Credential

Market Insights | MONTHLY

Month in Review

For the month ended December 31st, 2017

Overall Highlights

- **TSX up.** The S&P/TSX Composite ended the month and the year with a bang, reaching an all-time high on the second last trading day and closing with a respectable return in 2017. A surge in crude prices helped push the Index higher as the Healthcare sector was the surprise performer during the month, followed by Materials and Industrials. The Composite closed December at 16,209, a 0.9% monthly gain.
- **Dollar flies higher.** Our Dollar took advantage of weakness in the U.S. greenback and strength in crude oil prices to reach a two-month high during the month. Positive economic data at home also buoyed our currency higher but concerns over the NAFTA negotiations tempered it from rising more. In December, the Loonie ended at US79.71 cents for one Canadian dollar, a monthly change of 2.7%.
- **Gold shines.** The yellow metal touched a three-month high as the U.S. dollar retreated, continued geopolitical tension between the U.S. and North Korea, and concerns of the effect of Fed rate movements to cool equity markets and their dovishness sent investors toward the safe-haven asset. Gold closed the month at US$1,305.00, an increase of 2.4%.
- **Oil gushes.** Shrinking U.S. oil inventories and fewer active drilling rigs, as reported by the Baker Hughes Report, sent the commodity closing at two-and-a half year highs. Increasing demand for oil coupled with decreasing output due to the co-ordinated global production cuts also provided additional upward support. A February contract for a barrel of WTI crude ended trading at US$60.10, a 4.8% gain for the month.
- **GDP flat.** Canada's gross domestic product stalled in October registering no change from previous month.
- **BoC holds.** With two rate hikes in the books for 2017, the Bank of Canada maintained a cautious position at their final policy meeting of the year.
- **Inflation climbs higher.** Consumer prices were higher in November by 0.3% driven forth by an increase in gasoline prices and air travel.
- **Jobless rate falls.** Employers continue to hire as the national unemployment rate fell below the 6% level for the first time in almost a decade.
- **Retail sales up.** An increase in vehicles purchases helped prop retails sales in October higher than forecasted.
- **U.S. Q3 GDP growth revised down.** The Commerce Department reported its final estimate of Q3 GDP growth, and the U.S. economy grew at its fastest pace in more than two years.
- **Fed raise rates.** As a widely expected decision, the Federal Reserve raised its benchmark interest rate by 25 basis points to a range of 1.25% to 1.50% in its December meeting.
- **U.S. economy creates more jobs than expected.** The U.S. economy pumped out 228,000 jobs in November according to the Labor Department, better than economists' expected 195,000.
- **U.S. consumer sentiment falls.** The consumer confidence fell more than expected in December, according to a report by the University of Michigan.
- **Euro-zone Q3 GDP grows.** Euro-zone's economic growth remained solid in the third quarter. Eurostat reported that Q3 GDP grew 0.6% quarter-over-quarter, matching economists' expectations.
- **ECB stays its course.** The European Central Banks left its monetary policy unchanged in its final meeting of the year.
- **Japan's economy expands.** Japan's Q3 GDP expanded faster than expected. The world's third largest economy expanded by 0.6% quarter-over-quarter on Q3, better than economists' expectation of 0.4%.

Index/Commodity/Currency		
Close	**MonthChange**	**YTDChange**
S&P/TSX Composite		
16,209.13	141.7	921.5
	0.9%	6.0%
BMO Nesbitt Burns Small Cap		
936.40	32.6	56.1
	3.6%	6.4%
Dow Jones Industrial Average		
24,719.22	446.9	4,956.6
	1.8%	25.1%
S&P 500		
2,673.61	26.0	434.8
	1.0%	19.4%
NASDAQ Composite		
6,903.39	29.4	1,520.3
	0.4%	28.2%
MSCI-EAFE Index		
2,050.79	30.7	366.8
	1.5%	21.8%
WTI Crude Oil (per barrel, in $US)		
60.10	2.8	6.3
	4.8%	11.6%
Gold (per ounce, in US$)		
1,305.00	30.1	154.1
	2.4%	13.4%
Canadian Dollar (¢ per US$)		
79.71	2.1	5.2
	2.7%	7.0%

Sources: Bloomberg, PC Bond

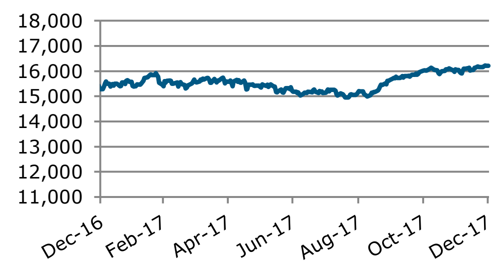
Canadian Markets

- **GDP flat.** Canada's gross domestic product stalled in October registering no change from previous month. Most of the industries followed, bogged down by decreased oil sands production, with only retail and manufacturing seeing some growth. Expectations had called for a 0.2% increase, similar to September, and the month's reading was a weak start for the fourth quarter to end a strong year of economic growth. On an annualized basis, the economy has grown 3.4%.
- **BoC holds.** With two rate hikes in the books for 2017, the Bank of Canada maintained a cautious position at their final policy meeting of the year. Governor Stephen Poloz continued to reiterate a wait-and-see approach and observed the effects of the September hike on the economy. At the same announcement, however, Mr. Poloz did warn that future rate increases are likely on the way with latest predictions in the first half of 2018.
- **Inflation climbs higher.** Consumer prices were higher in November by 0.3% driven forth by an increase in gasoline prices and air travel. The month's reading topped October's 0.1% gain and forecasts of 0.2%, but more importantly, propelled the annual pace of inflation to 2.1%, above the Bank of Canada's target and its highest in almost a year. This data will be a factor in the central bank's interest rate decision at their next meeting in January. Core inflation, which excludes volatile components, jumped sharply to 1.3% from 0.9% the month before.
- **Jobless rate falls.** Employers continue to hire as the national unemployment rate fell below the 6% level for the first time in almost a decade. For the month of November 80,000 jobs were added, blowing past estimates of 10,000, with most of a part-time nature as businesses prepare for the holiday season. The participation rate held steady at 65.7%.
- **Wholesale sales rise.** Wholesale trade jumped in October led by strong demand for machinery and equipment. During the month, StatsCan reported a 1.5% rise in wholesale sales, topping estimates of a 0.5% gain, to total receipts of $63B. Six of the seven sectors followed and were responsible for 81% of the month's sales. On a volume basis, sales were higher by 1.2% in October.
- **Manufacturing sales slip.** Lower demand for automobiles sent manufacturing sales falling unexpectedly in October. For the month, Statistics Canada reported a 0.4% decline, contrary to analyst expectations of a 0.8% rise. In addition to autos, the transportation equipment industry also declined as eight of the 21 industries tracked fell, accounting for 56% of the manufacturing sector.
- **Factories busier**. A measure of business conditions in the manufacturing sector, Markit's Purchasing Managers' Index rose slightly in November to a seasonally adjusted reading of 54.4, up a notch from the previous month. Increased demand from the energy sector helped boost new orders higher and helped dampen declines seen in export orders, especially from the U.S.
- **Retail sales up.** An increase in vehicles purchases helped prop retails sales in October higher than forecasted. For the month, sales rose 1.5%, comfortably beating estimates of 0.3% and the largest increase in nine months. Of the 11 sectors tracked by Statistics Canada, seven were higher, which accounted for 79% of the month's trade. On a volume basis, sales were up 1.4%
- Canada Housing News:
  - **New home prices rise.** The price of a new home in Canada rose higher led by better market conditions and development in the nation's capital in October. Prices were higher nationally by 0.1%, half of the 0.2% estimated from September. Ottawa had a 1% monthly gain, while the perennial hot markets of Toronto and Vancouver rose 0.1% and 0.3%, respectively. Prices were little changed in 15 of the 27 markets surveyed by StatsCan.
  - **Building permits gain.** Commercial and residential building applications helped push permit values higher in October by 3.5%, driven by increased demand in Ontario and Québec. Non-residential structures were 5.5% higher while residential permits gained for the first time in three months rising 2.3%. In residentials, single-family homes gained 3.3% while condos and apartments surged 23%.
  - **Housing starts rise.** A boom in condo building activity in hot spot Toronto helped set a torrid pace in housing starts in November, with the CMHC reporting a six month trend at its highest level in 10 years. On a seasonally adjusted basis, 252,184 units were recorded nation-wide compared to October's 222,695 unit tally.
  - **Existing home sales rise.** For a fourth consecutive month, sales of existing homes rose in November by 3.9%, as reported by CREA, led by a 16% increase in the GTA region. On an annual basis, not seasonally adjusted, sales are higher by 2.6%. In the same report, CREA lowered their 2018 sales forecast as tighter mortgage rules come into effect and buyer's taxes in Toronto and Vancouver dissuade foreigners from purchasing.

S&P/TSX Composite Index
Sector Snapshot

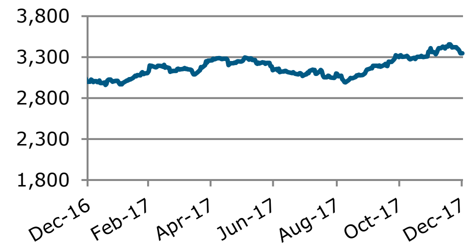
Sector	Month Return	YTD Return	Weight (%)
Energy	0.81	-10.05	19.70
Telecoms	-2.13	9.94	4.70
Industrials	2.03	17.86	9.50
Consumer Staples	-0.20	6.36	3.70
Utilities	-1.24	6.21	3.80
Financials	0.38	9.43	34.60
Consumer Discretionary	-0.66	20.39	5.40
Health Care	24.11	32.67	1.00
Materials	3.43	6.27	11.50
Information Technology	0.34	16.23	3.20
Real Estate	0.48	5.78	2.90

S&P/TSX Composite - 1Y Return

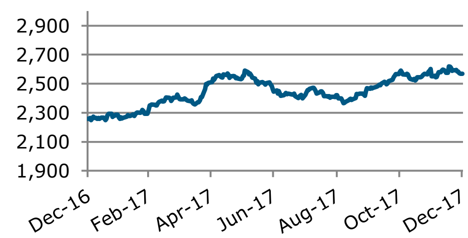


U.S. Markets

S&P 500 - 1Y Return (CAD)



MSCI EAFE – 1Y Return (CAD)



- **U.S. stock market up again.** December turned out to be another positive month in the U.S. stock market. The broad-based S&P 500 index advanced 1% to end the year at 2,674. The Dow Jones Industrial Average was the biggest gainer among the three major indices, up 1.8%, closing the year at 24,719. The tech-heavy Nasdaq rose 0.4%, wrapping up the year at 6,903.
- **U.S. Q3 GDP growth revised down.** The Commerce Department reported its final estimate of Q3 GDP growth, and the U.S. economy grew at its fastest pace in more than two years. Q3 GDP growth was revised to an annualized rate of 3.2%, down slightly from the previous estimate of 3.3%; economists were also expecting a growth rate of 3.3%. It was the quickest growth pace since Q1 2015. Strong growth in business spending was one major factor driving the growth in Q3.
- **Fed raise rates.** As a widely expected decision, the Federal Reserve raised its benchmark interest rate by 25 basis points to a range of 1.25% to 1.50% in its December meeting. The Fed based its decision on faster than expected economic growth and a robust labor market. The Fed also raised its GDP growth forecast for 2018 from 2.1% to 2.5%.
- **U.S. CPI increases.** The consumer prices in U.S. rose in November. The Labor Department reported that its consumer price index (CPI) ticked up 0.4% in November, meeting economists' expectations. On a year-over-year basis, the CPI increased by 2.2%, also in in line with forecast. The core CPI, which excludes food and energy prices, rose 0.1% for the month, a tick lower than economists' estimated 0.2% increase. On a year-over-year basis, core CPI dropped from October's pace of 1.8% to 1.7%.
- **U.S. PPI rises.** Producer prices increased in November, according to the Labor Department. November's producer price index (PPI) rose 0.4% from the previous month, matching economists' expectations. A jump in gasoline prices was one of the main factors driving up PPI. On a year-over-year basis, PPI was up 3.1%.
- **U.S. economy creates more jobs than expected.** The U.S. economy pumped out 228,000 jobs in November according to the Labor Department, better than economists' expected 195,000. The unemployment rate remained at 4.1%, the lowest level since 2000. Average hourly earnings were up 2.5% year-over-year.
- **U.S. 'flash' composite PMI declines**. The barometer of business activity in U.S. fell to a 9-month low in December. The IHS Markit composite 'flash' purchasing managers' index (PMI) dropped to 53.0 from November's final reading of 54.5, the lowest reading since March; economists were expecting a reading of 54.6. By sector, the manufacturing PMI climbed from previous month's reading of 53.8 to 55.0 while the services sector PMI declined to a 15-month low of 52.4.
- **U.S. factory goods orders fall.** Orders for U.S.-made goods fell in October. The Commerce Department reported that factory goods orders slipped 0.1% in October after a 1.7% jump reported in September; economists were expecting a larger decline of 0.4%. Core capital goods orders, which exclude aircraft orders, were revised to a 0.3% rise from the 0.5% drop previously reported last month.
- **U.S. industrial production rises.** Industrial production in U.S. rose in November with a lift from the mining sector. The Federal Reserve reported that industrial production went up by 0.2% in November, after advancing 1.2% in October; economists were expecting a slightly higher increase of 0.3%. The mining sector provided a strong push with a 2% increase after being held down by Hurricane Nate in October.
- **U.S. retail sales jump.** The holiday season got off to a good start in the U.S. with November's retail sales numbers better than expected. The Commerce Department reported that retail sales rose 0.8% in November after rising 0.5% in October, way better than economists' expected increase of 0.3%. On a year-over-year basis, retails sales were up 5.8%.
- **U.S. services sector slows.** The Services sector activity decelerated in November, according to the ISM services purchasing managers' index (PMI). November's services PMI fell from October's reading of 60.1 to 57.4, below economists' expectation of 59.0. Despite the drop, the gauge remained well above the 50 mark which separates expansion from contraction.
- **Consumer spending rises and core PCE price index up.** The Commerce Department reported that consumer spending rose 0.6% in November, exceeding economists' expectations of a 0.5% increase. The core personal consumption expenditures (PCE) price index, the Fed's preferred gauge of inflation, moved up 0.1% in November, in line with economists' forecast. On a year-over-year basis, the core PCE price index increased a tick from October's 1.4% to 1.5%, also matching expectations.
- **U.S. consumer sentiment falls.** The consumer confidence fell more than expected in December, according to a report by the University of Michigan. The university's consumer sentiment index fell from November's reading of 98.5 to 95.9 in December, missing economists' estimate of 97.1. The index had peaked at 101.1 in October, but had been steadily declining since.
- U.S. Housing News
  - **U.S. housing starts rise.** Housing starts unexpectedly increased in November thanks to a strong surge in the single-family house category. The Commerce Department reported that overall housing starts increased by 3.3% to a seasonally adjusted annual rate of 1.30 million units; economists were expecting November's pace to decline to 1.25 million units. Single-family homebuilding provided a boost to the overall figure, rising 5.3% to an annual rate of 930,000 units, the highest level since September 2007. On the other hand, overall number of building permits dropped 1.4% to an annual pace of 1.30 million units in November.
  - **U.S. new home sales jump.** New home sales unexpectedly rose in November, the Commerce Department reported. New home sales surged 17.5% to a seasonally adjusted annual rate of 733,000 units in November, surprising economists' forecast of a 4.7% slide to an annual pace of 654,000 units. On a year-over-year basis, new home sales were up 26.6%.
  - **U.S. existing home sales surge.** The National Association of Realtors reported that existing home sales rose 5.6% to a seasonally adjusted annual pace of 5.81 million units in November, beating economists' expected increase of 0.9% to a 5.52 million-unit rate by a wide margin. It was the highest level since December 2006. On a year-over-year basis, home resales rose 3.8% in November.
  - **Pending home sales up slightly** The National Association of Realtors reported that pending home sales increased 0.2% in November, vs. a much higher 3.5% increase for the month before. This increase surprised economists who expected sales to decline 0.4%. On a year-over-year basis, sales were up 0.8%.

European Markets

- **Euro-zone Q3 GDP grows.** Euro-zone's economic growth remained solid in the third quarter. Eurostat reported that Q3 GDP grew 0.6% quarter-over-quarter, matching economists' expectations. On a year-over-year basis, GDP grew by 2.6%, slightly better than economists' estimated growth pace of 2.5%.
- **ECB stays its course.** The European Central Banks left its monetary policy unchanged in its final meeting of the year. The ECB is going to leave the key interest rates unchanged and maintain its asset purchase program in place at least until September 2018. "*The Governing Council expects the key ECB interest rates to remain at their present levels for an extended period of time, and well past the horizon of the net asset purchases*," the ECB said in its statement.
- **Euro-zone industrial production rises.** Industrial production within the single-currency bloc expanded faster than expected in October. The Eurostat reported that industrial output within the Euro-zone increased by 0.2% for the month and by 3.7% on the year, both exceeding economists' estimates. Ireland was leading the way with a 13.4% year-over-year increase.
- **Euro-zone 'flash' composite PMI climbs.** Euro-zone's business activity remained robust in December. The IHS Markit's composite 'flash' purchasing managers index (PMI) for December moved up to 58.0 from November's final reading of 57.5, beating economists' estimate of 57.2. It was the highest reading since February 2011. Manufacturing PMI rose from November's final reading of 60.0 to 60.6, exceeding forecast of 59.8. The services PMI also rose from November's reading of 56.2 to 56.5, higher than economists' expected 56.0, reaching its highest level since April 2011.

Asian Markets

- **Japan's economy expands.** Japan's Q3 GDP expanded faster than expected. The world's third largest economy expanded by 0.6% quarter-over-quarter on Q3, better than economists' expectation of 0.4%. It was the seventh straight quarter that the economy reported expansion. On an annualized basis, GDP grew by 2.5%, beating forecast of 1.5% by a wide margin.
- **BOJ stays its course.** The Bank of Japan (BOJ) was going to maintain its stance on the monetary policy after its December policy meeting. The verdict was reached by an 8 to 1 vote to keep the monetary policy as is. Japan's economy had been growing strongly, but inflation remained sluggish and was far from reaching the central bank's inflation target of 2%.
- **Japan's core CPI rises.** Japan's consumer prices rose more than expected in November. The core consumer price index (CPI), which excludes fresh food prices, increased by 0.9% year-over-year in November, beating economists' estimate of a 0.8% increase. The price gauge had increased for the 11^{th} straight month.
- **Japan 'flash' manufacturing PMI rises.** Japan's manufacturing activity expanded at its fastest pace in nearly four years. The Markit/Nikkei Japan manufacturing 'flash' purchasing managers' index (PMI) climbed to 54.2 in December from November's final reading of 53.6. It was the highest reading since February 2014, and the gauge had remained above the 50-mark for the 16^{th} consecutive month.
- **Economic data out of China.** A slew of economic data came out of China. Industrial production grew 6.1% on the year in November compared to the 6.2% pace in October; economists were expecting a 6.1% increase. Fixed asset investment expanded by 7.2% in the first eleven months, slowing slightly from the 7.3% pace reported for October, but matching economists' expectations. Retail sales rose 10.2% year-over-year, accelerating from October's 10% pace, but missing economists' estimate of a 10.3% increase.

Key Take-Aways

'Tis the season to be jolly. As 2017 comes to a close, Canada's economic health continues to provide pleasant surprises here and there. Despite a slowdown in the third quarter, the economy remains strong heading into the prospects of a joyous holiday season. The labour market is steadily adding jobs on a monthly basis, having added over 390,000 positions in the last 12 months ending in November. Even more notable is that they were all of a full-time nature, illustrating increased confidence by employers to hire for the long term. The Bank of Canada chose to give the gift of accommodative monetary path keeping its key benchmark rate at 1% to spur domestic consumption and business investing. It's beginning to look a lot like Canada has finally shook off the oil shock and is moving onto jollier times.

Ending 2017 on a high note. One of the worst kept secrets became a reality as the U.S. Federal Reserve increased its key interest rate a third and final time in 2017 by 25 basis points to a range between 1.25%-1.50%. In her final FOMC speech as Chairwoman, Janet Yellen reiterated the U.S. central bank's position for 2018 with no changes to their current outlook on inflation and three rate increases. Ms. Yellen reasoned the move to a solid labour market, increased personal and business spending and revised higher forecasted U.S. growth to 2.5% from 2.1%. Incoming Chairman Jerome Powell will maintain the current course of the FOMC, gradually adjusting monetary policy to keep unemployment low and allow the economy to expand at a steady pace.

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