing either the Senate or the House. After the votes were tallied, the Democrats took the House of Representatives with the GOP adding to their majority in the Senate by two seats. While the results suggest greater bipartisanship going forward, the momentum was with the Democrats as the Trump Administration's actions and policies have upset many - regardless of party affiliation. Despite the losses by corporate-friendly Republicans, markets rose the days following the election as investors hoped the mid-term results will provide some certainty amid the recent volatility. The U.S. government is markedly different than it was a month ago, while all else remains unchanged for the most part, especially the policies of the Federal Reserve. The People have spoken and it's now up to the Elected to listen and act to keep the economy healthy.