Credential

Market Insights | MONTHLY

Month in Review

For the month ended January 31st, 2020

Overall Highlights

- **TSX higher.** Despite the U.S. signing the USMCA and Phase 1 of their agreement with China, virus concerns sent the S&P/TSX Composite Index and other major indices falling on the last trading day of the month as investors worried of the impact on growth. Energy was the big decliner as demand for the commodity was expected to fall as the country grappled to contain the outbreak. For the month, the Composite was higher by 1.5% to end at 17,318.
- **Loonie dips.** The fortunes of the Loonie fell with the price of oil as markets forecasted lower demand for crude and lower revenue for government coffers from the main export. Also adding to the Canadian dollar's drop, aside from strength in the U.S. greenback, was the latest dovish positioning by the Bank of Canada, opening up the possibility of rate action should the economy weaken further. At the close, our Dollar finished at 75.57 U.S. cents, a loss of 1.8%.
- **Gold shines.** The yellow metal posted a second straight monthly gain after reaching a more than six-and-a-half year high earlier. Fears of the effects of the spreading coronavirus on global growth had investors flocking to the safe-haven asset as their risk appetite for equities faltered. This in addition to monetary stimulus provided by the world's central banks. Gold gained 4.7% in January, closing at US$1,589.16 an ounce for an April contract.
- **Oil sputters.** A sell-off in the commodity sent oil to a four-month low as the coronavirus outbreak intensifies. Already weakened by global trade disputes, oil is anticipated to remain weak in the short-term as demand from China, the world's second largest economy and largest consumer of crude, falls on slower economic growth. At the end of the month, a March delivery on a barrel of WTI crude settled at US$51.56, lower by a steep 15.6%.
- **Economy warms in November.** Higher utility costs, due to colder weather, helped the economy eke out a gain in November by 0.1%, countering the previous month's decline by the same amount.
- **BoC holds.** To the expectations of many, interest rates remained unchanged by Governor Stephen Poloz and the Bank of Canada at their first meeting of 2020.
- **Jobless rate falls.** The nation's unemployment rate fell back into familiar territory coming in at 5.6% in December, down from 5.9%.
- **Wholesale sales weak.** Wholesale trade to retailers declined in November by 1.2% after the previous month's reading was revised higher to 1.2%.
- **Retail sales up.** A rebound in retail sales helped alleviate some concerns that the economy was weakening towards the end of last year.
- **U.S. Q4 GDP grows.** The Commerce Department reported that GDP grew at an annualized pace of 2.1% in Q4, matching the previous quarter's pace and economists' expectations.
- **Fed holds rates.** The Federal Reserve decided to keep its benchmark interest rates unchanged after its January policy meeting. The Federal Open Market Committee (FOMC) announced that it will keep its benchmark funds rate in a range between 1.55 to 1.75%.
- **U.S. consumer sentiment falls.** Consumer sentiment slid slightly in January, according to a report by the University of Michigan.
- **Eurozone unemployment falls.** Eurostat reported that the unemployment rate within the 19-member bloc fell to 7.4% in December, a tick lower than November's 7.5%.
- **Japan inflation rises.** Consumer prices in Japan ticked up in December, but inflation was still a far cry from the Bank of Japan's 2% target.
- **China posts slowest GDP growth in 29 years.** The National Bureau of Statistics reported that the world's second largest economy's GDP grew at an annual pace of 6.1% in 2019, the slowest annual growth pace since 1990; economists were expecting a slightly higher growth pace of 6.2%.

Index/Commodity/Currency		
Close	**Month Change**	**YTD Change**
S&P/TSX Composite		
17,318.49	255.1	255.1
	1.5%	1.5%
Dow Jones Industrial Average		
28,256.03	-282.4	-282.4
	-1.0%	-1.0%
S&P 500		
3,225.52	-5.3	-5.3
	-0.2%	-0.2%
NASDAQ Composite		
9,150.94	178.3	178.3
	2.0%	2.0%
MSCI EAFE Index		
1,993.71	-43.2	-43.2
	-2.1%	-2.1%
WTI Crude Oil (per barrel, in $US)		
51.56	-9.5	-9.5
	-15.6%	-15.6%
Gold (per ounce, in US$)		
1,589.16	71.9	71.9
	4.7%	4.7%
Canadian Dollar (¢ per US$)		
75.57	-1.4	-1.4
	-1.8%	-1.8%

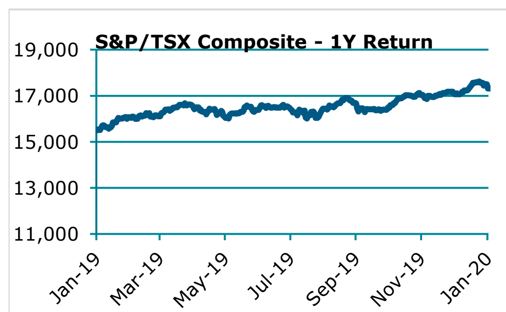
Source: Bloomberg

Canadian Markets

- **Economy warms in November.** Higher utility costs, due to colder weather, helped the economy eke out a gain in November by 0.1%, countering the previous month's decline by the same amount. Expectations were for no change, but a 0.1% increase in both the manufacturing and services sectors helped alleviate some worries GDP growth was slowing. Of the 20 sectors tracked by StatCan's index, 15 were higher. The laggards were in mining and transportation, which were affected by a rail strike during the month.
- **BoC holds.** To the expectations of many, interest rates remained unchanged by Governor Stephen Poloz and the Bank of Canada at their first meeting of 2020. Improvement in global growth, despite some weakness in domestic spending, was not enough for the BoC to deviate from its current holding pattern on rates. However, in his announcement, Mr. Poloz changed his tone on the outlook for Canada, becoming more dovish as the Bank's short-term forecast for growth weakened. The overnight rate holds at 1.75% and it is the 10th meeting in a row where rates were unchanged.
- **Jobless rate falls.** The nation's unemployment rate fell back into familiar territory coming in at 5.6% in December, down from 5.9%. During the month, 35,200 jobs were added, mostly in food services, housing, and construction sectors as businesses were preparing for the holidays. The participation rate was little changed, falling a notch to 65.6% of the eligible labour force. In 2019, the economy added 320K jobs or a 1.7% gain from 2018.
- **IPPI higher.** The industrial product price index (IPPI) rose 0.1% in December, pushed higher by costs for non-ferrous metals and chemicals. This topped estimates of a flat month and bettered November's revised 0.1% decline. In contrast, motor vehicles, meat, fish, and dairy products felt downside pressure. Annualized, IPPI posted a 0.3% gain, equaling forecasts, and reversing a 0.6% drop in the previous month.
- **Manufacturing sales drop.** Factory sales fell in November to a total of $57B as metals, food, and chemical sectors saw declines. Overall, it was a 0.6% decline from October and its third straight monthly decrease, with 11 of the 21 sectors tracked by Statistics Canada falling. Analysts were expecting a 0.2% decline for the month. On a volume basis, sales were also lower by 0.8%.
- **Manufacturing PMI falls.** Canadian factory activity dipped to a four-month low as new orders fell during the month of December. The IHS Markit Purchasing Managers' Index (PMI) fell to 50.4 from 51.4 in the previous month, hovering just above the 50-threshold between sector expansion or contraction. Manufacturers were more conservative in hiring and building inventory as business confidence fell to its weakest level since February 2016.
- **Wholesale sales weak.** Wholesale trade to retailers declined in November by 1.2% after the previous month's reading was revised higher to 1.2%. Markets were expecting no change, but five of the seven sectors followed by StatCan's index declined, led by autos and related (-3.3%), miscellaneous sales (-4.1%), and building supplies (-1%). This was the third decline in four months and will have some effect on the BoC's rate forecasting for the short term.

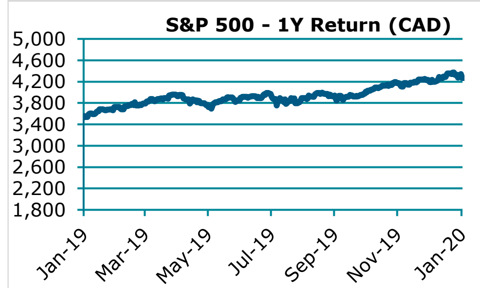
S&P/TSX Composite Index
Sector Snapshot

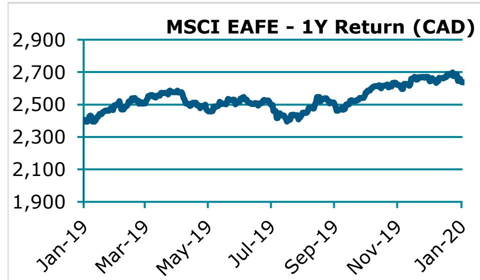
Sector	Month Return	YTD Return	Weight (%)
Consumer Discretionary	-2.52	-2.52	3.98
Consumer Staples	4.42	4.42	3.97
Energy	-2.40	-2.40	16.13
Financials	1.40	1.40	32.12
Health Care	-2.56	-2.56	1.24
Industrials	4.46	4.46	11.31
Information Technology	9.43	9.43	6.11
Materials	-2.38	-2.38	10.95
Real Estate	4.42	4.42	3.56
Communication Services	2.84	2.84	5.55
Utilities	7.55	7.55	5.06



- **Retail sales up.** A rebound in retail sales helped alleviate some concerns that the economy was weakening towards the end of last year. Having risen the most in eight months, retail sales gained 0.9% in November, reversing a 1.1% decline in October. Higher sales in autos and in food/beverage helped beat forecasts for a 0.6% gain for the month. With prices constant, volumes were higher as well, climbing 0.7%. Annualized, retails sales are sharply higher from October's 0.4% decline to 1.9%.
- Canada housing news:
  - **New home prices up.** The cost to purchase a new home in Canada rose in December, beating both expectations of no change and the previous reading. For the month, prices rose 0.2%, which is its highest gain for this period in a decade, besting November's 0.1% decline. Favourable market conditions and lower constructions costs helped see the Ottawa region lead the nation (+0.6%) with higher demand and lower inventory supply. Year-over-year, prices are higher by 0.1%.
  - **Existing home sales decline.** After a revision of the November data to a 0.9% monthly gain, pre-owned home sales fell by the same in December. This ended a string of consecutive gains beginning in March as markets that saw declines were matched by the same number of decliners. Higher sales were seen in B.C.'s Lower Mainland and Calgary while the GTA and Ottawa regions were detractors. For the quarter, sales were higher by 2.2%, on par with forecasts, and for 2019, sales were 22.7% strong (not seasonally adjusted).
  - **Housing starts lower.** Fewer groundbreakings were seen in December as multi-family projects declined. For the month, 197,329 units starts were seen on an annualized basis, compared to 204,320 units in November where expectations were for 210,000 units. Condominiums and apartment starts fell 5% with detached homes up 1%. Activity fell in Toronto, Ottawa, and Montréal, while strong gains were seen in Calgary.
  - **Building permits drop.** The value of municipal applications for new construction fell 2.4% in November, led by declines in residential permits in the multi-unit segment (-11.3%) that exceeded gains in single-family dwellings (+5.6%). Total value of all permits was $8.1B. Also seeing declines was the non-residential sector, which fell 0.1%.

U.S. Markets





- **U.S. market retreats.** The U.S. stock market had a very good start to the beginning of the new year but retreated toward the end of the month. Fear of the mysterious coronavirus played a hand in spooking global stock markets. Nasdaq was the lone gainer among the three major indices, helped by good earnings reported by certain tech giants. The broad-based S&P 500 index lost 0.2% in January, closing at 3,226. The Dow Jones Industrial Average gave back 1%, ending the month at 28,256. The tech-heavy Nasdaq was the only bright spot, up 2% in January, closing the month at 9,151.
- **U.S. Q4 GDP grows.** The Commerce Department reported that GDP grew at an annualized pace of 2.1% in Q4, matching the previous quarter's pace and economists' expectations. It was the slowest annualized growth pace in three years. Robust consumer spending remained an important force propelling the economy while weak business investment continued to drag.
- **Fed holds rates.** The Federal Reserve decided to keep its benchmark interest rates unchanged after its January policy meeting. The Federal Open Market Committee (FOMC) announced that it will keep its benchmark funds rate in a range between 1.55 to 1.75%. Unlike previous meetings where opinions were split among committee members, this month's decision was unanimous. The status quo by the Fed was widely expected by market participants.
- **U.S. nonfarm payrolls rise.** The Labor Department reported that nonfarm payrolls increased by 145,000 in December; economists were expecting an increase of 160,000. The unemployment rate remained at a 50-year low of 3.5%. Average hourly earnings rose by just 2.9% year-over-year, down from the 3.1% annual pace reported in November.
- **U.S. CPI rises.** The Labor Department reported that the consumer price index (CPI) rose 0.2% in December after climbing 0.3% in November. On a year-over-year basis, the headline CPI was up 2.3%. The core measure, which excludes the volatile food and energy components, rose 0.1%; on the year, the core CPI gained 2.3%.
- **U.S. producer price index rises.** Producer prices edged up slightly in December, according to the Labor Department. The producer price index (PPI) rose 0.1% in December after being unchanged in November. Economists were expecting the PPI to rise 0.2%. On the year, the PPI was up 1.3%, in line with forecasts.
- **U.S. 'flash' composite PMI rises.** The services sector in U.S. continued to propel the economy while the manufacturing sector slowed. January's 'flash' IHS Markit composite purchasing managers' index (PMI) rose from December's reading of 52.7 to 53.1, better than economists' estimate of 52.3. The manufacturing PMI, however, declined from 52.4 to 51.7, missing the expected reading of 52.5. Services sector remained robust, with the services PMI improving from 52.8 to 53.2, beating economists' forecast of 52.5.
- **U.S. factory orders drop.** The Commerce Department reported that factory goods orders fell 0.7% in November; economists were expecting orders to fall 0.8%. Declines in demand for machinery and transportation weighted on orders. It was the third monthly drop in four months. On a year-over-year basis, factory orders were down 0.7%.
- **U.S. retail sales rise.** Retail sales in U.S. climbed for the third straight month, an indication that consumers continued to spend. The Commerce Department reported that retail sales advanced by 0.3% in December, matching economists' estimates. When compared to December last year, retail sales were up 5.8%.
- **U.S. consumer sentiment falls.** Consumer sentiment slid slightly in January, according to a report by the University of Michigan. Preliminary reading of the university's consumer sentiment index for January dropped from December's final reading of 99.3 to 99.1, missing economists' expected reading of 99.6.
- U.S. housing news:
    - **U.S. pending home sales fall.** The National Association of Realtors reported that pending home sales tumbled 4.9% in December as supply of homes hit a record low and remained a constraint for the real estate market. On a year-over-year basis, pending home sales were up 4.6%.
    - **U.S. new home sales fall.** New home sales fell unexpectedly in December according to the Commerce Department. New home sales were reported to rise 0.4% to a seasonally adjusted annual pace of 694,000 units; economists were expecting an annual pace of 730,000 units. It was the third straight monthly decline.
    - **U.S. home prices gain.** Home prices in U.S. rose at a faster pace in November last year. The S&P CoreLogic Case-Shiller 20-city home price index rose 2.6% year-over-year, up from the 2.2% annual gain reported in October. All 20 cities reported gains in November with Phoenix, Charlotte, and Tampa being the three cities with the largest annual percentage gains.
    - **U.S. existing home sales jump.** Existing home sales surged to their highest level in nearly two years in December, according to the National Association of Realtors. Sales increased by 3.6% to a seasonally adjusted annual rate of 5.54M units in December, exceeding economists expected annual pace of 5.43M units. On a year-over-year basis, existing home sales were up 10%.
    - **U.S. housing starts surge.** Housing starts reached its highest level in 13 years in December, according to the Census Bureau. Housing starts rose 16.9% in December to a seasonally adjusted annual pace of 1.61M units, crushing economists expected annual pace of 1.38M units; it was the highest level since December 2006. Housing permits, on the other hand, fell 3.9% to an annual pace of 1.42M units, missing economists' estimates of 1.46M units.

European Markets

- **Eurozone unemployment falls.** Eurostat reported that the unemployment rate within the 19-member bloc fell to 7.4% in December, a tick lower than November's 7.5%. It was the lowest level since May 2008. Economists were expecting the jobless rate to stay flat.
- **Eurozone inflation rises.** Final reading of the harmonised index of consumer prices (HICP) confirmed that inflation within the 19-member bloc rose 1.3% year-over-year in December, up from the previous month's pace of 1%. The core measure, which excludes tobacco and energy components, held steady at 1.3%.
- **Eurozone 'flash' PMI rises.** A preliminary reading of the IHS Markit's Eurozone composite purchasing managers' index (PMI) for January saw it rise slightly to 50.9, up from December's reading of 50.6; economists were expecting a reading of 51.2. The manufacturing PMI improved from 45.9 to 47.8, remaining in contraction mode. The services PMI weakened slightly from 52.4 to 52.2, missing economists' expectation of 52.9.
- **Eurozone industrial production rises.** Industrial production within the Eurozone improved slightly in November, but contracted on the year. The Eurostat reported that industrial production rose 0.2% in November, missing economists' expectation of a 0.3% increase. On a year-over-year basis, production was down 1.5%, also worse than forecasts of a 1.1% annual decline.

Asian Markets

- **Japan 'flash' composite PMI rises.** Business activity in Japan improved modestly in the new year, according to the preliminary reading of the Jibun Bank composite purchasing managers' index (PMI). The gauge of overall business activity rose from December's reading of 48.6 to 51.1 in January, moving back above the 50-mark separating contraction from expansion. The manufacturing PMI rose from 48.4 to 49.3, remaining in contraction territory. The services sector shone, with the services PMI increasing from 49.4 to 52.1 to beat economists' expectation.
- **Japan inflation rises.** Consumer prices in Japan ticked up in December, but inflation was still a far cry from the Bank of Japan's 2% target. The headline consumer price index (CPI) rose 0.8% year-over-year in December, accelerating from November's annual pace of 0.5%. The core-core CPI, which excludes fresh food and energy prices rose 0.9% on the year, saw its fastest growth pace since March 2016.
- **China posts slowest GDP growth in 29 years.** The National Bureau of Statistics reported that the world's second largest economy's GDP grew at an annual pace of 6.1% in 2019, the slowest annual growth pace since 1990; economists were expecting a slightly higher growth pace of 6.2%. The slower growth came amid a bitter trade war with the U.S. which lasted more than a year. Some economic data also pointed to softness in the economy: retails sales growth slowed to 8% from 2018's 9%; industrial production expanded by 5.7% for the year compared to 2018's 6.2%.
- **China's CPI surges.** Consumer inflation jumped in China due to skyrocketing pork prices. The National Bureau of Statistics reported that December's consumer price index (CPI) rose 4.5% on the year, below economists' forecast of a 4.7% increase. Food prices rose by 17.4% on the year, thanks to a 97% surge in pork prices amid an African Swine fever outbreak. On the other hand, the producer price index (PPI) posted a decline in December, down 0.5% year-over-year, on par with forecasts.

Key Take-Aways

Mother Nature versus the Markets. The week ending January 24 saw attention move away trade concerns, potential conflict, and the start of U.S. president Trump's impeachment trial in the Senate as the world became more informed and prepared for a potential pandemic. The suspect coronavirus, designated 2019-nCoV and akin to the SARS virus in 2003, was declared by the World Health Organization as "… a public health emergency of international concern." Given the interconnectedness of global economies, the 2019-nCoV virus will very likely negatively impact global companies and sectors/industries/supply-chains that do business in and with China as consumption will likely decline until the event passes. In comparison to the SARS outbreak, which lasted six months, the global economic losses were approximately US$30-100B, with China accounting for a large portion of that amount. In terms of GDP, China's decreased about 1% with Southeast Asia falling by about 0.5%. Mother Nature has always impacted financial markets with polar equinoxes, earthquakes and hurricanes, but on a short-term basis and in isolation. This latest situation is more widespread, potentially affecting everyone globally and on a prolonged basis. It will be another test as to how well markets can weather Mother Nature's latest storm.

A trading we will go. Last year's global growth woes—and solutions—can be attributed to two circumstances: the U.S.-China trade war and ongoing discussions on a replacement to the NAFTA agreement. Two major milestones were achieved last week to resolve both situations. The signing of Phase 1, one of hopefully many phases of trade agreements between the U.S. and China, was one cornerstone of Trump's presidency that would relax or remove the tariffs on certain products he imposed when he fired the first volley in the trade war 18 months earlier. However, the agreement did not cover a sharp 25% tax on popular goods purchased from China, which remains and will eventually be borne by American consumers. The second milestone was the passing of the USMCA by the U.S. Senate, an updated version of NAFTA that re-establishes a tri-lateral agreement between the U.S., Mexico, and Canada. For Canada, both trade pacts come as welcome news, at least for the manufacturing and export sectors that have felt the brunt of the global slowdown. Both coincidentally comes as the 2020 United States presidential election campaign begins and these issues become talking points for both parties. American consumers' votes will determine if the troubles they've endured in getting these pacts in place was successful or not.