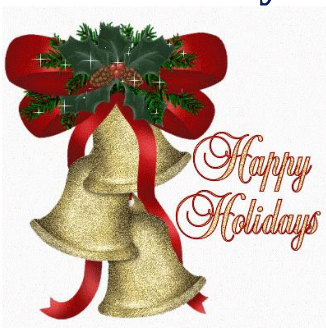
Happy 2019 dear clients and friends, and constant readers of my newsletter!



I wish you and your families good health, happiness and prosperity! Let's hope we'll celebrate together issue 1000 of my newsletter!

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1. Weekly Markets Changes

[January 4, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
14,426.62 -168.45 -1.15%	2,531.94 -68.01 -2.62%	23,433.16 -667.35 -2.77%	6,738.86 -171.80 -2.49%	$0.7457 -0.17c -0.23%	$1,286.05 +47.03 +3.80%	$47.96 -3.24 -6.33%

All the above changes in the value of the indexes, currencies and commodities are calculated based on the values as at December 15th 2018, the date of my last newsletter for the year 2018 #694.

2. 2018 was the worst for stocks in 10 years

[January 4, 2019] The Dow fell 5.6%. The S&P 500 was down 6.2% and the Nasdaq fell 4%. It was the worst year for stocks since 2008 and only the second year the Dow and S&P 500 fell in the past decade. (The S&P 500 and Dow were down slightly in 2015, but the Nasdaq was higher that year.)

December was a particularly dreadful month: The S&P 500 was down 9% and the Dow was down 8.7% — the worst December since 1931. In one seven-day stretch, the Dow fell by 350 points or more six times. This year's Christmas Eve was the worst ever for the index.

The S&P 500 was up or down more than 1% nine times in December alone, compared to eight times in all of 2017. It moved that much 64 times during the year.

2018 wasn't all bad. The S&P 500 set an all-time record on September 20, and the Dow closed at its record on October 3. The Dow also closed more than 1,000 points higher on December 26 — the first time it ever accomplished that feat.

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But 2018 will be remembered for its extreme volatility. The VIX volatility index spiked, and CNN Business' Fear & Greed Index has been stuck in "Extreme Fear" throughout much of the year. The Dow has swung 1,000 points in a single session only eight times in its history, and five of those took place in 2018.

Volatility was being driven by signs of a global economic slowdown, concerns about monetary policy, political dysfunction, inflation fears and worries about increased regulation of the technology sector.

A quiet Friday.

On Friday, the Dow rose 265 points for the day. The S&P 500 and Nasdaq each rose about 0.8%.

The market moved higher after President Donald Trump expressed optimism Saturday that the United States could strike a trade deal with China. He tweeted a deal is "moving along very well," calling negotiations "very comprehensive."

Fear of an economic slowdown, as well as a supply glut, spooked the oil market this year. US crude closed up slightly Monday but ended the year down 24.9% at $45.41 a barrel. It had closed as high as $77.41 a barrel in late June, falling 41.3% from that peak.

Stock shock is felt worldwide

Brexit's impact on the United Kingdom and Europe also worried investors, as did a slowdown in the Chinese economy.

The FTSE All-World index, which tracks thousands of stocks across a range of markets, plummeted 12% this year. It's the index's worst performance since the global financial crisis, and a sharp reversal from a gain of nearly 25% in 2017.

The market damage this year was most pronounced in China, where the world's second largest economy is feeling the effects of a darkening trade outlook and government attempts to rein in risky lending after a rapid rise in debt levels.

The Shanghai Composite entered a bear market in June and has now declined nearly 25% since the start of the year. The Shenzhen Composite, which includes many of the country's tech firms, dropped by more than 33% over the same period. In Hong Kong, the Hang Seng is down 14%.

3. Unemployment rate sticks at 43-year low of 5.6%

[January 4, 2019] The unemployment rate stayed at its 43-year low of 5.6% last month as the economy closed out 2018 with the addition of 9,300 net new jobs, Statistics Canada said Friday.

For the second straight month, the jobless rate was at its lowest level since Statistics Canada started measuring comparable data in January 1976.

Economists had expected the addition of 5,500 jobs in December and an unemployment rate of 5.7%, according to Thomson Reuters Eikon.

But even in a tightened job market, the latest labour force survey shows wage growth delivered another weak reading in December of 1.49%—well below inflation.

Year-over-year average hourly wage growth for permanent employees was 1.46% in November, and has decelerated steadily since its May peak of 3.9%.

Still, recent readings on job creation suggest that incomes are holding up well despite households having to contend with the pinch from higher interest rates, noted Royce Mendes, director and senior economist at CIBC, in a report.

If such momentum can continue and wages heat up a bit, “consumers should still do their fair share to support GDP growth in 2019,” he said.

The December result follows a gain of 94,100 net jobs in November, the country’s largest monthly increase since March 2012.

In the jobs report Friday, the overall employment gain of 9,300 for December was deemed too low by Statistics Canada to be statistically significant.

But a closer look revealed some important changes.

Employment growth details

Alberta, which has been hit hard by a drop in oil prices, saw a net decrease last month of 16,900 jobs or 0.7%, compared with November, as an increase in part-time work was far outweighed by a loss of 36,200 full-time positions.

For all of 2018, employment in Alberta rose 0.9% as the province added 21,600 jobs. The provincial unemployment rate fell from 7% at the start of 2018 to 6.4% at the end of the year.

Across the country, Statistics Canada said the country gained 163,300 net new jobs in 2018 for an increase of 0.9%, which was a slower pace of growth compared with 2.3% in 2017 and 1.2% in 2016.
Employment growth in 2018 was concentrated in the services sectors, which generated 151,000 positions compared to an increase of just 12,300 in goods-producing industries.
In 2018 employment for women aged 25 to 54 grew by 125,600 positions or 2.2%, compared to an increase of 60,600 jobs or 1% for men in the same age category.
The report Friday was the first major economic data release of 2019.
The Bank of Canada has been monitoring wage growth ahead of its interest-rate decisions as it tries to determine how well indebted households can absorb higher borrowing costs.
The central bank, which will make a rate announcement next Wednesday, has raised its benchmark rate five times since the summer of 2017 in response to Canada's strong economic performance. Governor Stephen Poloz has signalled that more increases will be needed to prevent inflation from rising too high.

4. U.S. employers added a stellar 312K jobs in December

[January 4, 2019] U.S. employers dramatically stepped up their hiring in December, adding 312,000 jobs in an encouraging display of strength for an economy in the midst of a trade war, slowing global growth and a partial shutdown of the federal government.
Economists had forecast a monthly addition of 180,000 jobs, and payroll processor ADP reported earlier this week an addition of 271,000 jobs for December.
The Labor Department said Friday that the unemployment rate rose slightly to 3.9%, but that reflected a surge in jobseekers—a positive for growth.
Average hourly pay improved 3.2% from a year ago, up from average wage growth of 2.7% at the end of 2017.
The jolt in hiring offers a dose of reassurance after a tumultuous few months as the outlook from the financial markets has turned decidedly bleaker. Job growth at this pace is a sign that the economy will continue to expand for a 10th straight year, even if overall growth slows somewhat because of the waning stimulus from President Donald Trump's tax cuts.
"The labour market is very strong even though the economy appears to be slowing," said Eric Winograd, senior U.S. economist at the investment management firm AllianceBernstein. "Those two things cannot coexist for

very long. Either weakening demand will lead firms to dial back the pace of hiring or the robust pace of hiring will lead firms to ramp back up production."

Stocks jumped Friday in response to the jobs figures. The Dow Jones industrial average climbed roughly 450 points in morning trading, an increase of about 2%.

But in recent weeks, financial markets have been increasingly worried about the path of economic growth this year.

Major companies such as Apple say their sales are being jeopardized by the tariff-fuelled trade war between the United States and China. Factory activity in China and the United States have both weakened, with the Institute for Supply Management's U.S. manufacturing index on Thursday posting its steepest decline in a decade.

The government is about to enter its third week of a partial shutdown, with negotiations stalled over President Donald Trump's insistence that Democrats agree on funding for a wall along the border with Mexico. And attacks by Trump on the Federal Reserve over its rate increases have raised doubts about Chairman Jay Powell's status—a concern for both the markets and the economy.

The expected continuation of steady job growth suggests that such risks might be—for the moment, anyway—overblown. However, the stock market will have to weigh whether the strong job growth encourages the Fed to hike rates in 2019 more frequently than investors had previously anticipated.

Despite the strong jobs data, the U.S. economy faces headwinds, said CIBC economist Katherine Judge in emailed commentary, such as a slower housing market and softer global demand. These will partly offset any bump to consumption in the first quarter stemming from the increase in jobs, which should be enough to keep the Fed from hiking rates in Q1 unless robust data readings continue, she said.

President Donald Trump called the job growth "GREAT" on Twitter. But Kevin Hassett, chairman of the White House Council of Economic Advisers, told reporters on Thursday that the next jobs report for January could be weak if the partial government shutdown continues.

There could be hundreds of thousands of government workers who could say they're not working, which would lower the job totals.

"So when we see the January jobs number, it could be a big negative," said Hassett, even though those workers would be paid back wages once the government fully re-opened.

The healthcare, food services, construction and manufacturing sectors were the primary contributors to last month's hiring.

Healthcare and education services added 82,000 jobs in December, the biggest jump since February 2012. Restaurants and drinking placed posted a net gain of 40,700 jobs. Builders added 38,000 construction jobs, while manufacturers increased their payrolls by 32,000 workers.

Businesses are still searching for more workers. The employment site Glassdoor found that job postings have risen 17% in the past year to 6.7 million.

"We really don't see any slowdown yet," said Andrew Chamberlain, chief economist at Glassdoor.

Despite the increase in the unemployment rate, the influx of people searching for work coupled with the job gains is an indication that the rate should decline in the coming months. Economists estimate that it requires roughly 100,000 job gains each month to satisfy population growth and keep the unemployment rate at its current level.

Hiring has easily eclipsed that pace. In 2018 employers added 2.6 million jobs, or an average of nearly 217,000 a month, according to the Labor Department. At some point, even if the economy remains healthy, monthly job gains will likely downshift to a more gradual pace. This is because there is a dwindling pool of unemployed people searching for work after several years of solid hiring. There were 6.3 million people looking for a job in December, down from 6.5 million a year ago.

"People should not get used to numbers like the one we saw this month," said Martha Gimbel, director of economic research at the jobs site Indeed. "Eventually, job growth is going to start slowing down. When that happens, we shouldn't panic."

5. Home sales drop in Toronto and Vancouver last year

[January 4, 2019] The number of homes sold in Toronto and Vancouver and the surrounding areas fell in 2018, as homebuyers and sellers grappled with higher interest rates and stricter mortgage rules.

The Toronto Real Estate Board says there were 77,426 residential transactions recorded through its Multiple Listing Service (MLS) system last year, down 16.1% from 92,263 sales in 2017.

The board says the total number of new listings was also lower, pulling back 12.7% to 155,823 in 2018.

Meanwhile, the average selling price for all property types in the Greater Toronto Area fell by 4.3% to $787,300.

TREB, which represents more than 52,000 real estate agents across the region, says the number of sales in December fell 22.5% to 3,781, down from 4,876 in the same month a year earlier.
The average sale price in December rose slightly by 2.1% to $750,180 from $734,847 when compared to December 2017.
Sales in Vancouver drop to two-decade low
Home sales in Metro Vancouver plummeted to their lowest level in nearly two decades last year, and the average home price moved lower in the once red-hot real estate market.
The total number of homes sold in Metro Vancouver last year fell to 24,619, marking the lowest total since 2000, according to data from the Real Estate Board of Greater Vancouver. That's down 31.6% from nearly 36,000 in 2017 and 25% below the region's 10-year average.
The composite benchmark price for a home, which includes detached properties, townhomes and condominiums, dropped 2.7% from December 2017 to finish the year at $1,032,400.
Detached homes led the fall as their benchmark price fell 7.8% from December 2017 to $1,479,000.
Townhome and condominium prices saw small gains over the year. The benchmark price of a townhouse rose 1.3% year-over-year to $809,700, while the benchmark price of a condominium advanced 0.6% to $664,100.
"As the total supply of homes for sale began to accumulate in the spring, we began to see downward pressure on prices across all home types throughout the latter half of the year," said REBGV president Phil Moore.
Condo prices were down 0.6% from November 2018, while townhome prices fell 1.1% month-over-month.
Moore called 2018 "a transition period" for the region's housing market, which moved away from sellers' market conditions.
"High home prices, rising interest rates and new mortgage requirements and taxes all contributed to the market conditions we saw in 2018," he said.

6. Proportion of fully funded pensions drops in Q4

[January 4, 2019] The funding status of Canadian defined benefit (DB) plans dropped sharply in the fourth quarter as a result of declines in equities markets, which hit investment returns, and long-term interest rates, which boosted pension liabilities, Mercer Canada reports.
The Mercer pension health index, which represents the solvency ratio of a hypothetical plan, dropped to 102% in Q4 from 112% in the third quarter, the firm says. Further, Mercer Canada reports that less than 30% of Canadian

pension plans were fully funded at the end of the year, down from 60% at the end of Q3.

The S&P/TSX composite index dropped by 10.1% in Q4 to finish the year down by 8.9%. At the same time, U.S. equities declined by 8.6% (in Canadian dollar terms) during the quarter, and global equities were down by a similar amount. Canadian fixed income markets rose in Q4, with long-term bonds gaining by 1.9%.

As a result, a typical balanced pension portfolio would have declined by 3.8% in Q4, Mercer Canada says: "After defying headwinds for the first three quarters, financial markets finally succumbed to the pressure of rising short-term interest rates, trade wars and turmoil in certain emerging market economies."

Nevertheless, Mercer Canada points out that Canadian DB plans started the quarter in relatively good shape, funding-wise, which cushioned the impact of market turmoil.

"Canadian pension plans took a significant hit in the fourth quarter, but thankfully they were starting from a very strong position," said Manuel Monteiro, leader of Mercer Canada's financial strategy group, in a statement.

Looking ahead, financial markets may continue to experience heightened volatility in the new year, added Todd Nelson, principal at Mercer Canada, in a statement: "The global economy will face a challenging 2019 with the expectation of central banks continuing on their tightening path and the unsettling political backdrop."

7. Why slowing economies could prod U.S. and China to reach deal

[January 2, 2019] The Trump administration and China are facing growing pressure to blink in their six-month stare-down over trade because of jittery markets and portents of economic weakness.

The import taxes the two sides have imposed on hundreds of billions of each other's goods—and the threat of more to come—have heightened anxiety on each side of the Pacific. The longer their trade war lasts, the longer companies and consumers will feel the pain of higher-priced imports and exports.

Their conflict is occurring against the backdrop of a slowdown in China and an expected U.S. slump that a prolonged trade war could worsen—a fear that's weighing on financial markets. Yet those very pressures, analysts say, give the two countries a stronger incentive to make peace.

"The U.S. and China now have a strong shared interest in striking a deal in order to halt the downward spiral in business and investor confidence, which have taken a beating in both their economies," said Eswar Prasad, professor of trade policy at Cornell University.

The economic threats, agreed Wang Yong, an international relations specialist at Peking University, "might be conducive to negotiations" by nudging Beijing toward market-oriented changes long sought by the United States.

Still, it will hardly be easy to bridge the complex differences between the world's top two economies. They range from President Donald Trump's insistence that China buy more U.S. products to widespread assertions that Beijing steals trade secrets from foreign companies operating in China.

Negotiations between the two nations are expected to resume next week. Gao Feng, a spokesman for China's Commerce Ministry, said last week that the two sides have "made specific arrangements for face-to-face meetings" and are talking by phone. Gao offered no details, and the Office of the U.S. Trade Representative declined to confirm the talks.

The world is watching anxiously. China and the United States, the two largest economies, are the "main engines of the world," noted Song Lifang, an economist at Renmin University in Beijing. That makes their dispute "a matter not only for the two countries but for the world," he added.

The dispute is "a major factor" in a slowdown in global growth, Song said, and a settlement would "help in arresting the decline of the economies of the two countries and of the world."

Trump has long complained about America's gaping trade deficit with China: the gap between what Americans sold and what they bought from China in 2017 amounted to $336 billion and will likely be higher in 2018. But the dispute goes far deeper than lopsided exports and imports. It's fundamentally a high-stakes conflict over the economy of the future.

The U.S. accuses China of deploying predatory tactics in a drive to surpass America's technological supremacy. A report in March by the U.S. Trade Representative accused China of hacking into U.S. companies' computer networks to steal secrets and coercing American companies to hand over technology as the price of admission to the Chinese market.

To try to compel China to reform its ways, Washington has imposed tariffs on $250 billion in Chinese imports; Beijing has counterpunched by taxing $110 billion in U.S. goods. Trump had been set to raise the tariffs on most of the Chinese goods on Jan. 1. But he and President Xi Jinping agreed to a 90-day cease-fire to try to resolve their differences.

Since then, the case for peace has strengthened as economic risks in the U.S. and China have grown and financial markets have reeled. For 2018 the Dow Jones Industrial Average—America's highest-profile stock market benchmark—fell nearly 6%, its worst performance since 2008. China's Shanghai Composite Index sank nearly 25%.

On top of concerns about collateral damage from the U.S.-China trade war, investors in the U.S. markets are worrying about rising interest rates and a wobbly U.S. real estate market. Fears are growing that the second-longest economic expansion in U.S. history could slide to a halt next year or in 2020. Cutting a deal with Beijing could help at least reduce the threat.

China's economy has been decelerating since the government pulled back on bank lending a year ago to try to curb a run-up in debt. The International Monetary Fund estimates that China's economy grew about 6.6% in 2018, down from 6.9% in 2017. But heavy government spending masked weakness in private-sector activity. In December, factory activity shrank for the first time in more than two years.

Auto sales in China plunged 16% in November from a year earlier. It was the fourth month of contraction, and it put annual sales in the world's biggest auto market on track to contract for the first time in three decades.

Despite its softening economy, China will likely find it difficult to comply with U.S. demands to slow its economic ambitions. Those ambitions cut to the heart of China's drive to become the world's 21st century economic superpower.

"It is difficult to solve the trade dispute immediately because the U.S. demands are too high, especially demands for changes in China's economic and social systems, which it is difficult for China to accept," said Song, the economist at Renmin University.

Wendy Cutler, a former U.S. trade negotiator, said the U.S. likely can't realistically settle for anything less than an agreement by Beijing to reform how it does business.

"There are certainly compelling reasons for both sides to reach a deal and avoid further tariff increases," said Cutler, now vice-president at the Asia Society Policy Institute. "However, these reasons can only take you so far […]. Without a strong deal that addresses structural issues, it sets the administration up for critics to say, 'You took us into a trade war for this?'"

Have a nice and fruitful week!