

Monthly Market Snapshot

December 2018

Monthly Overview

The volatility pick-up that started in September continued during much of November, and whether or not a Santa Claus rally is in the cards as we enter the last leg of Q4 remains to be seen. Despite the volatility, global equity markets were generally higher during the month, as dovish words from U.S. Federal Reserve Chairman Jerome Powell worked to soothe stock investors.

As an illustration of the volatility, note that Canada's benchmark S&P/TSX Composite index was down by as much as 3.2% on a peak-to-trough basis in November but still managed to pull out a 1.4% gain. Support came from consumer staples, telecom and utilities stocks. These sectors are defensive in nature and the upward movement in those areas is indicative of a general market rotation. Health care names (aka, the cannabis sector) shed 5.8% in November after sliding 17.6% in October. The energy sector slipped 2.4%, bringing its three-month decline to 14.1%.

Despite the volatility in equity prices, the U.S. dollar was virtually unchanged versus the loonie in November. U.S. stocks were broadly higher during the period, with the S&P 500 seeing a 3.2% uptick. Defensive stocks has a good showing south of the border as well, and leading the way was the health care sector's 8.2% jump. Unlike the Canadian health care sector, the U.S. equivalent has no exposure to cannabis names and plenty of the stocks in the space have defensive characteristics, such as those of the big pharmaceutical manufacturers. Real estate stocks soared 6.2%, while utilities jumped 4.7%. The only sector to see a loss during November was energy, when 0.6% was shed (all figures in this and the following paragraph in CAD).

Investors in international stocks got a bit of a reprieve in November with the MSCI EAFE benchmark moving higher by 1%. That was not nearly enough to offset the 6.4% loss for the index in October. Things were considerably better

for emerging markets, where the MSCI EM index's gain was 5.3%. That took a decent chunk out of October's 7.2% dip for the index.

Things were relatively calm for bond investors during the month, as investment grade and high yield benchmarks posted minor gains. Interestingly, the FTSE Canada Universe Bond index, which is the go-to benchmark for Canadian investment grade bond investors, showed a negative return over periods of three, six and 12 months.

Turning briefly to commodities, crude oil prices faced a further drop of 22% following October's 11% slide. WTI closed the month at slightly less than US\$51 and Canadian heavy crude traded at a discount of more than \$40 to that. Natural gas prices rocketed higher by 41% as traders placed their bets on how cold North America's coming winter will be. Clearly, the expectation is that it will be a happy time for those who are fans of ice and snow.

There was no Bank of Canada (BoC) policy meeting in November, and following October's 25 basis point rate increase, economists are not expecting the BoC to move rates higher in December. November's employment reading showed a jobless rate of 5.8% in October for Canada. Domestic real GDP expanded at an annualized pace of 2% in Q3. This slightly exceeded the BoC's expectation of 1.8%.

As was widely expected, the U.S. Fed stood pat on interest rates in November. The target rate remains at 2% to 2.25%. There have been eight quarter-point hikes since late 2015 and a further quarter point increase is likely in December. U.S. unemployment was most recently reported at 3.7% - a level that is still near its lowest point since the early 1970s. Traders are closely watching wage growth as a harbinger of inflation. In the third quarter, U.S. wages grew 3.4% in annualized terms—the fastest pace in a decade.

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Monthly Market Statistics

Data to November 30, 2018, unless otherwise indicated

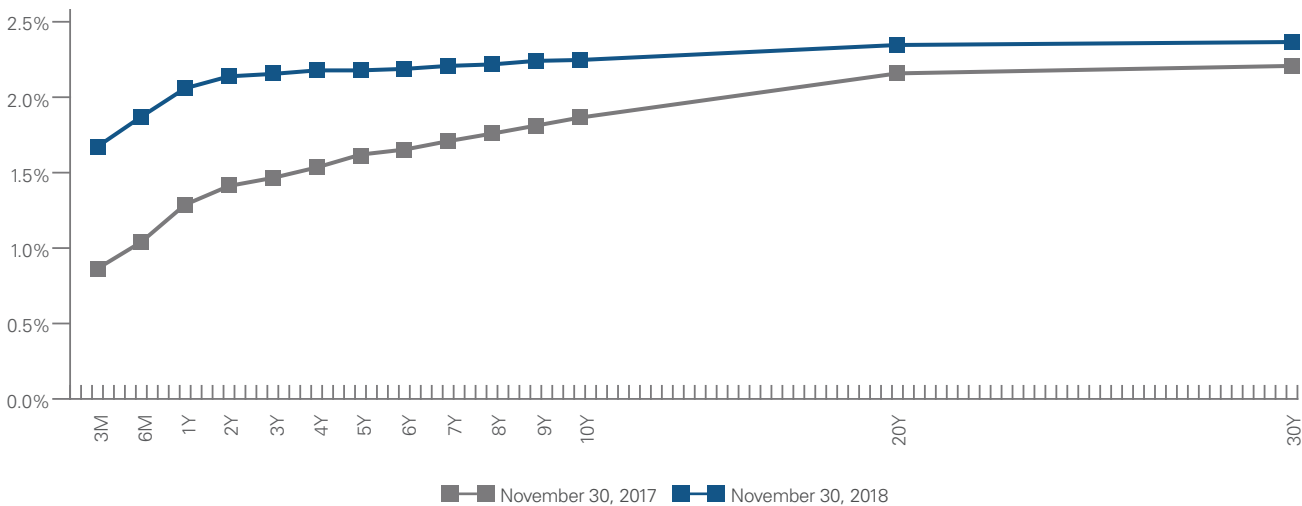
At this time last year, cryptocurrencies were all the buzz at holiday parties and family get togethers. We can recall being engrossed in many such conversations with individuals with whom we had never spoken with about anything investment related. The original and most widely used cryptocurrency, Bitcoin, crossed the US\$7,000 mark in November of 2017, and surged to nearly US\$20,000 just before last Christmas. But as the saying goes, "all good things must come to an end." Bitcoin suffered a massive holiday hangover and moved generally lower throughout the year and experienced a deep downward cascade in November, closing the month below the US\$4,000 level - a 79% drop from its peak.

Chart of the Month: Bitcoin - What a Difference a Year Makes



Source: Bloomberg

Canadian Sovereign Yield Curve



Source: Bloomberg

Monthly Market Statistics

Data to November 30, 2018, unless otherwise indicated

Equity Index Returns (% in CAD)

Index	1 Mo	3 Mo	6 Mo	YTD	1Yr	3Yr	5Yr	3Yr Std Dev
S&P/TSX Composite	1.4	-5.8	-3.9	-3.7	-2.5	7.2	5.6	7.4
S&P/TSX Small Cap	-4.0	-12.5	-14.0	-15.2	-13.0	5.8	0.9	13.3
S&P 500	3.2	-2.6	5.8	11.6	9.6	12.0	16.2	9.3
MSCI EAFE	1.0	-5.5	-5.3	-3.3	-4.5	4.6	7.1	11.0
MSCI World	2.3	-3.9	1.2	5.5	3.8	9.0	12.2	9.4
MSCI World Small Cap	1.8	-8.9	-5.2	1.2	-0.2	8.9	11.9	11.5
MSCI Europe	0.3	-6.2	-5.8	-4.9	-5.9	3.2	6.0	14.0
MSCI EM	5.3	-3.6	-7.3	-6.6	-5.9	9.7	7.0	14.7
MSCI AC Asia	4.0	-4.9	-6.9	-3.7	-4.4	8.1	9.3	12.0

Source: Bloomberg

Fixed Income Returns (% in CAD)

Index	1 Mo	3 Mo	6 Mo	YTD	1Yr	3Yr	5Yr	3Yr Std Dev
FTSE TMX Canada Universe Bond	1.0	-0.6	-0.1	-0.1	-0.1	1.6	2.9	3.4
Barclays Global Agg	0.3	-1.7	-2.2	-3.2	-2.8	2.2	0.6	4.9
Barclays High Yield Very Liquid Index	0.4	-0.1	3.1	5.9	3.0	6.1	8.2	4.8

Source: Bloomberg

Commodity Prices (Prices and Returns in USD)

Commodity	11/30/2018 Price (\$)	MoM Change (%)	YoY Change (%)
WTI Crude Oil/BBL	50.93	-22.0	-11.3
Natural Gas/mmBTU	4.61	41.4	52.5
Copper/pound	2.78	4.5	-8.5
Silver/oz	14.09	-1.3	-14.0
Gold/oz	1220.20	0.4	-4.2

Source: Bloomberg

Economic Data

Canada	
Real GDP - Q3 (q/q ann. % change)	2.0
Consumer Prices Sep (y/y % change)	2.4
Unemployment Rate, November '18	5.8
United States	
Real GDP - Q3 (q/q ann. % change)	3.5
Consumer Prices Sep (y/y % change)	2.5
Unemployment Rate, November '18	3.7

Source: Bloomberg, Stats Canada

One Month Sector Returns (% in CAD)

Sector	S&P/TSX Composite	S&P 500
Consumer Discretionary	2.9	4.0
Consumer Staples	7.6	3.1
Energy	-2.4	-0.6
Financials	1.9	3.9
Health Care	-5.8	8.2
Industrials	1.4	5.0
Info Tech	2.9	-0.8
Materials	0.0	5.2
Real Estate	0.6	6.8
Telecom Services	7.0	0.5
Utilities	4.6	4.7

Source: Bloomberg

Exchange Rates

Cross	2018-11-30	6 Mos Ago	1Yr Ago
USD/CAD	1.33	1.30	1.29
EUR/CAD	1.50	1.52	1.54
GBP/CAD	1.69	1.72	1.74
CAD/JPY	85.45	83.98	87.26

Source: Bloomberg

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Recommended List:	The list presents a selection of funds that we believe are among the best of their peers and offer unique characteristics that can add value when used in a well-diversified investment portfolio tailored to a client's investment objectives.
Hold:	The fund remains on the Recommended List, but is not recommended for adding to or selling from client's portfolios.
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