

Month in Review

For the month ended January 31st, 2019

Overall Highlights

- **TSX soars.** An increase in appetite for equities lifted the S&P/TSX Composite, with gains in commodities and resources, making it the best January performance in almost 40 years and one the best performing global indexes so far in this young year. Crude oil's 11-week high helped lift the Energy sector, while comments from Fed Chairman Powell quelled rumours of any rate hikes in the short term. The Composite closed the January at 15,541, an 8.5% monthly gain.
- **Loonie flies higher.** Our Dollar rose to close to at a three-month high as higher crude priced helped our petro-currency. Solid employment numbers in the U.S. pointed to continued strength in its economy, but it was comments from the Federal Reserve to hold its rate hikes for the time being that helped global currencies gain ground on the resiliently strong Greenback. In January, the Loonie ended at US76.08 cents for one Canadian dollar, a monthly advance of 3.8%.
- **Gold shines.** The yellow metal rose for a fourth straight month as the U.S. Federal Reserve left rates unchanged at their latest FOMC meeting. They also suggested a temporary holding pattern on future rate hikes. The attraction of gold, already strong given the lingering trade spat between the U.S. and China, received a further bullish boost on a report stating central banks are increasing their demand for the metal. An April contract for gold closed the month at US\$1,325.60, an increase of 3.4%.
- **Oil gushes.** Crude oil bounced back from recent weakness as a barrage of optimistic news benefited the commodity. U.S. sanctions against Venezuela, a major oil producer, raised the likelihood of tighter global supplies while the latest Baker-Hughes drilling rig report suggested a decrease in production activity in the U.S. Efforts by OPEC appears to be helping as well, as output was down by 800,000 barrels per day, its largest monthly decline in two years. A February contract for a barrel of WTI crude ended trading at US\$53.88, a whopping 17.6% surge for the month.
- **November GDP contracts.** There was little surprise for the economy as it showed weakness for the second time in the last three months.
- **Holding off.** The Bank of Canada (BoC) held off on raising its overnight rate for a second straight month at their latest meeting on January 9th, their first meeting of 2019.
- **Unemployment lower.** A small increase in people able to find work in December left the unemployment rate unchanged at 5.6%, a 43-year low, StatCan reported.
- **Inflation down.** Monthly inflation for the last month of the year slipped slightly as cost declines at the pumps was mainly to blame.
- **Retail sales falter.** Consumers were in a less of a spending mood in November, with retail sales leading up to the holiday shopping season falling 0.9% from a revised lower October gain.
- **Fed will be patient.** The FOMC members voted unanimously in the January meeting to hold benchmark interest rates between 2.25% to 2.5%.
- **U.S. CPI drops.** The consumer price index (CPI) fell for the first time in nine months in December. The Labor Department reported that the CPI dropped 0.1% in December, matching economists' expectation.
- **ECB keeps rate unchanged.** After ending its massive bond purchase program in December, the ECB decided to keep its interest rates on hold after its January meeting.
- **Euro-zone unemployment rate remains stable.** Unemployment rate within the 19-member economic bloc remained at the decade-low of 7.9% in December, in line with economists' expectations.
- **BOJ keeps interest rates steady.** The Bank of Japan announced that it would keep its interest rates on hold after its January meeting.

Index/Commodity/Currency		
Close	MonthChange	YTDChange
S&P/TSX Composite		
15,540.60	1,217.7	1,217.7
	8.5%	8.5%
Dow Jones Industrial Average		
24,999.67	1,672.2	1,672.2
	7.2%	7.2%
S&P 500		
2,704.10	197.3	197.3
	7.9%	7.9%
NASDAQ Composite		
7,281.74	646.5	646.5
	9.7%	9.7%
MSCI-EAFE Index		
1,831.09	111.2	111.2
	6.5%	6.5%
WTI Crude Oil (per barrel, in \$US)		
53.88	8.1	8.1
	17.6%	17.6%
Gold (per ounce, in US\$)		
1,325.60	43.0	43.0
	3.4%	3.4%
Canadian Dollar (¢ per US\$)		
76.08	2.8	2.8
	3.8%	3.8%

Sources: Bloomberg, PC Bond

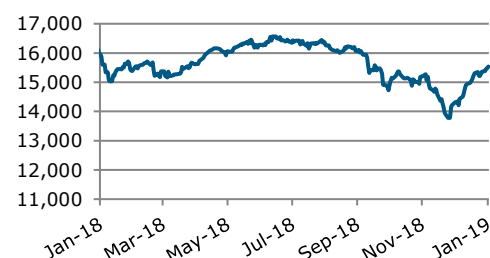
Canadian Markets

- November GDP contracts.** There was little surprise for the economy as it showed weakness for the second time in the last three months. For November, GDP fell 0.1%, on par with economists' expectations. Surprisingly, of the 20 industries followed, 13 saw gains; however, these results were overshadowed by declines in the finance, wholesale, and construction sectors. The softer data will likely keep the Bank of Canada from raising rates as it forecasted annualized growth to slow to 1.3% in Q4 and 0.8% in Q1 2019.
- Holding off.** The Bank of Canada (BoC) held off on raising its overnight rate for a second straight month at their latest meeting on January 9th, their first meeting of 2019. This was widely expected as the global outlook on growth has weakened in the last few months. The fall in crude prices and global trade tensions continue to be the culprits working against Canada's economic expansion, prompting governor Stephen Poloz to lower his projections for 2019 from 2.1% to 1.7%.
- Unemployment lower.** A small increase in people able to find work in December left the unemployment rate unchanged at 5.6%, a 43-year low, StatCan reported. For the month, 9,300 jobs were added compared to forecasts of 5,500 as part-time employment offset a decline in full-time positions. The participation rate was unchanged, holding at 65.4% of the eligible workforce in Canada being employed.
- Inflation down.** Monthly inflation for the last month of the year slipped slightly as cost declines at the pumps was mainly to blame. For December, the price of goods fell 0.1%, bettering expectations for a 0.4% decline, while on a seasonally adjusted basis, the metric rose 0.2%. Offsetting cheaper gas was a steep rise in transportation prices during the holiday season, as well as fresh vegetables. For the previous 12 months, annual inflation rose to 2% from 1.7%, with core inflation also rising to 1.7% from November's and forecasts of a 1.5% reading.
- IPPI down.** In December, the price of goods sold by producers fell on lower cost of energy and petro products. For the month, the Industrial Product Price Index fell 0.7% even though 18 of the 21 major commodity groups were either higher or unchanged. Had energy and petroleum been omitted, IPPI would have increased 0.4% instead. On an annualized basis, IPPI rose 2.2% compared to November's increase of 2.8%.
- Manufacturing sales slide.** For a second straight month, factory sales fell in Canada on lower sales of petro and coal products. Total receipts were \$57.3B in November, down 1.4% from the previous month, for 13 of the 21 industries followed by Statistics Canada. Omitting petroleum and coal industries, sales would have increased 0.2%, led by advances in transportation and food sectors. On a volume basis, sales declined 0.9% during the month.
- Manufacturing PMI slips.** Factory activity fell to a two-year low as growth and output slowed. In December, the IHS Markit Manufacturing PMI fell to 53.6 from 54.9 in the previous month as business conditions deteriorated, caused in part by the continued global trade battles. With the decline in crude prices, it was no surprise that the Energy sector was impacted the most and may continue to see rough roads ahead.
- Retail sales falter.** Consumers were in a less of a spending mood in November, with retail sales leading up to the holiday shopping season falling 0.9% from a revised lower October gain. This was the largest drop since April, as gasoline sales fell for the third time in four months and total sales added up to \$50.4B. Analysts had predicted a decline of 0.6% as six of the 11 subsectors monitored by StatCan fell.
- Canada Housing News:
 - Housing starts lower.** There were fewer ground breakings in December on an annualized basis as higher interest rates and lower oil prices in some regions had an impact. For the month, the pace was 213,419 units on a year-over-year basis, a decrease from November's 224,349 unit rate. This reading, however, still beat forecasts as the mild weather helped builders. In 2018, CMHC reported 214,020 starts versus 2017's 219,763 units, and comfortably above the 192-203,000 forecasted.
 - Building permits climb.** Increased demand for commercial buildings helped push non-residential applications higher by 11.6% in November. This offset a decline in the residential sector as both single-family and multi-unit dwellings intentions fell. Overall, \$8.3B in permits were issued, equating to a 2.6% increase over October's reporting.
 - New home prices unchanged.** For a fourth consecutive month, the price of a new home in Canada was little changed, on par with analyst expectations. Of the 27 metropolitan regions followed for this Statistics Canada index, prices were decreasing or flat with Regina leading all decliners at -0.6%. At the other end of the spectrum, Ottawa was the top advancer with a 0.6% increase. On a year-over-year basis, prices rose 0.1% compared to the previous month.
 - Existing home sales disappoint.** It was a less than merry December for sales of existing homes as they fell 2.5% compared to November, as reported by CREA. It was the fourth straight month of decline, with weak activity seen across the country from Vancouver Island to Ottawa to Halifax. The annualized data told a more dismal story as sales fell 19% from the same period a year ago, the weakest since 2012, with the national average sale price also falling 4.9%.

S&P/TSX Composite Index Sector Snapshot

Sector	Month Return	YTD Return	Weight (%)
Energy	10.58	10.58	18.00
Telecoms	4.51	4.51	5.70
Industrials	7.39	7.39	10.60
Consumer Staples	3.44	3.44	3.80
Utilities	6.11	6.11	4.00
Financials	7.97	7.97	32.60
Consumer Discretionary	10.61	10.61	4.30
Health Care	43.19	43.19	2.10
Materials	6.71	6.71	11.50
Information Technology	9.99	9.99	4.10
Real Estate	7.68	7.68	3.20

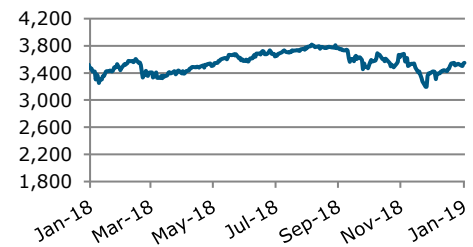
S&P/TSX Composite - 1Y Return



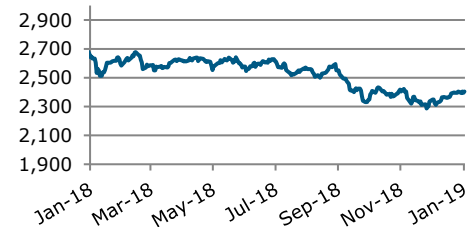
U.S. Markets

- **U.S. stock market rebounds strongly.** After a horrendous December, U.S. stocks rebounded strongly in the first month of 2019. The S&P 500 index had its best January performance since 1987. A more 'dovish' Federal Reserve and some positive developments around the China-US trade talks provided optimism to the market. The S&P 500 index gained 7.9% for the month, closing above the 2,700-level at 2,704. The Dow Jones Industrial Average rose 7.2%, ending January at 25,000. Nasdaq was the best performer for the month, up 9.7%, wrapping up the month at 7,282.
- **Fed will be patient.** The FOMC members voted unanimously in the January meeting to hold benchmark interest rates between 2.25% to 2.5%. "In light of global economic and financial developments and muted inflation pressures, the Committee will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate to support these outcomes," the Fed's statement said. Also, in a separate statement about its balance sheet, a new arrangement, the Fed also said they expect to operate with "an ample supply" of bank reserves, indicating that its balance sheet will remain sizeable after the reduction of bond holdings was finished.
- **U.S. non-farm payrolls blows expectations.** The labor market was surprisingly strong in December according to a report by the Labor Department. Non-farm payrolls rose by 312,000 in December, handily beating economists' expectation of 184,000 positions created. It was also the highest number since February. The unemployment rate rose from a decade low of 3.7% to 3.9% as more workers entered the U.S. labor force. Average hourly earnings were up 3.2% on the year, the highest since 2009.
- **U.S. CPI drops.** The consumer price index (CPI) fell for the first time in nine months in December. The Labor Department reported that the CPI dropped 0.1% in December, matching economists' expectation. On a year-over-year basis, the CPI rose 1.9%. The core CPI, which excludes food and energy prices, increased by 0.2% for the month and 2.2% on the year, both matching expectations. A sharp drop in oil prices was one of the major factors keeping a lid on prices.
- **U.S. PPI falls.** Producer prices fell by the most in over two years in December. The Labor Department reported that the producer price index (PPI) dropped 0.2% for the month; economists were expecting an increase of 0.1%. It was the first decline since February 2017. On an annual basis, PPI rose 2.5%, matching economists' expectation. A steep decline in energy and food prices in recent times were major factors in keeping a lid on prices.
- **U.S. 'flash' composite PMI rises.** Business activity in U.S. had a solid start in 2019. The IHS Markit 'flash' composite purchasing managers' index (PMI) came in at 54.5 for January, up slightly from December's final reading of 54.4. Economists were expecting a reading of 54.2. Manufacturing PMI rose from 53.8 to 54.9, exceeding expectation of 53.5. Services sector PMI eased slightly to 54.2, down from December's final reading of 54.4, on par with forecasts.
- **U.S. industrial production rises.** Manufacturing output increased by the most in ten months in December, driving up industrial output. The Federal Reserve reported that industrial production rose 0.3% in December; economists were expecting the same increase. The December increase was driven by a strong surge in manufacturing output, which rose 1.1%, the largest jump since February.
- **U.S. Consumer sentiment drops.** Consumer sentiment plunged to its lowest level since Donald Trump was elected president, according to a survey by the University of Michigan. The university's consumer sentiment index fell to 90.7 in January, down from last December's reading of 98.3. Economists were expecting a much stronger reading of 96.4. The fall was due to a list of uncertainties on consumers' minds such as the government shutdown, the trade war, and the stock market rout in December.
- U.S. Housing News:
 - **U.S. home prices slow down.** Home prices in U.S. increased at a slower pace in November, according to the S&P Corelogic Case-Shiller home price index. The 20-city index rose 4.7% year-over-year in November, down from October's annual pace of 5%. Economists were expecting an annual increase of 4.9%. Las Vegas, Phoenix, and Seattle were leading the 20-city group in terms of annual percentage increase.
 - **U.S. existing home sales drop.** U.S. existing home sales tumbled to the lowest level in three years in December. The National Association of Realtors reported that existing home sales fell 6.4% to a seasonally adjusted annual pace of 5 million units; economists were expecting a much smaller fall of 1%. It was the lowest level since November 2015. On a year-over-year basis, existing home sales tumbled 10.3%.
 - **U.S. pending home sales fall.** Pending home sales fell in December, according to the National Association of Realtors. Pending home sales were down 2.2% in December, missing economists' expectation of a 0.5% increase by a wide margin. On a year-over-year basis, pending home sales were down 9.8%.

S&P 500 - 1Y Return (CAD)



MSCI EAFE - 1Y Return (CAD)



European Markets

- **ECB keeps rate unchanged.** After ending its massive bond purchase program in December, the ECB decided to keep its interest rates on hold after its January meeting. ECB's deposit rate was kept at -0.4% while the main refinancing rate would stay at 0%. In the news conference, ECB President Mario Draghi expressed some concerns about the euro area economy. "The risks surrounding the euro area growth outlook have moved to the downside on account of the persistence of uncertainties," Draghi said.
- **Euro-zone unemployment rate remains stable.** Unemployment rate within the 19-member economic bloc remained at the decade-low of 7.9% in December, in line with economists' expectations. Germany and Czech Republic continued to have the lowest unemployment rates within the zone while Greece and Spain's rates remained the highest.
- **Euro-zone inflation falls.** Consumer inflation within the 19-member region fell more than the preliminary reading released earlier. December's final harmonised index of consumer prices (HICP) rose 1.6% year-over-year, a tick lower than the flash estimates of a 1.7% annual increase. It was down from the 1.9% annual pace reported in November.
- **Euro-zone 'flash' composite PMI falls.** Business activity within the 19-member bloc slowed in January. Preliminary reading of the IHS/Markit composite purchasing managers' index (PMI) fell to 50.7 in January, down from December's reading of 51.1; economists were expecting a reading of 51.3. The manufacturing and services PMI both missed, falling from 51.4 to 50.5 and 51.2 to 50.8, respectively.
- **Euro-zone composite PMI dips.** Business activity within the 19-member economic bloc slowed in December. The IHS Markit's composite purchasing managers' index (PMI) fell to 51.1 from November's reading of 52.7; economists were expecting a reading of 51.3. The manufacturing PMI dropped for the fifth straight month, dipping to 51.4 from 51.8. The services sector PMI declined from 53.4 to 51.2, also missing forecasts of 51.4.
- **Euro-zone sentiment declines.** Economic sentiment within the 19-member bloc fell to a two-year low in January. The European Commission's sentiment index dropped to 106.2 in January, down from last December's reading of 107.4; economists were expecting a reading of 106.8. January marked the seventh consecutive monthly drop, and also the lowest level of the gauge since November 2016.

Asian Markets

- **BOJ keeps interest rates steady.** The Bank of Japan announced that it would keep its interest rates on hold after its January meeting. Short-term benchmark rate target would be maintained at -0.1% while the 10-year rate, controlled through buying of Japanese government bonds, would be kept around 0%. The central bank also lowered its forecast of consumer inflation from a range of 1.5%-1.7% to 1%-1.3%.
- **Japan 'flash' manufacturing PMI drops.** The manufacturing sector in Japan cooled down in January and was getting closer to contraction territory. Preliminary reading of the Markit/Nikkei manufacturing purchasing managers' index (PMI) fell to 50.0 in January, down from last December's reading of 52.6. The gauge barely stayed above the 50-mark which separates expansion from contraction.
- **China's inflation slows.** Both consumer and producer inflation slowed in December. The consumer price index (CPI) rose 1.9% year-over-year in December, down from November's pace of 2.2%, missing economists' expectation of a 2.1% growth. The producer price index (PPI) rose 0.9% from a year ago, down significantly from November's pace of 2.7%; economists were expecting an annual increase of 1.6%.
- **China's official manufacturing and non-manufacturing PMIs rise.** China's manufacturing activity remained in the contraction territory in January. The official manufacturing purchasing managers' index (PMI) released by the National Bureau of Statistics increased slightly from December's reading of 49.4 to 49.5. Economists were expecting a reading of 49.3. In contrast, the services sector expanded faster in January. The official non-manufacturing PMI rose for the second straight month to 54.7 in January, beating forecasts of 53.8.

Key Take-Aways

Brexit. British Lawmakers spoke and handed U.K. Prime Minister Theresa May a defeat of her negotiated Brexit deal with the largest margin of loss, the likes of which had not been seen for over a century, by a vote of 430 to 202. The next day, the competency of her government was tabled with a no-confidence vote following, which Ms. May narrowly survived 325 votes to 306. With the political drama abated, at least for now, there still remains no concrete plan or strategy of how the United Kingdom will leave the European Union as the second anniversary deadline of the triggering of Article 50 fast approaches. In the event no withdrawal deal can be reached, the effects would be adverse and wide ranging, affecting many sectors including finance, immigration, and trade, where immediate changes will occur as it defaults to the rules of the World Trade Organisation, with possible positive and negative ramifications as a result. In the longer term, cooperation could be harder to come by; yet more importantly, growth in the U.K., the EU and globally could be negatively affected.

Slow but steady. As expected by the central bank and by economists, Canada's economy hit a soft patch with weak data in the month leading up to the busy holiday season. The slump is expected to continue for the short term, for a quarter or two, as oil prices remain depressed and worries persist on global economic health. This was foreseen by the Bank of Canada prompting them to hold off on further interest rate hikes, allowing time for the past hikes to dissipate through the economy. This is appearing to be a common theme with central banks recently as they ease up on monetary policy tightening and remain accommodative. In Canada, although growth has slowed, it remains positive with hopefully enough momentum to make it through the many difficulties facing the world.

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