Credential

# Market Insights | MONTHLY

## Month in Review

For the month ended February 29th, 2020

### Overall Highlights

- **TSX plummets.** Discouraging news of COVID-19 as it continues to spread around the world and the impact, currently and in the coming months, on global economic growth sent markets into a downward tailspin for the last week of the month. Adding to the TSX's woes was a system shutdown on the February 27 as capacity for buy and sell orders was reached amidst a volatile day of trading. For the month, the Composite plunged 6.1% to end at 16,263. For the year, it's down 4.7%.
- **Loonie dips.** A flight to safety of any kind sent the Canadian dollar falling to a low last seen in the summer of 2019 on the backs of negative news that would affect demand for resources and commodity. The possibility of a cut by the Bank of Canada rose to a 50/50 split as it grapples with slowing GDP, supply chain disruptions due to railway blockades and falling oil prices. At the close, our Dollar finished at 74.47 U.S. cents, a loss of 1.2%.
- **Gold tarnishes.** Typically, the go-to metal in times of market turbulence, the yellow metal was not immune to the sell-off that gripped equity markets as it posted its largest one day percentage decline in six-and-a-half years. The yellow metal's safe haven title remains unchanged as its decline was attributed to the need for investors to deleverage by selling it off to cover equity losses. Gold lost 0.2% in February, closing at US$1,585.69 an ounce for an April contract.
- **Oil slips.** Fears of the coronavirus impact on growth and eventual demand for the commodity sent it plunging to its worst weekly decline in more than eleven years. An OPEC meeting along with Russia, planned independent of the recent events, in early March could possibly see additional output cuts to help support crude prices. At the end of the month, an April delivery on a barrel of WTI crude settled at US$44.76, lower by a steep 13.2% and down 26.7% year-to-date.
- **GDP gains.** Economic growth in Canada was positive in December at 0.3%, beating 0.1% in the previous month and above expectations of the same amount.
- **Inflation rises.** Higher prices at the pumps drove inflation up in January, beating market expectations.
- **Jobless rate falls**. The nation's jobless rate hovered above its record low as the economy added more jobs than expected in January.
- **Manufacturing sales slump.** Sales from factories were lower in December with total receipts tallying to $56.4B, a monthly decline of 0.7%.
- **Retail sales flat.** Consumers were in a less of a spending mood in December compared to November, as retail sales were flat, missing expectations of a slight gain for the month.
- **U.S. Q4 GDP growth unrevised.** The Commerce Department released its second estimate of Q4 GDP growth, and the growth rate stayed unrevised.
- **U.S. CPI rises.** U.S. consumer prices rose faster in January according to the Labor Department. The consumer price index (CPI) rose 2.5% on the year in January, up from the previous month's pace of 2.3%.
- **U.S. non-farm payrolls surge.** The Labor Department reported that the U.S. economy added 225,000 jobs in January, handily beating economists' expectation of 158,000.
- **Eurozone Q4 GDP growth slows.** Eurostat reported that the preliminary estimate of the 19-member bloc's Q4 GDP grew by 0.1% quarter-over-quarter, slowing from Q3's pace of 0.3%.
- **Eurozone inflation rises.** Eurostat reported that the harmonised index of consumer prices (HICP) rose 1.4% on the year in January, in line with economists' expectations,
- **Japan unemployment rate rises**. Japan's unemployment rose for the first time in four months in January.

| Index/Commodity/Currency | | |
|---|---|---|
| Close | Month Change | YTD Change |
| **S&P/TSX Composite** | | |
| 16,263.05 | -1,055.4 | -800.4 |
| | -6.1% | -4.7% |
| **Dow Jones Industrial Average** | | |
| 25,409.36 | -2,846.7 | -3,129.1 |
| | -10.1% | -11.0% |
| **S&P 500** | | |
| 2,954.22 | -271.3 | -276.6 |
| | -8.4% | -8.6% |
| **NASDAQ Composite** | | |
| 8,567.37 | -583.6 | -405.2 |
| | -6.4% | -4.5% |
| **MSCI EAFE Index** | | |
| 1,809.71 | -184.0 | -227.2 |
| | -9.2% | -11.2% |
| **WTI Crude Oil** (per barrel, in $US) | | |
| 44.76 | -6.8 | -16.3 |
| | -13.2% | -26.7% |
| **Gold** (per ounce, in US$) | | |
| 1,585.69 | -3.5 | 68.4 |
| | -0.2% | 4.5% |
| **Canadian Dollar** (¢ per US$) | | |
| 74.47 | -0.9 | -2.3 |
| | -1.2% | -3.0% |

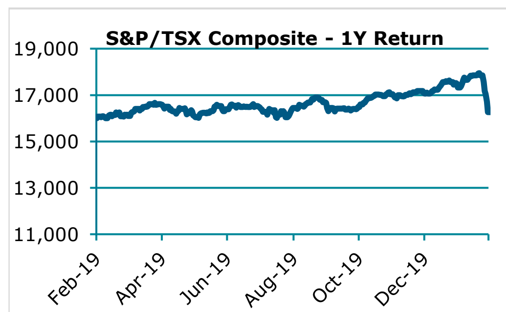
Source: Bloomberg

# Canadian Markets

- **GDP gains.** Economic growth in Canada was positive in December at 0.3%, beating 0.1% in the previous month and above expectations of the same amount. This was the strongest pace since May as growth was seen in both the services and manufacturing sectors led by transportation and warehousing (+1.5%) and mining and extraction (+1.3%). However, for the fourth quarter, GDP was only up 0.1% for the three months, below the 0.3% in Q3. On an annualized basis, GDP posted a 0.3% gain, sharply lower than the 1.1% reading the previous quarter.
- **Inflation rises.** Higher prices at the pumps drove inflation up in January, beating market expectations. For the month, inflation rose 0.3%, topping December's flat reading as tensions between the U.S. and Iran increased concerns of global oil supplies. Food, clothing and footwear also rose, while shelter and home furnishing costs declined. On an annualized basis, inflation rose to 2.4%, its highest since May 2019.
- **Jobless rate falls**. The nation's jobless rate hovered above its record low as the economy added more jobs than expected in January. For the first month of the year, 34,500 positions were filled, more than doubling forecasts of 15,000 and helped lower the unemployment rate to 5.5%, from 5.6% in December. Gains were seen in Québec followed by Ontario, while Alberta saw declines while unemployment rose. The participation rate held steady with just under two-thirds, 65.4%, of the eligible workers in Canada able to find either a full- or part-time position.
- **IPPI lower.** Prices of inputs in the manufacturing of goods by producers fell by 0.3% in January after a revision higher of the previous month to 0.3%. Expectations were for a slight gain of 0.1% for the month. Most of the decline was attributed to falling costs for oil and petroleum products as gains were seen in non-ferrous metal products. On an annualized basis, IPPI rose 0.5%, matching December's year-over-year reading.
- **Wholesale sales climb.** Bouncing back from a 1.1% fall in November, wholesale sales, which are sales-made businesses, rose 0.9% on strength in auto and parts (+1.9%), food and tobacco (+1.4%), and building materials (0.9%). This beat expectations of a 0.5% increase forecasted by analysts. Conversely, personal and household goods, as well as machinery and supplies fell 0.2% and 0.3%, respectively. For Q4, wholesale trade was down 1.5% but was up 1.5% on a year-over-year basis.
- **Manufacturing sales slump.** Sales from factories were lower in December with total receipts tallying to $56.4B, a monthly decline of 0.7%. Forecasts were for a 0.7% gain. This was the fourth straight month of falling sales in the sector as it continues to struggle amidst the ongoing trade tensions. Of the 21 sectors followed by Statistics Canada, eleven were lower, led by airplane products (-16%) and autos (-6.8%). In volume terms, sales were lower as well by 0.4%.
- **Manufacturing PMI rises**. Canada's factories continued to hum with activity in January as IHS Markit's PMI index reported a reading of 50.6, a jump of a couple of notches from 50.4 the previous month. Forecasts were for a decrease to 50.1. An increase in output and a rise in new business growth helped keep activity above the 50-threshold. Falling below that threshold would indicate contraction in the sector. Business conditions improved slightly during the month but will likely weaken as the effect of coronavirus begins to be felt.

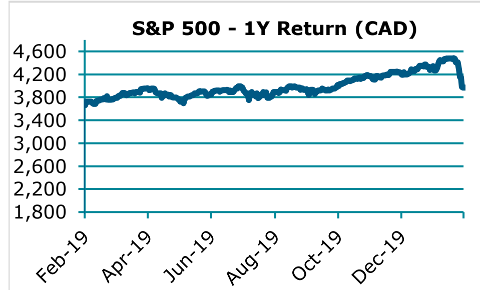
**S&P/TSX Composite Index**
**Sector Snapshot**

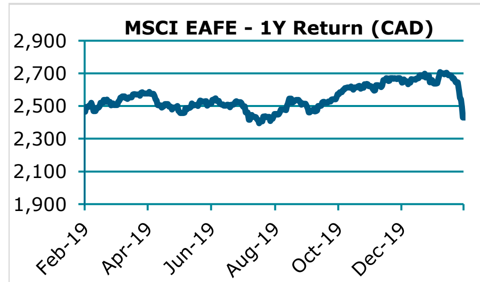
| Sector | Month Return | YTD Return | Weight (%) |
|---|---|---|---|
| Consumer Discretionary | -7.34 | -9.67 | 3.93 |
| Consumer Staples | -6.06 | -1.91 | 3.97 |
| Energy | -7.50 | -9.72 | 15.88 |
| Financials | -5.47 | -4.15 | 32.32 |
| Health Care | -16.72 | -18.86 | 1.11 |
| Industrials | -6.33 | -2.15 | 11.30 |
| Information Technology | -2.66 | 6.52 | 6.33 |
| Materials | -7.65 | -9.85 | 10.77 |
| Real Estate | -3.76 | 0.49 | 3.66 |
| Communication Services | -6.79 | -4.14 | 5.51 |
| Utilities | -3.12 | 4.20 | 5.22 |




- **Retail sales flat.** Consumers were in a less of a spending mood in December compared to November, as retail sales were flat, missing expectations of a slight gain for the month. Increased sales in building materials and garden supplies, food and beverage, and health care was not enough to offset declines in autos and parts, and gasoline. Total value of goods sold was $51.6B as seven of the tracked 11 categories fell. For all of 2019, retail sales were up 1.6%, the slowest pace of growth in a decade during the economic downturn.
- Canada housing news:
  - **New home prices unchanged.** The price of a brand-new home was unchanged in January, coming in below estimates of a 0.2% gain for the month, as reported by Statistics Canada in their New Home Price Index (NHPI) of 27 metro areas. Leading the way for advancers was Ottawa (+1.4%) and greater Sudbury region (+1.1%), while Regina and Saskatoon were the big decliners falling 1.2% and 0.5%, respectively. Perennial hot markets Toronto (-0.4%) and Vancouver (-0.2%) were both off as Montreal saw a 0.3% increase. Annually, new home prices were up 0.2%, doubling consensus numbers.
  - **Housing starts climb.** Perhaps in response to rising demand, developers quickened the pace of building multi-unit structures, namely condominiums and apartments, as housing starts beat expectations in January. As reported by CMHC, 213,224 units were started on a seasonally adjusted annual basis, ahead of December's 196,892 units and forecasts of 205,000 units, equating to an 8.8% monthly increase. Multifamily starts were higher by 13.2%, with single detached homes slipping 2.1%.
  - **Building permits rocket higher.** Municipalities issued new building permits to the tally of $8.7B in December, an increase of 7.4% over the previous month. Multi-unit dwellings led the way, rising 15.9%, with commercial structures rising in double digits by 19.7%. Single family homes and industrials were the laggards, falling 3.2% and 21%, respectively. For all of 2019, all building permits issued across Canada amount to $102.4B, up 2.6% from 2018's total.

# U.S. Markets




- **Shockwave on Wall Street.** The U.S. market was looking pretty good in February and looked to be having another solid month and continuing the winning streak since the later part of last year. However, the entire picture changed during last week of February when stocks tumbled amid panic around a global spread of the coronavirus. It not only wiped out all the gains of the month, but turns all three major indices deep into the red for the year. The broad-based S&P 500 index lost 8.4% for the month, ending February at 2,954. The Dow Jones Industrial Average was the worst performer among the three major indices, nosediving 10%, closing at 25,409. The tech-heavy Nasdaq fared the best, losing 6.4% to close the month at 8,567.
- **U.S. Q4 GDP growth unrevised.** The Commerce Department released its second estimate of Q4 GDP growth, and the growth rate stayed unrevised. Q4 GDP was reported to grow at an annualized rate of 2.1%, matching the growth pace reported in Q3 last year.
- **U.S. CPI rises.** U.S. consumer prices rose faster in January according to the Labor Department. The consumer price index (CPI) rose 2.5% on the year in January, up from the previous month's pace of 2.3%. Economists were expecting an annual rise of 2.4%. The core measure, which excludes food and energy prices, rose 2.3% year-over-year, exceeding forecasts of a 2.2% annual increase.
- **U.S. non-farm payrolls surge.** The Labor Department reported that the U.S. economy added 225,000 jobs in January, handily beating economists' expectation of 158,000. The construction sector led the way, adding 44,000 positions. The unemployment rate ticked up slightly to 3.6% from 3.5% reported in December, due to increase in the labor force participation rate. Average hourly earnings rose 3.1% year-over-year, ahead of forecasts.
- **U.S. 'flash' composite PMI falls.** The spread of the coronavirus globally seemed to take its toll on the U.S.'s business activity. Preliminary reading of the composite purchasing managers' index (PMI) for February dropped from 53.1 to 49.6, widely missing economists' estimate of 52.5. The manufacturing PMI fell from 51.7 to 50.8, missing forecasts of 51.4. The services sector fell below the 50-division mark to 49.4, into contraction mode, for the first time since 2016.
- **U.S. PPI gains.** Producer prices increased by the most in more than a year in January, according to the Labor Department. The producer price index (PPI) rose 0.5% in January, handily beating economists' expected increase of 0.1%. It was the largest monthly gain since October 2018. On the year, PPI was up 2.1%.
- **ISM manufacturing index rises.** Manufacturing activity rebounded in January according to the Institute for Supply Management (ISM). The ISM manufacturing activity index increased to 50.9 in January, up from December's reading of 47.8. Economists were expecting a reading of 48.5. It was the manufacturing gauge's highest reading since July. In a separate report, the IHS Markit manufacturing PMI dropped slightly from 52.4 to 51.9.
- **U.S. factory goods orders surge.** Factory goods orders in U.S. increased by the most in nearly one and a half years in December. The Commerce Department reported that factory goods orders rose 1.8% in December, the largest gain since August 2018. Economists were expecting an increase of 1.2% in December.
- **U.S. industrial production drops.** The Federal Reserve reported that industrial production fell 0.3% in January, matching forecasts. Unusually warm weather caused a sharp drop in the utility segment. Utility production fell 4% after a 6.2% drop in December. The manufacturing segment fell 0.1% while output at mines rose 1.2%.
- **U.S. durable goods orders fall.** Durable goods order slipped in January, according to the Commerce Department. Durable goods orders fell 0.2% after rising 2.9% last December. Economists were expecting durable goods orders to fall by 1.2%.
- **U.S. retail sales rise.** The Commerce Department reported that retail sales rose 0.3% in January, in line with economists' expectations. However, sales at clothing stores tumbled 3.1%, the worst monthly drop since 2009. Sales of building materials were strong, up 2.1%, offsetting the negative impact of the sharp decline in clothing sales.
- **U.S. consumer sentiment rises.** Consumer sentiment in the U.S. improved in February. The University of Michigan's consumer sentiment index came in at 100.9, above economists' expectation of 99.5. The recent outbreak of the coronavirus was not a main concern in consumers' minds yet as only 7% of the survey respondents mentioned the disease when asked about their economic expectations.
- U.S. housing news:
  - **U.S. housing starts drop.** The Commerce Department reported that housing starts fell 3.6% to a seasonally adjusted annual pace of 1.57M units in January, less than economists' estimate of a larger fall to 1.42M units. On a year-over-year basis, housing starts rose 21.4%. Building permits rose in January though, up 9.2% to 1.55M units, beating forecasts of an annual rate of 1.45M units.
  - **U.S. existing home sales fall.** The National Association of Realtors reported that existing home sales fell 1.3% to a seasonally adjusted annual pace of 5.46M units in January; economists were expecting an annual pace of 5.43M units. On a year-over-year basis, existing home sales were up 9.6%.
  - **U.S. home prices jump**. Home prices surged in December, according to S&P. The S&P CoreLogic Case-Shiller 20-city home price index climbed 2.9% on the year in December, up from the 2.5% pace in the previous month. Economists were expecting an increase of 2.8%. Phoenix, Charlotte, and Tampa were three cities leading the way in annual percentage gains.
  - **U.S. new homes sales jump**. New home sales in U.S. surged in January, according to the Commerce Department. New home sales jumped 7.9% to a seasonally adjusted annual pace of 764,000 units, the highest level since July 2007. Economists were expecting an annual rate of 710,000 units.

# European Markets

- **Eurozone Q4 GDP growth slows.** Eurostat reported that the preliminary estimate of the 19-member bloc's Q4 GDP grew by 0.1% quarter-over-quarter, slowing from Q3's pace of 0.3%. The slowdown was due to contractions in France and Italy. Germany, the economic locomotive within the zone, reported no growth in Q4. On a year-over-year basis, Eurozone's GDP grew 0.9%.
- **Eurozone inflation rises.** Eurostat reported that the harmonised index of consumer prices (HICP) rose 1.4% on the year in January, in line with economists' expectations, also confirming the preliminary reading released earlier. Italy reported the lowest annual inflation rate (0.4%) while Hungary reported the highest (4.7%).
- **Eurozone 'flash' composite PMI rises.** Business activity within the 19-member bloc showed some improvement in February. Preliminary reading of the IHS Markit composite purchasing managers' index (PMI) for February climbed from January's reading of 50.9 to 51.6, beating economists' expectation of 51.0. The manufacturing PMI rose from 47.8 to 49.1, above forecast of 47.5. The services PMI improved to 52.8 from 52.2, also beating expectations of a flat reading.
- **Eurozone industrial production falls**. Industrial production within the 19-member bloc fell more than expected in December. Eurostat reported that industrial production fell 2.1% in December, a deeper dive than economists' expectations of a 1.8% decline. On a year-over-year basis, production was down 4.1%, the worst performance since the sovereign debt crisis in 2012.

# Asian Markets

- **Japan unemployment rate rises**. Japan's unemployment rose for the first time in four months in January, according to the Ministry of Internal Affairs. Jobless rate rose 0.2 percentage point to 2.4% in January, higher than economists expected 2.2%.
- **Japan 'flash' composite PMI tumbles.** The spread of the coronavirus seemed to impact the world's third largest economy. Preliminary reading of the Jibun Bank composite purchasing managers' index (PMI) for February fell sharply from January's 50.1 to 47.0, the lowest level since April 2014. The manufacturing PMI fell from 48.8 to 47.6, the lowest since late 2012. The services PMI tumbled to 46.7 from 51.0, marking its lowest reading since April 2014.
- **China services sector slows.** China's service sector growth slowed to a three-month low in January. The Caixin/Markit services purchasing managers' index (PMI) fell to 51.8 from December's reading of 52.5. The January figure had not really reflected the impact from the outbreak of the coronavirus.

# Key Take-Aways

**The backup plan.** The inflation rate is one of the key metrics used by the Bank of Canada to determine interest rates. Now, the BoC finds itself in an awkward position where a once stubborn inflation rate that was persistently below the BoC's targets has now remained there for multiple months. As reported by Statistics Canada, the latest headline annualized CPI data of 2.4% added fodder to further dispel thoughts that the reading was an anomaly; particularly as this was the third straight month of the rate holding within the 2-4% range. Along with a strong labour market, the inflation reading is the second of three measures, the third being GDP, that should be aligned before BoC Governor Stephen Poloz would normally consider changes to his benchmark rate—normally in the form of an increase to keep the economy from overheating. However, with the effects of the coronavirus yet to be felt and reflected in economic data, Mr. Poloz may instead need to deviate from his regular plan and be more dovish to keep the economy from slowing down too much.

**Growing concerns.** As the world directs its attention towards understanding and fighting COVID-19, concerns of the impact on growth have begun to emerge, possibly resulting in another drawn out battle of the recessionary kind. The unprecedented response by countries to limit exposure by minimizing travel across its borders caused disruption in the supply chain of materials and goods. As a result, the business environment has soured quickly in the roughly two months following the outbreak and has prompted companies—especially those that do business in or with China—to caution on weaker earnings in the coming quarters. Unfortunately, all of this comes on the heels of improving global growth in 2020 and 2021 relative to 2019, and a positive outlook by the International Monetary Fund as trade tensions appear to be easing. Investors encountered a similar coronavirus scenario in 2004 with SARS and another variation, MERS, in 2012, with markets continuing their bull run to this day. Growth is a concern for all, not just a single country; to survive and prosper, indifferences need to be put aside all countries need to work together.