Credential
Market Insights | MONTHLY

Month in Review

For the month ended November 30th, 2019

Overall Highlights

- **TSX higher.** The S&P/TSX Composite closed on a down note for November but still managed to reach new highs during the month. With economic data at home muted, the driver for the rise in the TSX was optimism by investors that the U.S. and China will come to a mutual agreement for the so-called phase one of trade dispute. Also helping was the Federal Reserve holding on further interest rate cuts, signaling stability in their economy needing less stimulus. For the month, the Composite was higher by 3.4% to end at 17,040.
- **Loonie dips.** GDP data that was on par with forecasts wasn't enough to help the Loonie stay positive during the month as uncertainty grew as to whether the Bank of Canada would continue holding its rate pattern or not during their last meeting of 2019 in early December. As well, our currency was affected by a late month sharp decline in crude prices on rumours that OPEC and its allies could not possibly extend current output cuts. At the close, our Dollar finished at 75.25 U.S. cents, a loss of 1.0%.
- **Gold tarnishes.** President Trump signing a bill showing support for pro-democracy protesters in Hong Kong had investors fearing a souring of U.S./China relations and a prolonging of their trade war. However, this was the precious metal's worst monthly performance since September as U.S. economic data was positive and lessened concerns of a possible recession. Gold retreated 3.2% in November, closing at US$1,463.98 an ounce for a February contract.
- **Oil rises.** The commodity fell from earlier highs during the month, which were attributed to positive talks in the Sino-American trade talks, as speculation swirled that OPEC and its members may not agree to further production cuts that markets were anticipating. Instead, Saudi Arabia was mulling not to extend believing their cuts were allowing other countries to increase output at their expense, while Russia may block an extension altogether. At the end of the week, a January delivery on a barrel of WTI crude settled at US$55.17, up 1.8%.
- **GDP slowly growing.** Economic growth in Canada for September matched the reading in the previous month, rising 0.1% with contributions from the manufacturing and sales sectors.
- **Inflation higher.** Reversing a decline in September, the notional cost of a basket of representative goods rose in October by 0.3%, in line with expectations.
- **Unemployment rate unchanged.** The national jobless rate was unchanged at 5.5% in October as the economy lost 1,800 jobs after two months of strong gains.
- **Retail sales lower.** Consumers were in a less of a spending mood as retail sales for September fell slightly by 0.1% compared to August.
- **U.S. Q3 GDP growth revised higher.** The Commerce Department released its second estimate of U.S. Q3 GDP figure.
- **U.S. CPI advances.** Consumer inflation in the U.S. rose more than expected in October according to the Labor Department. The consumer price index (CPI) increased by 0.4% in October, the largest monthly gain since March this year.
- **U.S. unemployment higher.** Despite the addition of 128,000 jobs in October, the jobless rate edged higher to 3.6%, in line with expectations, but still near a 50-year low.
- **U.S. consumer sentiment improves.** Consumer sentiment continued to improve in November according to a survey by the University of Michigan.
- **Eurozone unemployment rate falls.** Unemployment rate within the Eurozone fell to more than a decade low in October, reported by Eurostat.
- **Japan retail sales tumble.** Japan saw its biggest slump in retail sales since 2015 as the government increased the nationwide sales tax from 8% to 10% on October 1.
- **China services PMI falls.** The service sector in China grew at its slowest pace in eight months in October.

Index/Commodity/Currency		
Close	**Month Change**	**YTD Change**
S&P/TSX Composite		
17,040.20	557.0	2,717.3
	3.4%	19.0%
Dow Jones Industrial Average		
28,051.41	1,005.2	4,724.0
	3.7%	20.3%
S&P 500		
3,140.98	103.4	634.1
	3.4%	25.3%
NASDAQ Composite		
8,292.36	373.1	2,030.2
	4.5%	30.6%
MSCI EAFE Index		
1,974.47	19.0	254.6
	1.0%	14.8%
WTI Crude Oil (per barrel, in $US)		
55.17	1.0	9.8
	1.8%	21.5%
Gold (per ounce, in US$)		
1,463.98	-49.0	181.5
	-3.2%	14.2%
Canadian Dollar (¢ per US$)		
75.25	-0.7	2.0
	-1.0%	2.7%

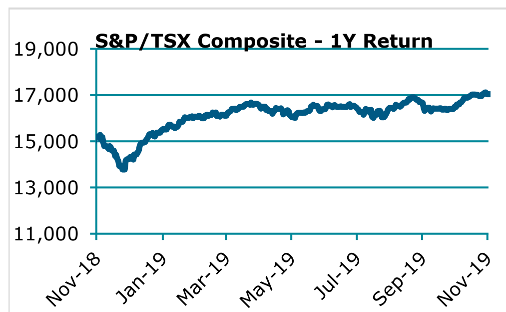
Source: Bloomberg

Canadian Markets

- **GDP slowly growing.** Economic growth in Canada for September matched the reading in the previous month, rising 0.1% with contributions from the manufacturing and sales sectors. This was on par with analyst predictions as the economy shows signs of slowing with falling exports and declining inventories held by businesses. Annualized, GDP growth slowed abruptly from 3.5% in August to 1.3% in September. The muted monthly gain also closes out the third quarter of the year where annualized quarterly growth also decreased from 0.3% to 0.9%.
- **Inflation higher.** Reversing a decline in September, the notional cost of a basket of representative goods rose in October by 0.3%, in line with expectations. Inflation was pushed higher by the cost of fresh fruits and vegetables but were driven down by weak gasoline prices. Annualized, inflation was unchanged holding at 1.9%, while core inflation was the same for a third consecutive month.
- **Unemployment rate unchanged.** The national jobless rate was unchanged at 5.5% in October as the economy lost 1,800 jobs after two months of strong gains. For the month, it was forecasted 15,900 jobs would be added as a decline in 16,100 full-time positions was partially offset by 14,300 part-time gains. Most of the losses were seen in the manufacturing and construction sectors, while public administration, finance, and insurance industries had a gain. The participation rate was also unchanged holding steady at 65.7% of eligible working population.
- **Manufacturing PMI higher.** Factory activity across Canada continued to see expansion rising to 51.2 from September's 51.0 reading, as reported by IHS Canada. The slight improvement in business conditions was attributed to growth in output and in new orders as business sentiment rose on optimism of better global trade conditions. New export orders, however, faltered as Canadian goods were up against intense global competition.
- **PPI positive.** The Industrial Product Price Index, a measure price changes in major commodities in Canada, rose slightly in October, offsetting a small decline in September. For the month, IPPI was 0.1% as diesel and fuel oils drove energy prices higher (+1.2%); however, further gains were limited as the cost for metals declined. On an annualized basis, IPPI is down 1.3%, the same as the previous month and lower than forecasted due to a 9.5% decline in energy and petro products.
- **Wholesale sales climb.** Trade sales from factories rose in September by 1%, beating market expectations of a 0.4% increase. Sales were 4.4% higher in machinery, equipment and supplies as five of the seven sectors followed by Statistics Canada rose for total monthly receipts at$65.1B. Of the decliners, autos and parts fell the most dropping 0.8%. In volume terms, wholesale sales also gained, rising 0.9%.

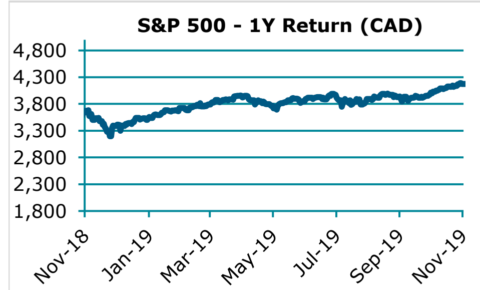
S&P/TSX Composite Index
Sector Snapshot

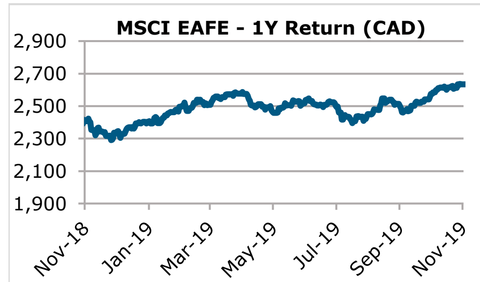
Sector	Month Return	YTD Return	Weight (%)
Consumer Discretionary	5.28%	17.30%	4.30
Consumer Staples	5.84%	19.02%	4.00
Energy	4.67%	9.95%	16.20
Financials	2.97%	20.11%	32.90
Health Care	-2.81%	-12.60%	1.50
Industrials	3.68%	23.35%	11.20
Information Technology	8.57%	58.54%	5.40
Materials	-0.20%	16.79%	10.80
Real Estate	2.08%	20.79%	3.60
Communication Services	3.93%	10.88%	5.50
Utilities	2.46%	32.04%	4.70



- **Manufacturing sales fall**. Statistics Canada reported that sales direct from factories fell by 0.2% in September, reversing a 0.8% increase in the previous month. Total sales were at $57.4B as demand fell for petroleum and coal products (-1.9%) and automobile part (-4.3%). Forecasts had called for a decline of 0.6%, so the reading was better than expected as 10 of the 21 sectors tracked were lower. For third quarter, manufacturing sales declined 1.3% to a total of $172B.
- **Retail sales lower.** Consumers were in a less of a spending mood as retail sales for September fell slightly by 0.1% compared to August. It was the first decline in three months but on par with expectations as sales were lower for automobiles and parts (-1%). Conversely, food and beverages and building materials rose 1.2% and 3.3%, respectively. On an annualized basis, retails sales are higher by 1%, slowing from 1.3% a month earlier.
- Canada housing news:
    - **Price of a new home rises.** The cost of a new, previously un-owned home rose for a second straight month, by 0.2% in September after a 0.1% gain in August. This reading doubled expectations as gains were seen in the Kitchener-Waterloo (+1.5%), Ottawa (+1%), and Trois-Rivières (+1%) markets. Conversely, declines were seen west of the Rockies as Vancouver and Kelowna fell 0.6% and 0.3%, respectively. On a year-over-basis, prices were lower by 0.1% in September, slightly better than the -0.3% drop in previous month.
    - **Home sales unchanged.** National home sales were little changed in October compared to September, but are firmly higher by roughly 20% from the multi-year low experienced in February. Higher sales were seen in the Greater Vancouver Area but were offset by lower activity in the Greater Toronto Area and surrounding regions. Not seasonally adjusted and on an annualized basis, sales were up 12.9% with gains seen in more than three-quarters of the urban markets encompassing all three of the country's largest cities. The national average price of a home also rose by 5.8% in the last 12 months.
    - **Starts decline.** The CMHC reported a decline in groundbreakings in October as demand fell for urban multi-unit dwellings. On a seasonally adjusted basis, 201,973 units were started on an annualized basis, down from September's 221,135 unit pace and shy of the 221,200 units estimated. Single-detached homes, on the other hand, rose 2.4%.
    - **Building permits plummet**. Fewer applications were received by municipals for new buildings in September, particularly in the multi-family residential sector. During the month, building permit values were down 6.5% to $8.3B as residential permits, multi-family (-12.1%) and single-family (-8.7%) buildings combined, fell 10.7% with eight of 10 provinces seeing declines. Conversely, commercial permits rose 6.1% as demand in Metro Vancouver for office space led the way.

U.S. Markets





- **U.S. market surges to record high.** Thanks to positive developments around the trade war between China and the U.S. and a continuously dovish Fed, the U.S. stock market reached record territory in November. All three major indices made new highs during the month. The broad-based S&P 500 index rose 3.4% for the month, closing the month at 3,141. The Dow Jones Industrial Average advanced by 3.7%, ending above the 28,000 level at 28,051. The tech-heavy Nasdaq surged by 4.5% in November, ending the month at 8,292.
- **U.S. Q3 GDP growth revised higher.** The Commerce Department released its second estimate of U.S. Q3 GDP figure. Q3 GDP grew at a 2.1% annualized rate, higher than the first estimate of 1.9% reported last month. Economists were expecting an unrevised figure.
- **U.S. CPI advances.** Consumer inflation in the U.S. rose more than expected in October according to the Labor Department. The consumer price index (CPI) increased by 0.4% in October, the largest monthly gain since March this year. On a year-over-year basis, the CPI increased by 1.8%, beating economists' expected increase of 1.7%. The core CPI, which excludes the energy and food components, gained 2.3% on the year, down a tick from September's pace of 2.4%.
- **U.S. unemployment higher.** Despite the addition of 128,000 jobs in October, the jobless rate edged higher to 3.6%, in line with expectations, but still near a 50-year low. Total jobs forecasted for the month was 75,000 so the month's reading was firmly ahead of that pace as the previous two months were also revised higher by the Bureau of Labor Statistics. Most of the hirings were made in the food and beverage service industries as the manufacturing sector lagged due to an auto sector labour strike. The participation rate rose a notch to 63.3%.
- **U.S. PPI rises.** Producer prices rose the most in six months in October. The Labor Department reported that the producer price index (PPI) rose 0.4% in October after dropping 0.3% in September; economists were expecting a rise of 0.3%. It was the biggest monthly gain since April this year. On a year-over-year basis, PPI was up 1.1%.
- **U.S. 'flash' composite PMI rises.** Business activity in U.S. improved in November according to preliminary reading of the composite purchasing managers' index (PMI). The IHS Markit 'flash' composite PMI rose to 51.9 in November, up from October's final reading of 50.9; economists were expecting a reading of 51.2. Manufacturing PMI rose from October's reading of 51.3 to 52.2, beating economists' forecast of 51.6. Services sector PMI also improved, rising from 50.6 to 51.6, better than expectations of a 51.1 reading.
- **U.S. industrial output drops.** The Federal Reserve reported that industrial outputs fell 0.8% in October, worse than economists' expected decline of 0.4%. It was the largest monthly decline since May 2018. All three categories dipped: manufacturing output fell 0.6%, mining production dropped 0.7% and utilities fell 2.6%.
- **U.S. retail sales rise.** The Commerce Department reported that retail sales rose by 0.3% in October, rebounding from a 0.3% decline posted in September. Economists were expecting a rise of 0.2%. Motor vehicle purchases and higher gasoline prices were driving the increase in sales.
- **U.S. consumer sentiment improves.** Consumer sentiment continued to improve in November according to a survey by the University of Michigan. Preliminary reading of the university's consumer sentiment index for November rose from October's reading of 95.5 to 96.8, better than economists' expected reading of 95.7.
- U.S. housing news:
    - **U.S. new home sales drop.** The Commerce Department reported that new home sales fell 0.7% to a seasonally adjusted annual pace of 733,000 units in October; economists were expecting an annual pace of 709,000 units. On a year-over-year basis, sales were up 31.6%.
    - **U.S. home prices rise.** Home prices in major cities rose in September, according to S&P CoreLogic Case-Shiller U.S. National Home Price Index. The 20-City index rose 2.1% from a year ago, beating economists' expected increase of 2%. Of the 20 cities covered, Phoenix, Charlotte, North Carolina, and Tampa, Florida posted the biggest annual percentage gains.
    - **U.S. pending home sales fall.** The National Association of Realtors reported that pending home sales in the U.S. unexpectedly dropped in October. Sales fell by 1.7% in October after surging up 1.4% in September; economists were expecting a rise of 0.8%. On a year-over-year basis, pending home sales were up 4.4%.
    - **U.S. existing home sales rise.** The National Association of Realtors reported that existing home sales advanced by 1.9% in October to a seasonally adjusted annual pace of 5.46M units; economists were expecting an annual pace of 5.48M. On a year-over-year basis, existing home sales were up 4.6%. Declining mortgage rates and a robust labor market were believed to be the main driving forces for home sales.
    - **U.S. housing starts rebound.** Homebuilding in U.S. rebounded in October according to a report by the Commerce Department. Housing starts rose 3.8% to a seasonally adjusted annual pace of 1.31M units, slightly missing economists expected pace of 1.32M units. Building permits surged 5% to a rate of 1.46M units, the highest level since May 2007; economists were expecting an annual pace of 1.38M units. Declining mortgage rates were believed to be the main driving force of the housing market lately.

European Markets

- **Eurozone inflation steady.** Inflation within the 19-member bloc rose in November but remained well below the target set by the central bank. Eurostat reported that preliminary reading of the harmonised index of consumer prices (HICP) for November advanced by 1% year-over-year, beating economists' expectation of 0.9%. It was up from October's annual pace of 0.7%. Higher food, alcohol, and tobacco costs contributed to the increase in November, according to Eurostat.
- **Eurozone unemployment rate falls.** Unemployment rate within the Eurozone fell to more than a decade low in October, reported by Eurostat. Jobless rate dropped from September's 7.6% to 7.5% in October, on par with economists' forecast. It was the lowest unemployment rate since July 2008.
- **Eurozone 'flash' composite PMI falls.** Business activity within the 19-member bloc continued to struggle in November. Preliminary reading of the IHS Markit 'flash' composite purchasing managers' index (PMI) for November fell from October's final reading of 50.6 to 50.3, missing economists' estimate of 50.9. Despite some improvement, the manufacturing sector stayed in contraction territory, with the PMI rising to a three-month high of 46.6. The services sector PMI fell though, dropping to a 10-month low of 51.5 against expectations of 52.5.
- **Eurozone economic sentiment rebounds.** Economic sentiment within the 19-member zone improved in November, according to the European Commission. November's economic sentiment index rose from October's reading of 100.8 to 101.3, better than economists' expectations of a flat reading. Optimism in the services sector, which accounts for around two thirds of the Eurozone economy, provided the lift.

Asian Markets

- **Japan's Q3 GDP growth slows.** The world's third largest economy grew at a slower pace in Q3 according to government data. Q3 GDP grew at an annualized 0.2%, dropping sharply from Q2's pace of 1.8%. Economists were expecting a much smaller drop to a pace of 0.8%. It was the weakest growth since Q3 last year.
- **Japan 'flash' composite PMI rises.** Despite the manufacturing sector remaining in contraction mode, overall business activity in Japan improved slightly. Preliminary reading of the composite purchasing managers' index (PMI) for November rose from October's final reading of 49.1 to 49.9. Manufacturing PMI increased slightly to 48.6 from 48.4, remaining below the 50-mark for the seventh consecutive month. Services sector PMI jumped above the 50-mark from 49.7 to 50.4, switching to expansion mode.
- **Japan retail sales tumble.** Japan saw its biggest slump in retail sales since 2015 as the government increased the nationwide sales tax from 8% to 10% on October 1. Sales tumbled by 7.1% in October, year-over-year, according to trade ministry's data; economists were predicting a more modest drop of 4.4%. A huge typhoon ripped through central and eastern Japan, also negatively affecting sales.
- **Economic data out of China.** A slew of economic data for October was reported out of China, and all pointed to a softening of the Chinese economy. Industrial production rose 4.7% year-over-year in October, down from September's pace of 5.8%, missing economists' estimate of 5.4% by a wide margin. Fixed asset investment increased by 5.2% on the year, slowing from September's pace of 5.4%, also missing forecasts of a 5.4% growth. Retails sales were up 7.2% year-over-year, down from September's pace of 7.8%, also missing expectations of a 7.8% increase.
- **China services PMI falls.** The service sector in China grew at its slowest pace in eight months in October. The Caixin/Markit services purchasing managers' index (PMI) slipped to 51.1 from September's reading of 51.3. It was the lowest reading since February. The gauge for the service sector had stayed above the 50-mark since late 2005.

Key Take-Aways

Bull markets continue. March 9, 2009 will be instilled in history as the low point of the Great Recession of 2009 and the start of the longest Bull market run ever. At that point, the S&P TSX Composite was sitting at 7,567 as crude toppled from the US$140 per barrel peak to just over US$47 and the safe-haven, but non-yielding, asset, gold, was at US$918 per ounce. One of the main catalysts for the market turmoil was the bursting of the U.S sub-prime mortgage bubble. However, after co-ordinated accommodative monetary policies by global central banks, new government legislation, and better balance sheet management, the TSX and other global indices are reaching new all-time highs. In the U.S., the S&P 500, Dow Jones Industrials, and Nasdaq are all at historical highs, with no end in sight. Overshadowing these milestones however, are the consequences of ongoing trade tensions on slowing the growth of global economies. Having just turned off the stimulus tap after numerous years, hopefully the central banks have learned from the last decade that with renewed options at their disposal, they can continue growth moving forward and keep running the Bulls for another decade.

Jobs reality. As the trade war raged on between the U.S. and China, it was inevitable that Canada would feel the effects of collateral damage given these two countries are its largest trading partners. Surprisingly, Canada's economy has remained robust, defying expectations by holding its own and continuing to expand. But only until now, as the latest employment data showed an unexpected decline in October, as the jobless rate held at 5.5%, while comparatively, in the U.S., its labour market saw unemployment rates rise to 3.6% in October from 3.5% the previous month. The number of jobs lost was not excessive but still fell after two consecutive months of strong gains, coming below moderate forecasts, as the majority of the losses of a full-time nature brings to light that the economy may be finally slowing. This was on top of earlier economic metrics of falling inflation, weak retail sales, and muted GDP growth. After holding interest rates at its last meeting, the Bank of Canada with this new data, may have to cut interest rates, the path taken by other central banks, to keep the economy progressing forward.