Credential

Market Insights | MONTHLY

Month in Review

For the month ended March 31st, 2019

Overall Highlights

- **TSX gains.** Canada's main equity exchange saw a small gain for the month as a tame pre-election budget and mediocre economic metrics provided little optimism. Strength in the Energy sector continued to be the driver for the S&P/TSX, and along with Materials, helped to offset declines in Financials. At closing, the March month end of the TSX was at 16,102, a 0.6% monthly gain. Q1 was the best quarterly performance since 2009 with a gain of 12.4%.
- **Loonie declines.** Poor economic data points throughout the month weakened our Loonie for the month, despite surprising GDP expansion in January, it was not enough to recover the losses. Persistent strength in the U.S. greenback worked against our Dollar as investors sought the safety of that currency amidst global growth worries. In March, the Loonie ended at US74.91 cents for one Canadian dollar, a monthly retreat of 1.3%.
- **Gold tarnishes.** The yellow metal fell for the second straight month led by its largest session loss the day before quarter end. Gains in the U.S. dollar added to gold's weak performance for the month as well as some positive news from the U.S./China trade talks. The luster for gold remains for investors as slow global growth concerns persist and geopolitical issues such as Brexit continue to be unresolved. A June contact for gold closed the month at US$1,292.38, a decrease of 1.6%.
- **Oil gushes.** Crude finished at about the US$60 per barrel level, last seen in early November, as a combination of global production output cuts, international sanctions against major producers, and optimism of U.S.-Sino trade discussions overshadowed global growth concerns. Adding to rise in the commodity's price was a decline in U.S. drilling activity that fell for a sixth straight week. A May contract for a barrel of WTI crude ended trading at US$60.14, a strong 5.1% surge for the month. For the quarter, it's up a whopping 32.4%, it's best three-month showing since Q2 2009.
- **GDP higher.** After a poor final quarter of 2018, the economy rose in January for the first time in three months, beating expectations of zero growth.
- **Inflation climbs.** Average price growth across the country rose in February after six months of relative stagnant weakness.
- **BoC holds rates.** With disappointing GDP growth at the end of 2018, the Bank of Canada saw little need for hiking rates at their latest meeting, keeping their benchmark rate unchanged at 1.75%, in line with market consensus.
- **Unemployment rate unchanged.** The national unemployment rate was unchanged at 5.8% in February.
- **Confirmation of fourth quarter U.S. GDP at 2.2%.** This was revised down from the initial 2.6% growth estimate for the final quarter.
- **The U.S. Federal Reserve keeps rates steady.** In their March announcement, there was no change in interest rates in response to the string of recent data that pointed to a trending slowdown in economic activity.
- **U.S. consumer confidence dips lower.** Sentiment appears to have been negatively impacted by the recent shift in data signaling for a softening labour market.
- **Economic sentiment falls in the Eurozone.** According to the EU Commission's latest survey the ESI fell for the ninth consecutive month in March, with the headline index figure falling to 105.5, 0.7 points lower.
- **Japan's Q4 GDP revised higher.** GDP was revised to 0.5% from 0.3%, which reflects a stronger recovery from Q3's contraction related to natural disasters.

Index/Commodity/Currency		
Close	**Month Change**	**YTD Change**
S&P/TSX Composite		
16,102.09	103.1	1,779.2
	0.6%	12.4%
Dow Jones Industrial Average		
25,928.68	12.7	2,601.2
	0.0%	11.2%
S&P 500		
2,834.40	49.9	327.6
	1.8%	13.1%
NASDAQ Composite		
7,729.32	196.8	1,094.0
	2.6%	0.0%
MSCI EAFE Index		
1,865.86	-7.9	146.0
	-0.4%	8.5%
WTI Crude Oil (per barrel, in $US)		
60.14	2.9	14.7
	5.1%	32.4%
Gold (per ounce, in US$)		
1,292.38	-20.9	9.9
	-1.6%	0.8%
Canadian Dollar (¢ per US$)		
74.91	-1.0	1.6
	-1.3%	2.2%

Source: Bloomberg

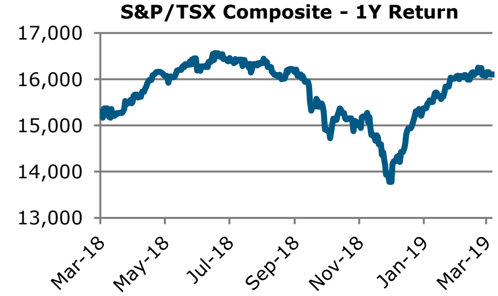
Canadian Markets

- **GDP higher.** After a poor final quarter of 2018, the economy rose in January for the first time in three months, beating expectations of zero growth. For the month, GDP rose 0.3% as 18 of the 20 sectors tracked rose with gains seen in manufacturing and in construction. This was the best monthly gain in eight months despite the oil sector being one of the two decliners. The surprise reading helped curtail concerns of a slowdown but may not be enough to change the positioning of the Bank of Canada to hold off on rate—or possibly even drop rates.
- **Inflation climbs.** Average price growth across the country rose in February after six months of relative stagnant weakness. During the month, inflation rose 0.7% with gains seen in most of the sectors tracked, led by mortgage costs and fresh vegetables. This helped offset a decline at the pumps that fell 11.9% from the previous month. The reading was ahead of forecasts and sharply more than January. On an annualized basis, inflation climbed a notch higher to 1.5%, with core inflation holding steady also at 1.5%.
- **BoC holds rates.** With disappointing GDP growth at the end of 2018, the Bank of Canada saw little need for hiking rates at their latest meeting, keeping their benchmark rate unchanged at 1.75%, in line with market consensus. In their announcement, the Bank warned the economy will be weaker than forecasted in the first half of 2019 as the dovish tone signaled fewer rate increases in 2019, if any at all—which is what many economists believe. Since the summer of 2017, the BoC has increased rates five times.
- **Unemployment rate unchanged.** The national unemployment rate was unchanged at 5.8% in February. But it was the number of new jobs added to the economy that surprised many with 55,900 hirings, when none were predicted. This is in addition to the 66,800 added in January, making it the best back-to-back pace to start the year since 1981. All jobs added were of a full-time nature, with the majority added in Ontario. The participation rate moved higher to 65.8% and wage growth rose to 2.2% annualized.
- **PPI rises.** Higher prices in energy and petroleum products pushed up the cost of producing goods by manufacturers in February. This exceeded forecasts of no monthly increase and reverses the decline by the same amount in January. For the period, energy prices rose a steep 9.3%; fortunately, the rise of our Loonie helped temper further increases where PPI would have risen 0.5% on a constant dollar basis.
- **Wholesale sales higher.** Factory sales rose in January, besting expectations and doubling the previous month's reading. Reported by Statistics Canada, wholesale sales rose 0.6% to $63.5B for a second straight month of gains with increases seen in five of the seven sectors tracked. Machinery, equipment, and supplies sector led all advancers followed by household goods. The auto and parts sector was the largest decliner. In volume terms, wholesale sales also increased by 0.7%.

S&P/TSX Composite Index
Sector Snapshot

Sector	Month Return	YTD Return	Weight (%)
Consumer Discretionary	-1.43	9.27	4.02
Consumer Staples	3.06	10.19	3.72
Energy	-0.90	14.35	18.36
Financials	-1.41	9.45	32.39
Health Care	1.92	48.93	2.31
Industrials	3.29	14.79	10.72
Information Technology	5.03	25.18	4.35
Materials	2.15	8.20	10.99
Real Estate	3.44	16.27	3.36
Telecoms	1.44	8.79	5.67
Utilities	4.26	14.75	4.10

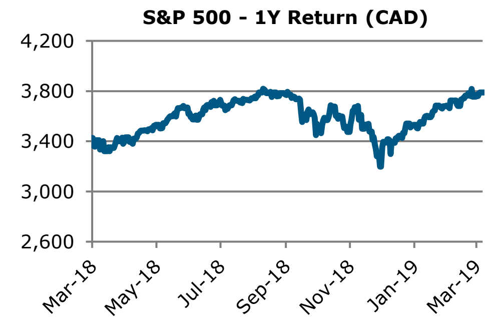
S&P/TSX Composite - 1Y Return

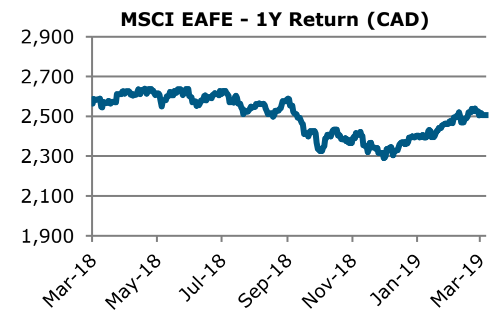


- **Manufacturing sales climb.** For the first time in four months, factory sales rose more than expected, as reported by Statistics Canada. Pushed higher by food sales, followed by electrical components and appliances, manufacturing sales rose 1% in January, bettering analyst forecasts of a 0.4% increase and December's revised reading of -1.3%. The increases were broad-based with 15 of 21 industries advancing to total sales of $57.1B. On a volume basis, sales climbed more to 1.4%.
- **Retail sales slump.** For a third consecutive month, consumers were in less of a spending mood as retail sales fell in January. For the month, sales declined 0.3%, below forecasts of a 0.3% increase, due to less demand for automobiles and parts. Merchandise stores and the gas pumps also added to the declines. On a year-over-year basis, retail sales grew 1.1%, slower than the 1.5% downward revised vision in December.
- Canada housing news:
  - **New home prices decline.** With higher mortgage rates and stricter regulations at a municipal and provincial level, the national average price declined 0.1% in January from the month earlier, Statcan reported. This was the first decrease since February 2018 and after five straight months of no change, with Saskatoon leading all decliners followed by Toronto and Calgary. But the most notable data was that the price of a new home in Canada fell on an annual basis by 0.1% for the first time in under a decade.
  - **Existing home sales plunge.** At a level not seen since late 2012, national home sales fell steeply in February from the month prior. Reported by CREA, sales fell 9.1% during the month, compared to 3.6%, with almost three-quarters of the markets surveyed declining. On an annualized basis, homes sales are lower by 4.8%, while, similarly, the number of newly listed homes fell 3.2% month-over-month.
  - **Housing starts slow.** CMHC reported fewer homes broke ground in February but remained above historical averages. For the month, there were 173,153 units started, compared to January's revised 206,809 units, and markedly below market expectations of 205,000 units. Detached homes fell 10.6%, while multi-unit dwellings almost doubled that declining 20.2% as higher mortgage rates began to exert their toll in a less optimistic real estate environment.
  - **Building permits tumble.** There was less interest in building in January as the value of permits fell 5.5% from December's 6.4% increase. Forecasts were for a 5% decrease. Residential permits rose 1.6% with increases in single family and multi-unit structures; however, this was overshadowed by a 15.8% drop in non-residentials, mainly commercial buildings. Geographically, B.C. led the five declining provinces, falling 24.3%.

U.S. Markets

- **U.S. equity markets rally in March to a strong first quarter finish.** Growing optimism around global trade and constructive news in Washington were among some of the key forces underpinning the broad recovery in investor sentiment, marking one of the best starts to a year since 1998. Markets briefly pulled-back in the first and last trading week of the month, with the dip more than offsetting the gains seen during the middle weeks. Trading was choppy in the final week, with investors weighing positive developments in Washington against further uncertainty surrounding Brexit. U.K. Prime Minister Theresa May promised her party that she would step down if they backed her Brexit deal, but she was still short on votes after the U.K.'s Democratic Unionist Party stood firm in the latest ballot. On the other end, investors welcomed constructive news following the announcement that the Mueller report found no evidence of collusion with Russia, and inclusive evidence for obstruction of justice. Meanwhile, stocks also received a boost in the final trading day of the quarter following remarks from U.S. Treasury Secretary Steven Mnuchin that labelled the latest round of trade talks with China as "constructive". For the month, the S&P 500 Index advanced by 1.8% (in USD), to end the quarter at 2834. Meanwhile, the widely tracked Dow Jones Industrial Average and NASDAQ Composite rallied by 0.1% and 2.6% and closed at 25,929 and 7,729 respectively.





- **Confirmation of fourth quarter U.S. GDP at 2.2%.** This was revised down from the initial 2.6% growth estimate for the final quarter. Nevertheless, even after the downward revision, GDP for 2018 was left at a relatively strong rate of 2.9%. Despite weak retails sales in December, consumer spending rose by 2.5% (lowered from the earlier estimate of 2.8% as the purchases of recreational vehicles were not as strong as first thought), while still showing a favourable and steady balance between services and goods expenditure.
- **The U.S. Federal Reserve keeps rates steady.** In their March announcement, there was no change in interest rates in response to the string of recent data that pointed to a trending slowdown in economic activity. The statement displayed a more meaningful shift to the dovish side, with the Fed lowering its forecasts and downgrading its assessment on the strength of the U.S. economy. In addition, the Fed now expects no further rate hikes this year, with only one hike pencilled in for next year. Previously, two rate hikes were predicted for 2019. The Fed referenced a slowdown in global growth along with risks tied to trade policy and Brexit as a source of justification to err on the side of caution and to allow for the economy to establish itself.
- **U.S. consumer prices rise for the first time in four months.** The U.S. headline February CPI met expectations for a 0.2% increase, dragging the year-over-year figure to 1.5% from the 1.6% figure reported for January. The stability of oil prices to start the year led to a 0.4% increase to energy inflation last month, despite energy prices being an overall drag on the longer one-year level. Core inflation also ticked lower to 2.1% year-over-year, as it continues to track above the US Federal Reserve's (Fed) long-term 2% target.
- **U.S. employment data weakens.** Initial jobless claims fell after rising through much of January and early February due to the effects of the government shutdown. Unemployment fell to 3.8% while nonfarm payrolls fell greatly below expectations, gaining only 20,000 in February compared to consensus of 175,000.
- **The U.S. Manufacturing PMI flash reading falls to a near two year low.** The March reading declined to 52.5 from the 53 reading seen in February. Meanwhile, the flash U.S Services PMI fell to 54.8 from 56. Despite the lower readings, a figure above 50 indicates improving conditions, and the survey suggested that growth south of the border will remain above 2% in the first quarter.
- **U.S. retail sales come in stronger than expected.** Retail sales in January increased marginally by 0.2%. The modest growth seen in January followed overall weakness in sales reported during the final months of the 2018, weighed by declining gasoline prices and the impact from the U.S. government shutdown. Excluding the more volatile auto and gas items, spending in January grew at a healthy pace of 1.2%.
- **U.S. consumers confidence dips lower.** Sentiment appears to have been negatively impacted by the recent shift in data signalling for a softening labour market. This latest report from the Conference Board puts the headline level at 124.1, well under the lower band of the consensus range (130). Within the details, a positive takeaway was the display of strengthening auto buying plans, which showed a sharp 1.7-point uptick to 14.1%.
- U.S. housing news:
  - **U.S. housing starts fall in February.** The Commerce Department reported that housing starts dropped by 8.7% to an annual rate of 1.162 million units last month, while building permits (that are less affected by weather) fell 1.6% to a rate of 1.296 million units. The weakness was largely driven by a slowdown in construction of single-family homes (which accounts for a large share of the housing market), which fell by 17% to a rate of 805,000, the lowest level since May 2017.
  - **U.S. new home sales rise to an 11-month high.** Meanwhile, sales in January were revised higher, with lower mortgage rates boosting the U.S. housing sector. The Commerce Department reported that new home sales rose by 4.9% to a seasonally adjusted annual rate of 667,000 units in February, the highest level since March 2018.
  - **U.S. new home sales reverse course**. January's new home sales fell by 6.9%, a sharp reversal in sales of new U.S. homes from the upwardly revised rate of 3.8% reported for December (despite lower mortgage rates). This was likely a consequence of the U.S. government shutdown.
  - **Strong housing momentum continues**. U.S. new home sales rose 3.7 percent in December, slightly higher than consensus. Housing starts also picked up in January by 14.1 percent to 1.23M. Lower mortgage rates, low unemployment, income growth, and recent market performance are contributing factors to the recent boost in housing numbers.

European Markets

- **Eurozone GDP grows 0.2 percent in Q4.** According to Eurostat, Estonia had the highest growth, Germany remained unchanged, while Greece and Italy recorded decreases. On a year-over-year basis, Eurozone grew at 1.1 percent, falling below expectations of 1.6 percent.
- **European Central Bank remains dovish.** The ECB announced a new round of stimulus and pushed back guidance for future rate hikes. The euro fell sharply as Mario Draghi indicated the weakening in economic data points to a sizable moderation in the pace of the economic expansion.
- **The EU's PMI Index flash reading falls.** The flash composite output index fell by 0.6 to 51.3, below economists' expectations, continuing to suggest weakening economic activity. While manufacturing activity remained the source of the weakness, the flash manufacturing PMI weighting in at just 47.6. Services continued to hold up much better, recording a flash reading of 52.7 during the week.
- **Eurozone's industrial production rebounds.** An increase in January was an upturn from consecutive declines seen in the previous two months. The recovery of a 1.4% increase in January was broad-based, but dominated by Energy production, followed by non-durable consumer goods. Despite the upward shift, the industrial production in the Eurozone has fallen in five of the last eight months.
- **Economic sentiment falls in the Eurozone.** According to the EU Commission's latest survey the ESI fell for the ninth consecutive month in March, with the headline index figure falling to 105.5, 0.7 points lower. The modest deterioration in sentiment reflects the weaker morale in industrial activity, while the consumer sector appeared marginally more optimistic. All in all, there was not much to support a case for the ECB to become less accommodative in the near term.

Asian Markets

- **Japan's Q4 GDP revised higher.** GDP was revised to 0.5% from 0.3%, which reflects a stronger recovery from Q3's contraction related to natural disasters. Despite the upward revision, optimism is clouded by disappointing exports and factory output data and collateral damage from the trade war.
- **Bank of Japan continues to leave its monetary policy unchanged.** In its latest announcement, the BOJ continued to reiterate its objective to fuel its inflation closer to its target, with a commitment to keep its policy rates at "current extremely low levels" for "an extended period of time".
- **The latest PMI Index flash reading from Japan remains unchanged.** Respondents to the survey continued to report a fall in output, new orders, and export orders in March, with the same reading as the 48.9 February level. However, they also referenced a larger increase in payrolls and strong confidence in the 12-month outlook.
- **Japan's PPI increases.** PPI in February increased by 0.8%, in line with expectations. This increase was largely driven by a smaller drop in prices for petroleum and coal products, which represents a material part of the index. This figure somewhat contradicts the PMI survey data released earlier in the month which indicated that manufacturing costs increased at a slower pace.
- **China's industrial production trends lower.** Industrial production's growth in China fell to a 17-year low in the first two months of the year (growing at 5.3% for January and February combined, below the 5.7% level recorded in December), signalling further weakness of the world's second largest economy, and fueling expectations for more stimulus measures by Beijing.
- **China's retail sales go up.** Retail sales grew by 8.2% on the year for the first two months of 2019 (data for January and February are combined to reduce the timing impact of the lunar new year holidays in China). Steady retail sales alongside strong growth in online sales fueled spending during the period. Excluding price inflation factor, sales grew by 7.1%.

Key Take-Aways

Last Budget before Elections. With a federal election set to take place in October, Finance Minister Bill Morneau tabled a budget that the Liberals hope will help retain their majority government. Summarizing some key areas, there were no changes proposed that would affect personal and corporate taxes. This was despite recommendations that such were needed to make the current tax structure more competitive following the U.S.'s tax regime change. For investments, new annuity options for Registered Plans and relaxed changes to RDSPs were proposed by Mr. Morneau. On the home-front, for new homebuyers, the maximum allowable withdrawal from their RRSP was increased to $35,000 ($70,000 spouse/common-law partner) from $25,000 ($50,000) with full payment back to the plan within 15 years. Some eligible homebuyers, they can lower their borrowing costs with up to 10% funding from CMHC with no repayment of the amount until the home is sold. To help job seekers, the Budget introduced a new Canada Training Credit of up to $250 annually to help offset professional development costs. With all changes still pending legislative approval, this final budget was aimed at the middle-class voters but at the cost of running budget deficits for the next few years. Come October 21 the vote tally will tell if the Liberals were successful.

Staying or going? March 29 date was an important date. Not merely because it was the last business end of the first quarter of 2019 for reporting purposes, but as the last day before the United Kingdom withdrew from the European Union. Or, at least that was the plan. Coming down to the wire, the United Kingdom was able to push its departure date by two weeks to April 12. The issues still outstanding range from finance and customs to governance and trade. As it currently stands, the future of over 66M people rests with lawmakers on how the Brexit drama will unfold. In the meantime, the pound sterling will likely continue to experience its bumpy ride until there is more clarity.