Weekly Updates Issue # 691

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1. Weekly Markets Changes

[November 23, 2018]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,010.73 -144.8 -0.96%	2,632.56 -103.71 -3.79%	24,285.95 -1,127.27 -4.44%	6,938.98 -308.89 -4.26%	$0.7560 -0.42c -0.55%	$1,223.05 -0.31 -0.03%	$50.42 -6.04 -10.7%

2. Share buybacks in U.S. hit record high

[November 23, 2018] Corporations' appetite for buying back their own stock has hit a record high.

Stock buybacks by companies in the benchmark S&P 500 index climbed to US$194.07 billion in the third quarter, according to data from S&P Dow Jones Indices. (All figures are in U.S. dollars.)

The buying spree, which has steadily increased since the second quarter of 2017, has been led by companies in the technology sector. Apple spent more than $80 billion on share buybacks through the first three quarters of this year. Chipmaker Qualcomm also bet big on its own stock, shelling out $21.2 billion in the third quarter.

"Companies have adopted buybacks as an option when they have excess capital and nothing better to do with it," says Michael Schoonover, portfolio manager of the Catalyst Buyback Strategy Fund.

Buybacks, in which companies purchase their own shares and retire them, are popular with investors because fewer shares outstanding lifts earnings per share, the most watched barometer of corporate success.

The sweeping tax law passed by the GOP-led Congress last year gave Corporate America incentive to give its share prices a boost.

The legislation reduced the tax rate on corporations to 21% from 35%, leaving many companies flush with savings. Those that had been keeping cash overseas also got a break on the tax hit for bringing those profits back into the U.S. As a result, many company boards took steps to authorize or boost existing share buyback programs.

Company buyback authorizations, which clear the way for spending a certain amount on share repurchases over a specific time span, usually several years, also marked a milestone this year. The amount of share buybacks that company boards authorized this year is now at around $950 billion, an all-time high that eclipses the previous record of $813 billion in 2015, Schoonover said.

The ramp-up in buybacks this year has also allowed companies to repurchase their stock at lower prices, beginning with the sell-off in February that knocked the S&P 500 into a correction, or a decline of 10% or more from its peak at the time in January.

“These companies that made all these massive authorizations this year picked a pretty good time to go out there and start buying their stock on the market dip,” Schoonover said.

The market eventually recovered, reaching a new high in September. The wave of selling since October, however, opens the door for companies to once again buy back shares at a discount.

“This is probably going to be the first year where companies authorize more than $1 trillion,” Schoonover said. “With all of this money authorized, once you’re seeing some pullback in stocks due to volatility, the companies will actually follow through on those buybacks.”

3. October inflation rate higher than expected

[November 23, 2018] Compared to a year ago, the country’s annual inflation rate picked up its pace last month to hit 2.4% in an advance mostly fuelled by higher gasoline prices, Statistics Canada said Friday.

The federal agency’s October inflation number marked an increase from 2.2% in September and pushed the reading a little farther away from the Bank of Canada’s 2% target.

Economists had expected October inflation to be 2.2%, according to a poll by Thomson Reuters Eikon.

Year-over-year prices at the pump were 12% higher in October, air transportation prices were up 9.4%, and mortgage interest costs climbed 7%, the report said.

The downward pressure last month was led by price declines of 7.2% for video equipment, 4% for telephone services and 3.9% for traveller accommodation, compared to a year earlier.

But prices were higher last month in all provinces compared to October 2017, with Alberta the only one to show a slower pace of inflation. A year earlier Alberta's inflation rate was 3% while last month the pace was 2.8%.

In Ontario, Statistics Canada said energy prices slid 2.4% on a month-to-month basis after the provincial government got rid of its carbon cap and trade program, which had been introduced last January.

The average of the agency's three core inflation readings, which omit more-volatile items like gas prices, edged slightly higher to 2% last month to hit the Bank of Canada's bull's eye. The average core, or underlying, measure was 1.93% in September, 2.03% in August and 1.97% in July.

The central bank pays close attention to core inflation ahead of its interest-rate decisions—and it can raise its trend-setting rate as a way to keep inflation from rising too high. It aims to keep inflation within a range of 1% to 3%, with the 2% mid-point as its primary target.

Bank of Canada governor Stephen Poloz's next interest-rate announcement is scheduled for Dec. 5.

Despite October's results, the pace of inflation won't continue to beat estimates, said CIBC senior economist Andrew Grantham in commentary.

"Given the recent dive in oil prices, inflation should quickly retreat below 2% in the coming months," he said.

If this occurs, he added, "there's nothing here to force policymakers into a December hike, particularly given the recent decline in oil prices."

September retail sales

In a separate report Friday, Statistics Canada said retail sales for September moved up 0.2% compared with August. Month-to-month retail trade was essentially unchanged in August and saw an increase of 0.2% in July.

The September increase brought retail trade to $50.9 billion for the month.

The main contributor behind the increase was higher sales, of 0.9%, at food and beverage stores. Supermarkets saw sales rise 1.7%, which more than made up for a 1.7% decline in beer, wine and liquor stores.

Sales also rose at general merchandise stores by 1.2%, while motor vehicle and parts dealers saw an increase of 0.5%.

"Headline sales slightly increased in dollar terms, but the underlying details were considerably better," said Derek Holt, vice-president and head of Capital Markets Economics at Scotiabank, in Friday commentary.

Holt highlighted that the volume of sales climbed 0.5% compared to last month, which is "the best monthly gain since May […]." As a result, he added,

"Q3 GDP tracking is now at 2% using the monthly GDP estimates. […] The BoC's October MPR had forecast 1.8% growth in Q3 GDP and that appears to be tracking well into next Friday's GDP figures."

4. Why the housing market presents a policy trade-off

[November 22, 2018] Canada is balancing on a policy tightrope when it comes to the housing market and will eventually have to make trade-offs between a stable economy and plans to help those in need, says the Bank of Canada's second-in-command.

Speaking to a housing conference in the national capital, deputy governor Carolyn Wilkins pointed to the central bank's decision to lower interest rates in 2015 to inject some life into a sluggish economy.

The side effect was that some people took on bigger mortgages, which led to a rise in household debt and increases in housing prices in some of Canada's biggest markets that made them too expensive for some people.

Federal efforts to cool those markets and pump billions of dollars into new affordable housing have lowered housing costs from where they could have been, Wilkins said.

"This is a tough act, but I can say that right now, you can really see how … policies are at their best because they are working together," she said.

But the Bank of Canada is still concerned about household debt, Wilkins said.

Indebted households have fragile finances and are vulnerable to economic trouble. A slide in the economy, which will come sooner or later, will demand some tough decisions, she said. Will the Bank of Canada cut interest rates and encourage more borrowing and higher real-estate prices again? Will the government spend more on subsidized housing? Some of both?

"You look at social objectives and financial stability and sometimes you have to trade off," Wilkins said.

Her talk underscored the challenge the federal Liberals face with their decade-long housing plan, which is valued at $40 billion of combined federal, provincial and territorial spending.

The national housing strategy is only a few months old, with many parts of the plan having launched in April and more to roll out in the coming months.

The first details the Liberals released Thursday to coincide with "National Housing Day" show the first spending has helped keep some 14,000 households in affordable units.

The Liberals are also out promoting about $5.7 billion in social spending that the government says has helped more than 775,000 households since they came to office, but the figures include money budgeted annually for housing

programs and not just dollars the Liberals set aside in their first budget in 2016.

They have yet to fulfil a promise to enshrine the strategy, its goals and its spending into law.

What the strategy aims to do is build or repair hundreds of thousands of units of affordable or rental housing. Funding agreements have been signed with three provinces—Ontario, British Columbia and New Brunswick—and Northwest Territories.

The government says it expects to sign funding agreements with remaining provinces and territories by April 1, 2019.

5. Liberals address competitiveness gap with tax incentives

[November 22, 2018] The federal Liberals have come up with a $16-billion answer to Canada's competitiveness concerns.

Ottawa's long-awaited plan to help Canada compete with the United States for investment dollars is the centrepiece of its latest fall economic statement, which forecasts slightly deeper annual deficits over the coming years.

Finance Minister Bill Morneau had faced pressure to lower the corporate tax rate in response to major tax and regulatory reforms in the U.S.

But in Wednesday's economic update Morneau chose to use billions worth of extra federal fiscal space to offer tax incentives for businesses that invest in Canada.

Morneau said the government is benefiting from "a very good situation—but we know that we have to consider investments in the future. That's why we listened to and heard the anxieties of the business sector."

By far, the biggest-ticket items among the proposed tax measures are changes that would enable businesses to immediately write off the full cost of some types of machinery and equipment, and allow companies of all sizes and in all sectors to expense a larger share of newly acquired assets.

The new write-offs alone are expected to cost the federal treasury about $14 billion over the next half-decade.

As part of its competitiveness plan, the government also proposes about $1.1 billion over the coming years toward efforts to open new market access for Canadian exporters. It is also looking to add another $800 million over five years to its strategic innovation fund, which supports "innovative" investments in all sectors.

A stronger economy has given the government about $22 billion in extra fiscal room over the coming years, compared to what federal forecasters projected

in last February's budget. But the new initiatives will also contribute to slightly larger-than-expected annual shortfalls, beginning next year.

The government is now projecting deficits of $18.1 billion in 2018-19, $19.6 billion in 2019-20 and $18.1 billion in 2020-21. After 2020-21, the annual shortfalls are expected to shrink each year to $11.4 billion in 2023-24.

The fiscal update contains no timetable to eliminate the Liberals' deficits. The government has drawn criticism from the Opposition Conservatives and some economists for failing to provide a timeline back to balance, especially with the economy running close to full strength.

Following the 2015 election, the Liberal government abandoned pledges to run annual deficits of no more than $10 billion and to balance the books by 2019. Instead, it has focused on reducing the net debt-to-GDP ratio—also known as the debt burden—each year.

The debt-to-GDP ratio is now projected to gradually fall from 30.9% in 2018-19 to 28.5% in 2023-24.

Morneau's fall economic statement also proposes additional support for the country's struggling journalism industry by enabling non-profit news organizations to receive donations and through the creation of new tax credits—all of which are part of a plan expected to reduce government revenues by $600 million over five years.

The government plan also proposes $240 million toward sustaining Canada's wild fish stocks, with a focus on Pacific salmon.

Statement highlights

—Overall, new measures over the next five years will cost the federal treasury $17.1 billion, with almost a third of that coming in the 2019-20 fiscal year to boost investment in Canada.

—New tax incentives to encourage investment in Canada are worth $14 billion over five years. The measures include allowing manufacturers and the clean-tech industry to write down all capital costs right away.

—The government is setting up an export diversification strategy that aims to increase sales to countries other than the United States by 50% by 2025.

—A new fund for social finance will allow charities and non-profit groups to finance new ideas. Ottawa will make $755 million available over 10 years in the hope of seeing $2 billion in economic activity and up to 100,000 jobs as a result.

—The monthly deficit for September 2018 was $1.4 billion, smaller than last year's $3.3 billion. For the fiscal year to date, the federal government is in the black so far, posting a $1.2-billion surplus, compared to a deficit of $6.2 billion for the same April-to-September period last year.

6. Mutual fund assets decrease 4% in October: IFIC

[November 21, 2018] The Investment Funds Institute of Canada (IFIC) has released October figures for mutual fund net assets and net sales.

Combined assets of Canada's mutual fund industry totalled $1.46 trillion. During October, assets decreased by $63.1 billion or 4.1% compared to September 2018.

The mutual fund industry recorded net redemptions of $3.6 billion for the month and year-to-date net sales of $10.4 billion.

That compares to net redemptions of $1.5 billion for September and year-to-date net sales in 2017 of $41.0 billion.

Two asset classes had net sales for the month: specialty funds and money market funds, at $917 million and $402 million, respectively. Year-to-date specialty fund net sales were about 52% higher than year-to-date 2017, while year-to-date money market fund net sales were 301% higher than year-to-date 2017.

7. Wholesale sales disappoint in September

[November 21, 2018] Statistics Canada says wholesale sales fell 0.5% to $63.2 billion in September, led lower by the machinery, equipment and supplies, and the personal and household goods subsectors.

Economists had expected an increase of 0.3% for the month, according to Thomson Reuters Eikon.

In volume terms, Statistics Canada says wholesale sales fell 0.7%.

In emailed commentary, Andrew Grantham, senior economist at CIBC Capital Markets, said today's disappointing data will drag on GDP, though he had expected the lower wholesale numbers and his GDP forecast hasn't changed.

"Even with this disappointment, we are still tracking a flat GDP print for September, and somewhere close to 2% annualized for the quarter," he said.

Wholesale sales were down in five of the seven subsectors tracked.

The machinery, equipment and supplies subsector fell 2% to $13 billion in September, while the personal and household goods subsector dropped 1.6% to $9 billion.

The building material and supplies subsector increased 1.5% to $9.5 billion.

8. Darkening clouds start to overhang global economic expansion

[November 20, 2018] After galloping along for the past two years, the global economy is showing signs of weakening, with the United States, China and Europe all facing the rising threat of a slowdown.

Few economists foresee an outright global recession within the next year. But the synchronized growth that powered most major economies since 2017 appears to be fading. The risks have been magnified by the trade war raging between the United States and China, the strife dividing Britain over an exit from the European Union and the Federal Reserve's continuing interest rate hikes.

It's all been enough to contribute to a broad retreat in global stock markets. Counting Tuesday's deep losses, U.S. stock indexes, once up around 10% for the year, have surrendered all their 2018 gains.

The Fed is expected next month to raise its key short-term rate for the fourth time this year. The central bank's rate hikes help control inflation. But they also make loans costlier for consumers and businesses. And for countries that borrowed in U.S. dollars, the Fed's hikes make debts harder to bear. Argentina, for one, has slid into recession as its cost of repaying its debt has surged.

"We can't continue to grow this fast for much longer without risking inflation," Adrian Cooper, chief executive of Oxford Economics, said of the still-solid U.S. economy. "That's ultimately what the Fed is trying to achieve with its steady movement in interest rates. The skill is to do so in ways that don't create a big downturn."

The concerns have grown enough that Larry Kudlow, President Donald Trump's top economic advisor, on Tuesday dismissed the worries roiling the markets.

"Recession is so far in the distance I can't see it," Kudlow told a group of reporters outside the White House. "Keep the faith. It's a very strong economy."

The collective growth of the world's major economies in the past two years was broadly welcomed after a feeble recovery from the 2008 financial crises. Yet few economists saw accelerated growth as sustainable—or even desirable—over several years.

The concern is that a prolonged global expansion could ignite inflation or speculative investing that would inevitably send vulnerable economies into a downturn.

Compounding the challenge, the world's economies are linked more than ever through trade, finance and investment—to the point that a rupture in one major nation tends to spread across the globe.

Oxford Economics predicts that the growth of the global economy, as measured by its gross domestic product, will slip from 3.1% this year to 2.8% in 2019. Such a slowdown is enough to crimp corporate profits and business investment, Cooper said. Still, most American and European workers probably wouldn't feel the pain, he said, in part because of a resilient job market and lower oil prices.
"2019 is still going to look pretty good—your job is going to be safe, and your wages are going to rise," Cooper predicted while adding that he thinks the slowdown will worsen in 2020.
In the meantime, though, stock markets have endured waves of jittery selling as investors have tried to factor in a slowdown that could depress the growth of company profits.
"Financial markets have become a little more volatile and anxious of late, worried about slowing global growth, trade tensions, Brexit woes and concerns that the U.S. may not be able to sustain its current cyclical sweet spot," said Josh Feinman, chief economist at Deutsche Asset Management.
Over the next two years, most forecasts suggest that U.S. growth, after cresting above 3% this year—its best performance since 2005—will weaken. Fed Chair Jerome Powell acknowledged in a speech last week that the strong worldwide growth of 2017 is in retreat.
"You see signs of a gradual slowdown," Powell said.
Goldman Sachs foresees annual U.S. growth slowing to 1.75% by the end of 2019. The predicted weakening stems, in part, from the front-loaded stimulus of the tax cuts Trump pushed through Congress. The boost from the tax overhaul is expected to wane by 2020.
One continuing threat for the U.S. economy is Trump's trade war with China. The president has imposed a 10% tax on $200 billion of Chinese goods—a tariff that's set to escalate to 25% in 2019. He's also threatened to add tariffs on $250 billion more in Chinese goods.
A prolonged trade crisis would depress the global exchange of goods and, therefore, economic growth. Trump is set to meet with President Xi Jinping at a Group of 20 international meeting in Argentina next week. But prospects for a breakthrough seem to have dimmed.
"Both countries appear to be far apart on the trade dispute and unwilling to back down at this point," said Scott Anderson, chief economist at the Bank of the West.
Similarly, political ruptures threaten to slow the pace of Europe's five-year expansion. Britain is struggling to finalize its exit from the European Union, and uncertainty surrounding Prime Minister Theresa May's government has roiled markets.

In Italy, tensions have flared over a government that wants to increase its borrowing in defiance of rules about deficits among the 19 countries that share the euro currency. Mounting debt could cause Italian interest rates to reach levels that would stifle growth and strain the eurozone.

Yet the biggest risk of all might be China, the world's second-largest economy after the United States and the leading engine of global growth for several decades. Its economy was already cooling before Trump raised tariffs in hopes of shrinking the U.S. trade gap with Beijing and protecting U.S. technology.

Among companies and economists, the question isn't whether Chinese growth will slow further; it's how much. In September, year-over-year economic growth reached a post-global crisis low of 6.5%. This followed a regulatory clamp-down on bank lending to curb surging debt. Forecasters expect the decline to deepen at least through mid-2019.

The ruling Communist Party wants slower, more self-sustaining growth driven more by consumer spending and less by trade and investment. But the slump has been sharper than expected. In response, Beijing has cut taxes, eased lending controls and pumped money into building projects.

October auto sales fell 13% from a year ago, putting vehicle sales in China—the industry's No. 1 market—on track to shrink this year for the first time in three decades. Housing sales and bank lending have dropped, and spending on factories and other manufacturing assets has decelerated.

"Further action" is needed to "put a floor beneath economic growth," Julian Evans-Pritchard of Capital Economics said in a report.

Finding that floor could prove problematic if the trade war with the Trump administration diminishes the exports that propelled China's economy to manufacturing dominance. Analysts at UBS put the likelihood as high as 20% that China could suffer a much sharper slowdown because of the escalating tensions with the United States.

"In this environment, contagion in global markets could not be avoided," UBS analysts wrote.

9. BoC explores changing monetary policy framework

[November 20, 2018] The Bank of Canada is studying whether it should make changes to the framework that has underpinned its policy decisions—such as interest-rate movements—for nearly four decades.

In a speech Tuesday, senior deputy governor Carolyn Wilkins said the current inflation-targeting approach has improved the economic and financial well-being of Canadians since it was established in 1991.

But after a decade in the post-financial-crisis environment, she said it has become clear the bank's mandate of helping inflation stay close to its target of 2% has its downsides.
"Even a well-functioning monetary-policy framework deserves an open-minded discussion, particularly in the post-crisis world we live in," Wilkins said in prepared remarks of her address at McGill University in Montreal.
"There are a couple of challenges facing our framework that mean it may not serve the economic and financial welfare of Canada in the future as well as it has in the past."
One key issue, she noted, is that interest rates are no longer expected to rise as high they had before the crisis, which means there will be less room—or "conventional firepower"—for the bank to cut rates in an economic downturn.
The bank, which is on a rate-hiking path, has said it expects its benchmark interest rate to eventually settle somewhere between 2.5% and 3.5%, about two percentage points lower than it was in the early 2000s.
Another concern, Wilkins said, is that lower rates may entice Canadians and investors to take on excessive risk—leaving the economy exposed to the ups and downs of financial cycles. Long-running low-rate conditions have encouraged Canadian households to amass record levels of debt.
She said the Bank of Canada is conducting research on alternative frameworks, including a higher target for inflation and a more-flexible, dual mandate that would extend the bank's focus to also incorporate labour and other economic indicators.
The work, which is an effort with the federal Finance Department, is underway in the lead-up to the Bank of Canada's next five-year renewal of its inflation-control agreement with the government. The next renewal is set for 2021.

10. TFSA limit for 2019 released

[November 19, 2018] The TFSA contribution limit for 2019 is **$6,000**, up from $5,500 in 2018.
With the TFSA limit at $6,000 for next year, the total room available in 2019 for someone who has never contributed and has been eligible for the TFSA since its introduction in 2009 is **$63,500**.
The annual TFSA dollar limit is indexed to inflation and rounded to the nearest $500. The Canada Revenue Agency's indexation increase for 2019 is 2.2%.

For clients who have withdrawn from TFSAs, their crystallized gains and losses from withdrawals are factored in to their TFSA room. Here's the formula:
Unused TFSA contribution room to date + Total withdrawal made in this year + next year's TFSA dollar limit = TFSA contribution room at the beginning of next year
Tax bracket thresholds for 2019 have also been released. **The federal 33% tax bracket will begin at $210,371 in 2019**, up from $205,842 in 2018. On the low end, **the basic personal amount for 2019 is $12,069**, up from $11,809 in 2018.

Have a nice and fruitful week!

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