Credential
Market Insights | MONTHLY

Month in Review

For the month ended February 28th, 2019

Overall Highlights

- **TSX gains.** The Composite continued its winning streak in 2019, posting a decent gain in February following an impressive start to the year. The Energy sector provided most of the gains with rising crude prices helping to counter weak corporate earnings resulting from the negative effects of global economic and political uncertainty. At closing, the February month end of the TSX was at 15,999, a 2.9% monthly gain, a 11.7% gain year-to-date, and a little under 3.5% from its all-time high.
- **Loonie declines.** Canada's economy slumped more than expected in the fourth quarter of 2018, sending the Loonie lower. However, the strength in crude helped temper any further losses for our dollar. In February, the Loonie ended at US75.94 cents for one Canadian dollar, a monthly retreat of 0.2%.
- **Gold tarnishes.** The yellow metal fell for the first time in five months, pulling back from a 10-month high as U.S. GDP data showed strength in the world's largest economy. This overshadowed the ongoing geopolitical and economic concerns that have lured investors to the safe-haven asset for the past four months. The luster for gold remains as central banks increase their holdings for the metal amidst low supply. An April contact for gold closed the month at US$1,315.80, a decrease of 0.7%.
- **Oil gushes.** Weak global growth, especially from China, fueled concerns of a slowdown and lower demand for crude. However, a surprise reduction in U.S. inventories and continued support from OPEC members and Russia to pare back production provided support for the commodity and a second straight monthly gain. An April contract for a barrel of WTI crude ended trading at US$57.18, a strong 6.1% surge for the month.
- **Inflation edges higher.** Canada's gauge of price growth fell to a 15-month low, annualized, on falling prices at the pumps.
- **Unemployment higher.** Following the holiday season, the national jobless rate rose in January, but the increase was matched by more people finding work.
- **Retail sales weak.** Retail sales data for the final month of 2018 were much improved from the previous month and above analyst estimates.
- **U.S. fourth quarter GDP surprises economists.** Coming in far above expectations, fourth quarter annualized GDP rose by 2.6%, ahead of the 2.2% expected by the economists surveyed by the Dow Jones.
- **U.S. CPI for January remains flat.** This was the third consecutive unchanged monthly reading, modestly below expectations for an increase of 0.1%.
- **U.S. retail sales fall sharply in December.** The U.S. Commerce Department reported on Thursday that retail sales declined by 1.2%, the largest drop in spending since September of 2009.
- **Euro-zone's GDP growth slows in the fourth quarter.** The seasonally adjusted quarterly figure rose by 0.2% during the final quarter of 2018.
- **Economic confidence in the Eurozone continues to deteriorate.** The economic sentiment indicator marginally fell to 105.3 in February from a January figure of 106.2. according to the European Commission.
- **Japan's factory output contracts in February.** This marked the first contraction in nearly three years as exports declined amid slower sales to China.
- **Manufacturing activity in China continues to contract.** While the Caixin/Markit Manufacturing PMI reading in February indicated a contraction (below 50), the 49.9 figure for the period was higher than both the 48.3 level recorded in the previous month and economists' expectations of 48.5.

Index/Commodity/Currency		
Close	**Month Change**	**YTD Change**
S&P/TSX Composite		
15,999.01	458.4	1,676.1
	2.9%	11.7%
Dow Jones Industrial Average		
25,916.00	916.3	2,588.5
	3.7%	11.1%
S&P 500		
2,784.49	80.4	277.6
	3.0%	11.1%
NASDAQ Composite		
7,532.53	250.8	897.3
	3.4%	13.5%
MSCI-EAFE Index		
1,873.72	42.6	153.8
	2.3%	8.9%
WTI Crude Oil (per barrel, in $US)		
57.18	3.3	11.4
	6.1%	24.8%
Gold (per ounce, in US$)		
1,315.80	-9.8	33.2
	-0.7%	2.6%
Canadian Dollar (¢ per US$)		
75.94	-0.1	2.6
	-0.2%	3.6%

Sources: Bloomberg, PC Bond

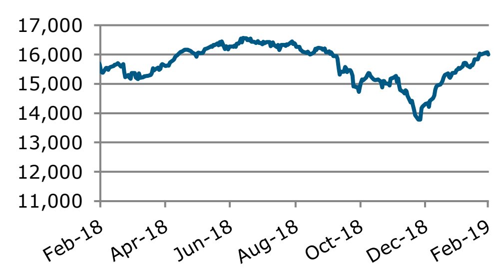
Canadian Markets

- **Inflation edges higher.** Canada's gauge of price growth fell to a 15-month low, annualized, on falling prices at the pumps. In January, monthly inflation was up 0.1%, better than the previous month's decline and on par with analyst estimates. The decline was representative of the slowdown seen in the economy and a likely reason for the Bank of Canada to move interest rates, up or down. On an annual basis, inflation fell sharply from 2% to 1.4% while core inflation fell from 1.7% in November to 1.5%
- **Unemployment higher.** Following the holiday season, the national jobless rate rose in January, but the increase was matched by more people finding work. For the month, the unemployment rate rose to 5.8% from 5.6% as employers were able to fill 66,800 positions, most of them part-time in nature (+36,000). All the jobs were in the services sector as manufacturing slumped. This was above consensus of a 5.7% rate and only 8,000 new hires, respectively. The participation rate rose slightly to 65.6%, up from December's 65.4%.
- **IPPI lower**. The Industrial Producer Price Index (IPPI) posted a -0.3% month-over-month in January as lower prices in energy and petroleum products drove down prices of goods sold by manufacturers, while conversely, the cost of meat, fish, and dairy helped offset energy. This was the third straight monthly decline following a revised -0.8% in December as reported by Statistics Canada. On an annualized basis, PPI was halved, falling to 1% from 2%.
- **Wholesale sales rise.** Boosted by auto and their parts, wholesale sales in Canada rose 0.3% in December to $63.1B. This was better than the expected 0.1% decline forecasted by economists and a reversal of November's steep decline of 1.1%. Of the seven sectors tracked by Statistics Canada for measurement, four were higher, accounting for 64% of total wholesale sales. On a volume basis, sales were higher for the same amount in December.
- **Manufacturing sales decline.** Factory sales activity fell in December with receipts totaling $56.4B, a 1.3% decrease from the previous month and below expectations of a 0.2% gain. Sales were down in 12 of the 21 industries tracked by Statistics Canada led by petroleum and coal products. This was the third straight monthly drop as global trade concerns continue to worry the sector. On a volume basis, manufacturing sales also declined 1.2% for the month.
- **Retail sales weak.** Retail sales data for the final month of 2018 were much improved from the previous month and above analyst estimates. Unfortunately, it was still a weak December for retailers as sales declined 0.1% versus forecasts of a -0.3% decline. Lower demand at the pumps and for electronics and appliances were mainly to blame. In volume terms, retail sales rose 0.2%, while annualized, it is up by 1.7% compared to November's 0.5% pace.
- Canada Housing News:
    - **Housing starts lower.** The annual rate of home groundbreakings in Canada fell in January but exceeded analyst expectations, CMHC reported. During the month, 207,968 homes were started, above the 205,000 units estimated and above historical average. Detached, single family homes declined 10.4% as apartments and condos rose 0.7%. Perennial hot markets Vancouver and Toronto saw little change, but remained steady, as past interest rate hikes and possibilities of future ones dampen pre-sales of new homes.
    - **Building permits climb.** An indicator of builder intentions, the value of building permit applications in December was the biggest gain in 19 months and helped end 2018 on a high note. The month's 6% increase for total permit value of $8.8B was driven higher by 11.1% rise in multi-unit dwellings that help offset a 5.4% decline in single-family homes. Non-residential demand, such as commercial and industrials, also helped the strong gains for the month.
    - **Home sales rise.** National data from CREA reported an increase of 3.6% in monthly home sales in January. Much of the activity came from the Montreal, Ottawa, and Winnipeg markets, while half of the regions followed saw overall gains. Homebuyers adjusting to new mortgage rules and the rising interest rate environment are the main reasons for the increase. On an annualized basis, sales were down 4%, the weakest January since 2015, as the average sales price is down 5.5%.

S&P/TSX Composite Index
Sector Snapshot

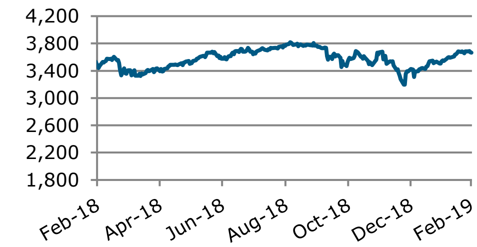
Sector	Month Return	YTD Return	Weight (%)
Energy	4.35	15.39	18.40
Telecoms	2.62	7.25	5.70
Industrials	3.48	11.13	10.60
Consumer Staples	3.36	6.92	3.80
Utilities	3.73	10.06	4.00
Financials	2.82	11.01	32.50
Consumer Discretionary	0.23	10.86	4.20
Health Care	2.05	46.13	2.10
Materials	-0.74	5.92	11.10
Information Technology	8.36	19.18	4.30
Real Estate	4.39	12.40	3.20

S&P/TSX Composite - 1Y Return

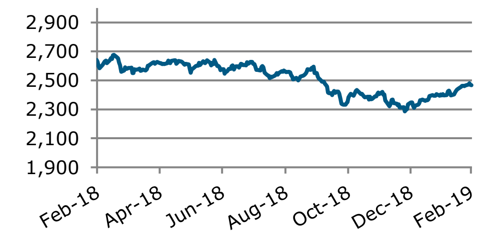


U.S. Markets

S&P 500 - 1Y Return (CAD)



MSCI EAFE – 1Y Return (CAD)



- **U.S. equity markets continued to rebound higher in February**. Extending the strong gains seen earlier in January, market participants welcomed easing trade tensions between the word's two largest economies, with sentiment broadly lifted following President Trump's announcement of progress on his administration's trade negotiation with Beijing. Investor risk appetite continued to increase as the tone out of the U.S. Federal Reserve remained dovish and cautionary, despite the release of much stronger than expected GDP data in late February. The S&P 500 Index closed at 2,784 and advanced by 3.2% (in USD), recording its best start to the year since 1987. Meanwhile, the widely tracked Dow Jones Industrial Average and Nasdaq Composite advanced by 4.0% and 3.6% in USD to close at 25,916 and 7,533, respectively.
- **U.S. fourth quarter GDP surprises economists.** Coming in far above expectations, fourth quarter annualized GDP rose by 2.6%, ahead of the 2.2% expected by the economists surveyed by the Dow Jones, according to the Commerce Department's first and second estimate (estimates combined due to the government shutdown). Higher consumer spending alongside increased non-residential fixed investments, private inventory investment, and federal government spending buoyed productivity during the period. Import activity outweighed exports, resulting in a slightly net negative trading balance. The 2018 annual figure was logged at 2.9%, modestly higher as a result of the strength seen earlier in the year.
- **U.S. Feds discuss balance sheet reduction plan to end in 2019.** To achieve maximum employment and stable asset prices, the Federal Reserve commits to being flexible in managing the process of balance sheet normalization. Currently the balance sheet has about $4 trillion in bonds. In addition, Fed officials reiterated their plan to take a patient approach to their monetary policy path this year.
- **U.S. administration declares a national emergency.** Following a temporary re-opening of the government to start the week, President Donald Trump declared a national emergency late on Friday in a bid to fund the U.S.-Mexico border wall. This move represents an escalation in President Trump's efforts to fulfill his 2016 presidential campaign promise of constructing a wall to prevent illegal immigrants from entering the U.S. This move is expected to be challenged as a violation of the U.S. Constitution by the Democrats. As a result, U.S. Treasury yields held steady, with market participants more focused on U.S-China trade developments as negotiations between the two largest economies in the world continued. More talks are planned for the upcoming week.
- **U.S. CPI for January remains flat.** This was the third consecutive unchanged monthly reading, modestly below expectations for an increase of 0.1%. On a year-over-year basis, headline inflation declined from 1.9% to 1.6%, with weakness in energy prices offsetting price growth in other major categories. However, core inflation (excludes volatile food and energy categories) remained steady, growing by 0.2% during the period to a 2.2% year-over-year level. The weaker recent inflation data, coupled with ongoing global headwinds, may continue to keep the U.S. Federal Reserve on the sidelines with respect to their upcoming policy rates decisions.
- **U.S. non-farm payrolls continue to grow.** The labor market had another strong month in January, according to a report by the Labor Department. Non-farm payrolls rose by 304,000 in January, higher than 222,000 in December. Unemployment rate edged up from 3.9% to 4.0% due to the government shutdown. Average hourly earnings went up 0.1%, less than the 0.4% increase during the month prior.
- **U.S. durable goods orders came in strong.** Durable goods posted a 1.2% gain in December driven by a surge in demand for commercial aircrafts. On the other hand, orders for non-defensive capital goods, often used as a proxy for business investment plans, fell by 0.7%.
- **U.S. Markit PMI data were mixed.** Weaker flash reading of manufacturing PMI of 53.7, previously 54.9, signals a potential momentum slowdown of the industrial sector for the month of February. In contrast, the 56.2 reading of the services PMI is at an eight-month high, signalling a stronger services sector.
- **U.S. retail sales fall sharply in December.** The U.S. Commerce Department reported on Thursday that retail sales declined by 1.2%, the largest drop in spending since September of 2009. The retail figures revealed weakness across a range of spending categories, signaling a slowdown in the U.S. economic backdrop, with some analysts lowering their GDP expectations. The December report was delayed due to the federal government shutdown, which is expected to weigh on spending recorded in more recent weeks.
- U.S. housing news:
  - **U.S. Housing starts in December fell to the lowest level seen in more than two years.** While building permits rose by 0.3% in December (to a rate of 1.326 million units), new privately-owned housing unit starts dropped 11.2% to a seasonally adjusted annual rate of 1.078 million units, the weakest reading since September of 2016. Higher mortgage rates alongside land and labour shortages underpinned the weakness seen in the U.S. housing market in December.
  - **U.S. pending home sales rose in January.** Contract signings to purchase existing U.S. homes rose by 4.6% in January, following a 2.3% decline seen in December. The rebound seen in January demonstrated the return of confidence in the U.S. housing sector as buyers move to take advantage of lower borrowing costs stemming from the Federal Reserve's decision to be patient on interest-rate hikes.
  - **U.S. home sales remain weak.** January home sales fell to 1.2%, the lowest level seen in three years. Median existing house price is at $247,500, a small 2.8% increase from a year ago.

European Markets

- **Euro-zone's GDP growth slows in the fourth quarter.** The seasonally adjusted quarterly figure rose by 0.2% during the final quarter of 2018, following news a week earlier that Germany's economy failed to record growth during the same period. Eurostat revealed a 1.2% year-over-year GDP growth reading for the single currency bloc, marking the slowest rate of growth in three years. Uncertainty over the outcome of the U.K.'s departure from the EU has continued to weaken business sentiment.
- **Eurozone CPI fell to 1.4%.** Annual inflation fell from 1.5% to 1.4% in January. Greece (0.5%), Croatia and Portugal (both 0.6%) had the lowest inflation rates. The higher rates were recorded in Romania (3.2%), Latvia (2.9%), Estonia and Hungary (both 2.8%).
- **Euro-zone composite PMI declines.** Business activity within the 19-member economic bloc slowed to its weakest pace since mid-2013 in January. The IHS/Markit composite purchasing managers' index (PMI) dipped to 51.0 in January, down from December's reading of 51.1. Economists were expecting a weaker reading of 50.7. The manufacturing PMI dropped from 51.4 to 50.5 while the services PMI stayed flat at 51.2.
- **Economic confidence in the Eurozone continues to deteriorate.** The economic sentiment indicator marginally fell to 105.3 in February from a January figure of 106.2. according to the European Commission. While consumer, retail and services confidence improved, industrial confidence came in broadly weaker. Uncertainty around trade and the outcome of Brexit continues to weigh on business sentiment, providing the European Central Bank with added justification to delay raising policy rates until next year.
- **U.K.'s economic confidence also weakens.** Fears of a no-deal Brexit have continued to deteriorate business sentiment in the U.K., pushing down the nation's latest economic sentiment figures to a five-year low. With less than 30 days remaining before Britain's scheduled EU Divorce, UK Prime Minister Theresa May is seeking some flexibility by offering her Parliament a vote to delay Brexit if a deal can't be reached in the coming weeks. Thus far, Prime Minister May's efforts to endorse her Brexit strategy in the UK Parliament have been highly unsuccessful.

Asian Markets

- **Japan's CPI in line with expectations.** CPI fell to 0.2% in January from 0.3% in December. This is the lowest rate since October 2017 amid further decreases in prices of food, transport and housing.
- **Japan's factory output contracts in February.** This marked the first contraction in nearly three years as exports declined amid slower sales to China. The February Markit/Nikkei Japan Manufacturing PMI was a seasonally adjusted 48.9, below January's final 50.3 level. The survey in February highlighted the spreading global trade friction stemming from the U.S.-China trade tensions. A U.S. and China trade agreement could alleviate some of the pressure on Japan's export sector as the nation is the source of electronic parts and heavy machinery to manufacturers in China.
- **Japan's manufacturing PMI drops to the lowest since 2016.** Nikkei Japan manufacturing PMI fell into contraction territory as it declined to 48.5 in February. A reading above 50 indicates that the sector is generally expanding and below 50 indicates general decline. Business conditions are falling as highlighted by output expectations turning negative for the first time in over six years.
- **Manufacturing activity in China continues to contract.** While the Caixin/Markit Manufacturing PMI reading in February indicated a contraction (below 50), the 49.9 figure for the period was higher than both the 48.3 level recorded in the previous month and economists' expectations of 48.5. The unpredictability in the readings hint at seasonality caused by the Chinese New Year. Many market participants have been monitoring economic data out of China as the world's second largest economy combats domestic headwinds and ongoing trade disputes with the U.S. Administration.

Key Take-Aways

Shutdown averted. With the exception of essential departments, the U.S. was shutdown for five weeks as Congress and the Executive Office could not agree on an appropriations' bill to fund the government for the 2019 fiscal year. As a result of the shutdown, the longest in U.S. history, 800,000 federal employees were furloughed, with some continuing to work without remuneration. At stake was *the Wall* placing a physical barrier on the southern U.S. border with Mexico to stem the illegal migration into the U.S. as promised by President Trump during his campaign. A second shutdown, set to expire after a three-week emergency funding stopgap, was averted on February 15, with US$1.38B set aside for *the Wall* in a new spending bill passed by Congress and signed by the President. To make up for the difference of the amount that Trump asked for, a National Emergency was declared to give him up to an additional US$8B in previously allocated funds to the Department of Defense and the Treasury. In the end, *the Wall* will likely cost far more than many expected, including US$11B in lost productivity, between 0.2-0,3% off of GDP, decreased consumer spending, and a divided government with ramifications possibly to be felt on the northern side of the other border.

Behind the numbers. The economy provided a belated holiday gift as Statistics Canada reported continued strength, surprisingly, of the jobs market in January. Expectations of less than 10,000 jobs being added was easily surpassed as almost 67,000 jobs were added during the month—mainly in the services sector—as jobs in the manufacturing industries fluctuate on global trade worries. Most of the hirings were part-time, indicating to a certain degree employers' outlook of the future; full-time positions are preferred during more stable labour market conditions. Unfortunately, wage growth remains well below where it should be in a tight labour environment and markedly below the national inflation rate. This data does not get the headline news like the 5.8% of unemployment rate does, but it is a very important measure to the Bank of Canada in assessing rate hikes and the ability of workers to cope given household debt remains at very high levels.