glc asset management

Market Matters
Summary for November 2019

Highlights

Better-than-expected earnings growth and improved trade optimism helped push markets to all-times highs

U.S. and Canadian central banks both halted future interest rate cuts for now

Is November's stock market optimism more than just dancing sugar-plum dreams?

As fears of an economic recession continued to fade away, equities shook off past pessimism and got into the holiday spirit.

Equities marched higher, capping off a solid month of gains, while bond yields continued to curb their enthusiasm still up from the intra-year lows of August, but little changed for the month of November. The dichotomy between these two assets is difficult to square: if equities are right that economic growth and stronger profits lie ahead, then bond yields should be moving higher in lockstep.

We believe equities are betting on positive outcomes to current economic and geopolitical concerns whose outcomes remain significantly uncertain. Meanwhile, bond yields appear to harbour a greater degree of skepticism. Specifically:

- **Re-accelerating economic growth**: While global growth indicators are showing tepid signs of improvement, the green shoots are still just that – early stage signs of possible economic growth.
- **A Brexit resolution**: The U.K. Conservatives lead in polls before the election, suggesting an orderly Brexit – an end to that 3.5-year circus – but the vote still needs to happen. Lest we forget how the original Brexit was an example of polls being wrong.
- And, of course, **the phase one trade deal**: Might it be the new can to kick down the road to replace the perennial Brexit date extensions? All seems good at the moment (and markets didn't flinch – much – when China threatened to retaliate to the U.S.' passed law supporting democracy in Hong Kong) but a deal is still not done.

So, investors appear to be excitedly anticipating a treasure trove of presents under the tree before Santa has even looked at his "naughty or nice" list. We worry that much of the equity market enthusiasm has been mere dreams of sugar plums – enough to push markets to new all-time highs, but in advance of any concrete reasons for the ever-higher gains.

Market Summary

Canadian Fixed Income[1]	Month	YTD
FTSE Canada Universe Bond Index	0.5%	8.2%
FTSE Canada All Corporate Bond Index	0.7%	8.6%

Canadian Equities[2]	Month	YTD
S&P/TSX Composite	3.4%	19.0%

	Month		YTD	
Global Equities[2]	Local	CAD	Local	CAD
S&P 500	3.4%	4.3%	25.3%	22.2%
MSCI EAFE	1.9%	1.9%	16.6%	11.9%
MSCI Emerging Markets	0.5%	0.7%	9.1%	5.0%

Currencies and Commodities (in USD)	Level	Month	YTD
CDN $	$0.753	-0.9%	2.7%
Oil (West Texas)	$55.17	1.8%	21.5%
Gold	$1,464.06	-3.2%	14.2%
Reuters/Jeffries CRB Index	$176.66	-0.1%	4.0%

Canadian Sector Performance[2]	Month	YTD
Energy	4.7%	9.9%
Materials	-0.2%	16.8%
Industrials	3.7%	23.3%
Cons. Disc.	5.3%	17.3%
Info Tech	8.6%	58.5%
Health Care	-2.8%	-12.6%
Financials	3.0%	20.1%
Cons. Staples	5.8%	19.0%
Comm. Services	3.9%	10.9%
Utilities	2.5%	32.0%
Real Estate	2.1%	20.8%

Local currency unless otherwise stated.
[1]Total return [2]Price only return
Source: Bloomberg

More all-time market highs in 2019

Better-than-expected earnings growth, a late-October Fed rate cut, and improved trade talk optimism helped push the S&P 500, NASDAQ and the Dow Jones Industrials Average to all-times highs at the beginning of the month. The reported Canadian corporate earnings were also slightly better than expected in November to help push the S&P/TSX to its own all-time high. As market values climbed higher, so did the risk of disappointment. But for now, we relish the fact that the Canadian market appears to be shaking off some of the shackles that held it back relative to global markets

In Canada, Information Technology was the top performer and cyclical sectors (such as Financials, Energy, Industrials and Consumer Discretionary) were solid performers; however, Materials detracted from performance with nickel dropping 18.4%, zinc falling 8.9% and gold dipping 3.2% on the month. Defensive and interest rate-sensitive sectors (Utilities and Real Estate) lagged. The Health Care sector weighed on the S&P/TSX Composite, dragged down by cannabis companies (notably Aurora that fell 29.7% in November).

Oil prices were up only slightly , rising mid-month before dropping back down to the mid $50 level at month end. Trade is a big factor influencing oil: any signs of a trade deal or a bottoming out in global growth would be positive for the oil demand and oil price outlook, but volatility was further stoked by rumours that OPEC and Russia were struggling to come to an agreement on extending or deepening their production cap agreement. In terms of the Canadian energy sector, robust Q3 corporate earnings (reported during November) provided support for share prices. The Trans Mountain Expansion being pushed forward was positive news for Canadian oil companies as well.

Bond yields, despite being flat in November (a monthly gain of 0.5%), have entered a generally rising pattern since August. While much more muted, they appear to be starting to agree ‘in theory’ with equity investors in their bias to believing better economic days are ahead.

Central Bankers try to stay on Santa’s “nice” list

The U.S. Federal Reserve (Fed) placed a halt on future interest rate cuts for now (unless the economy slows sharply), as did the Bank of Canada (BoC) – although concerns about trade uncertainty and weak business investment were notable mentions. With the central bank feeling the economy could continue on without any additional help in the time being, the loonie strengthened.

GLC’s 2020 Capital Market Outlook

What do recent economic green shoots mean for global stock and bond market expectations in 2020? How do we balance out the risk that markets have run far and fast in 2019 with a renewed sense of optimism from investors? As the new year approaches, GLC’s Chief Investment Strategist, Brent Joyce shares his analysis and views, including guidance on where we see the greatest market opportunities and risks for 2020. GLC’s 2020 Capital Market Outlook lays out our views for the year ahead, including forecasts for Canadian, American and international equities, government, investment-grade corporate and high-yield bonds.

Happy holidays from GLC!

From all of us at GLC, we wish you and your family a safe and happy holiday season and thank you for your business, your trust and for friendships old and new.

Christine Wellenreiter, CM

VP Marketing and Communications, has more than 15 years of investment industry experience and has been writing the monthly Market Matters for over 10 years.