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1. Weekly Markets Changes

[March 1, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,068.25 +55.24 +0.34%	2,803.69 +11.02 +0.39%	26,026.32 -5.49 -0.02%	7,595.35 +67.80 +0.90%	\$0.7541 -0.50c -0.66%	\$1,293.43 -35.97 -2.71%	\$55.80 -1.46 -2.55%

2. Canada's economic growth slows to 1.8% in 2018

[March 1, 2019] The economy expanded at an annualized pace of 0.4% over the final three months of 2018 as the country posted its weakest quarterly growth since the middle of 2016, Statistics Canada said Friday.

The agency's latest figures for real gross domestic product show that for all of last year the economy grew 1.8%, compared with the 3% expansion in 2017.

The fourth-quarter reading of 0.4% came in lower than Canada's 2% growth in the previous quarter.

Economists had expected growth at an annualized pace of 1.2% for the final quarter of 2018, according to Thomson Reuters Eikon.

In a report, CIBC chief economist Avery Shenfeld said the central bank's attempts to moderate growth with interest rate hikes has turned into a "near stall." Referring to annualized growth of 1.8%, he said he's not ringing the recession alarm bell yet because there's no drop in employment, "but it's an economy that would be vulnerable if any new shocks were to emerge."

CIBC had previously forecast one more rate hike from the central bank in 2019, but now "the odds of seeing even that hike are tumbling," he said. "Given that we haven't yet seen a dent in employment, we'll wait for the next jobs reading before reconsidering that call."

Statistics Canada said the late-2018 slowdown was mostly due to a 2.7% contraction, on a quarter-over-quarter basis, in investment spending. Overall exports saw a slight decline and household spending slowed for a second straight quarter.

The declines, the report said, were largely offset by higher inventory accumulation.

The agency also released downward revisions for the first half of 2018 that dropped the second-quarter reading to 2.6% and the first-quarter number to 1.3%.

Canada's terms of trade—a comparison of the prices of exports versus the prices of imports—saw its biggest drop since early 2009, the report said. It fell 3.6% in the fourth quarter, which was mostly due to a 34.3% decline in crude exports. In his report, Shenfeld noted that a trough in oil prices—now recovering—negatively affected terms of trade.

The agency said lower export prices led to a 1% decline in real gross national income, which represents the real purchasing power of income earned. It was the steepest drop since the first quarter of 2015.

On Friday, for the first time, the impacts of cannabis legalization were reflected in Statistics Canada's real GDP report. Canada legalized recreational pot in October.

Household spending on marijuana, at an annual rate, totalled \$5.9 billion in the fourth quarter—with illegal pot accounting for \$4.7 billion of the total and legal weed representing \$1.2 billion.

“Cannabis accounted for 0.5% of total household spending,” the report said of the quarterly numbers. “And non-medical cannabis accounted for 11.2% of spending on alcohol, tobacco and cannabis.”

The lower GDP figure for all of 2018 reflected a slowdown in most categories, including weaker results for household consumption, business investment and housing investment, which contracted 2.3%. The agency said the drop in housing investment coincided with rising interest rates and stricter mortgage rules came into force.

In December, economic growth contracted 0.1% for the second consecutive month and the third decline in four months.

3. U.S. consumer spending tumbles in December

[March 1, 2019] U.S. consumer spending tumbled 0.5% in December, the biggest decline in nine years, as the holiday shopping season ended in disappointment. Meanwhile, incomes rose sharply in December but edged down in January.

The fall in consumer spending followed sizeable gains of 0.7% in October and 0.6% in November, the Commerce Department reported Friday. December's result means that spending for the quarter decelerated significantly, a primary factor in the slowing of the overall economy in the final three months of the year. Gross domestic product recorded a growth rate of 2.6% after a 3.4% gain in the third quarter.

Incomes jumped 1% in December, though slipped 0.1% in January. The government didn't release spending data for January because of delays stemming from the government shutdown.

In a report, BMO senior economist Sal Guatieri said the poor consumer spend was likely the result of "the confidence-shattering plunge in equities" in December, as well as the government shutdown.

The weak result implies a downward revision to Q1 GDP growth to 1.2% from 1.6%, he said. On the positive side, consumers are expected to recover.

"Spending should rebound nicely in coming months given the reversal in equities and confidence, and solid job and income support," Guatieri said, noting that incomes dropped in January due to less dividend income. "Consumers will continue to drive the economic expansion at or above a potential pace for most of this year, despite the fading tax boost," he said.

The big fall in spending reflected sizeable declines in purchases of durable goods such as autos, as well as non-durable goods such as clothing during the all-important holiday shopping season. The result shows that consumer spending, which accounts for 70% of economic growth, was showing significant weakness heading into the current quarter.

Inflation, as measured by a gauge preferred by the Federal Reserve, was up 1.7% for the past 12 months ending in December. That's the slowest 12-month pace since a similar 12-month gain for the period ending in October 2017 and is below the Fed's 2% target for annual price increases.

Federal Reserve Chairman Jerome Powell told Congress this week that with a number of economic risks facing the country and with inflation so low, the central bank intends to be "patient" in deciding when to change interest rates again.

The move to a prolonged pause in further rate hikes, which the Fed had announced at its January meeting, has cheered financial markets that had been worried the central bank, which hiked its benchmark rate four times last year, could move rates up too quickly, raising the risks of an economic downturn.

The spending and income report showed that the saving rate jumped to 7.6% of after-tax income in December, compared to 6.1% in November. That was the highest saving rate since January 2016, and is "a nice cushion for households to lean on," said Guatieri.

U.S. manufacturing slows

Also released today was U.S. manufacturing, which expanded at a slower rate in February as the pace of new orders, production and employment each slipped.

The Institute for Supply Management, an association of purchasing managers, said Friday that its manufacturing index fell to 54.2 last month, down from 56.6 in January. Readings above 50 signal growth in manufacturing, and the sector has been expanding for the past 30 months.

The decline might have reflected the colder weather in February as well as the short month, rather than an outright deceleration, said Tim Fiore, chair of the ISM manufacturing business survey committee.

Adjusting for those two factors, Fiore said, "It was a stable month. Nothing wrong with a stable month." He suggested that the index pointed to overall economic growth of roughly 2.5%.

The downside reading extended negative dollar momentum and saw yields fall slightly, said CIBC economist Katherine Judge in emailed commentary.

U.S. factories appear to have downshifted recently. The Federal Reserve's report on industrial production found that the manufacturing sector had contracted 0.9% in January, including a sharp 8.8% drop in the output of motor vehicles and parts.

The companies surveyed for the ISM index suggested that the U.S. economy is healthy, although concerns exist about the trajectory of the global economy and any lingering impacts from the import taxes imposed by President Donald Trump.

Of the 18 industries surveyed for the report, 16 reported growth in February. Textiles, computer and electronic products, primary metals, transportation equipment and wood products were among the sectors saying that they had expanded. Only non-metallic minerals reported an outright decline.

4. OSC makes \$7.5M payout in three whistleblower cases

[February 27, 2019] A trio of whistleblowers have received \$7.5 million in payouts from the Ontario Securities Commission (OSC)—the first set of awards announced by Canada's largest regulator, which operates the country's only program that pays for enforcement tips.

The OSC said Wednesday that it paid out a total of \$7.5 million to three whistleblowers in three different enforcement cases. The OSC's whistleblower program, adopted in 2016, is modelled on a program launched by the U.S. Securities and Exchange Commission (SEC) in 2011 to help root

out misconduct by offering financial rewards for high-quality enforcement tips.

Regulators don't provide details on whistleblower cases in order to protect the anonymity of the tipsters. In its announcement, the OSC said that the recipients of its first-ever awards "voluntarily provided high quality, timely, specific and credible information, which helped advance enforcement actions resulting in monetary payments to the OSC."

Under the OSC's program, whistleblowers are eligible for financial payouts in cases that result in monetary sanctions of at least \$1 million, with payouts ranging from 5% to 15% of the sanctions total. Whistleblower awards are capped at \$5 million and can only be paid after all appeals on an enforcement order have been exhausted, which is why payouts under the program can take years to materialize.

"Our whistleblower program has proven to be a game-changer for the OSC's enforcement efforts," said Maureen Jensen, chair and CEO of the OSC, in a statement.

"This would not be possible without courageous individuals willing to come forward and provide valuable information about harm to Ontario's capital markets," she added.

Since the OSC launched its whistleblower program, a couple of other Canadian regulators have set up their own processes to encourage enforcement tips—but these programs do not offer financial rewards.

Conversely, in the U.S., the SEC has now paid out more than US\$326 million to 59 individuals since making its first award in 2012. In turn, these cases involving whistleblowers have generated US\$1.7 billion in regulatory enforcement sanctions for the SEC.

"Whistleblowers expose complex securities misconduct that may not otherwise come to light, allowing us to take timely action," said Jeff Kehoe, director of enforcement at the OSC, in a statement. "We hope this announcement, alongside our substantive whistleblower protections, will encourage more whistleblowers to come forward."

5. Lower gas prices help Canada's inflation rate slow to 1.4% in January

[February 27, 2019] The country's annual inflation rate decelerated in January to 1.4% in large part because of lower prices at the pump, Statistics Canada said Wednesday in a new report.

Year-over-year growth in consumer prices slowed following the 2% reading for December, the agency said in its latest consumer price index report.

Economists on average had expected an increase of 1.5% for January, according to Thomson Reuters Eikon.

Across the country, Canadians paid 14.2% less last month for gasoline compared with a year earlier, 9.2% less for computer devices and 3.2% less for traveller accommodation. The report also said prices for fuel oil fell 3.3% and natural gas dropped 2.3%.

Excluding gasoline, the agency said inflation was 2.1% last month.

The weaker prices in categories like energy offset stronger growth in other areas. Year-over-year prices last month were 13.2% higher for fresh vegetables, 7.8% higher for mortgage interest costs and 5.3% higher at restaurants.

The report also said the average of the Bank of Canada's three core inflation readings, which omit more volatile items like gas, held steady at 1.9% in January for a third straight month.

The Bank of Canada has been expecting inflation to edge down below its ideal 2% target and to stay there throughout 2019, mostly because of lower gas prices.

The central bank, which aims to keep inflation between 1% and 3%, can raise its benchmark interest rate as a way to keep inflation from climbing too high. The bank will make a policy decision next Wednesday and it's widely expected to leave the interest rate unchanged at 1.75%.

Last week, governor Stephen Poloz said the interest rate's expected upward path to its likely destination range of between 2.5% and 3.5% is "highly uncertain."

The bank, he said, is watching how several important uncertainties unfold.

Poloz highlighted the unknown evolution of the impacts of higher interest rates on heavily indebted Canadians, how housing markets adjust to higher borrowing costs and stricter mortgage guidelines, whether business investment picks up its pace and the uncertain global trade environment.

In a report, CIBC senior economist Royce Mendes said that the central bank appears "well-positioned to stay on the sidelines for at least the first half of the year." He added that, as a result of today's inflation data, the loonie rallied slightly and yields moved higher—likely because forecasters accounted for downside risks that didn't materialize.

6. Fed chair predicts slower growth in 2019, cites key global risks

[February 26, 2019] Federal Reserve Chairman Jerome Powell says the U.S. economy should keep expanding at a solid though somewhat slower pace this

year. But he warns of growing risks, including a global slowdown, volatile financial markets and uncertainty about U.S. trade policy.

In delivering the Fed's semi-annual monetary report to Congress, Powell says the Fed will be "patient" in determining when to boost its benchmark policy rate in light of the various "crosscurrents and conflicting signals." He says the Fed's rate decisions will be "data dependent" as the economic outlook evolves.

The Fed in December indicated it could hike rates two times this year. But many private economists believe the Fed will keep rates unchanged until late this year and may not hike at all.

Powell said that the economy grew at a strong pace last year, with employment and inflation remaining close to the Fed's goals. He said it appeared that overall growth was slightly below 3% in 2018. The Fed expects 2019 growth to slow somewhat.

He said that while the 35-day partial government shutdown "created significant hardship for government workers and many others, the negative effects on the economy are expected to be fairly modest and to largely unwind over the next several months."

Powell cited a number of factors that could slow growth have emerged in recent months.

"Financial markets became more volatile toward year-end, and financial conditions are now less supportive of growth than they were earlier last year," Powell said.

He noted that growth has slowed in major foreign economies, including China and Europe, and "uncertainty is elevated" around major policy issues such as Brexit, Britain's proposed exit from the European Union, and ongoing U.S. trade negotiations with various countries.

Powell's testimony Tuesday before the Senate Banking Committee will be followed by testimony on Wednesday before the House Financial Services Committee.

Some private analysts are forecasting that the Fed's next move could be a rate cut in 2020 as the central bank confronts a slowing economy.

At its last meeting in January, the Fed left rates unchanged at a level of 2.25% to 2.5% and signalled a major pivot away from steadily raising rates by declaring that it intended to be "patient" in determining when to move rates again.

In emailed commentary, CIBC chief economist Avery Shenfeld said Powell's emphasis on the positive aspects of the U.S. economy confirmed a "slightly" hawkish tilt. Still, CIBC isn't altering its view that the Fed will be on hold through the first half of 2019.

The Fed's January decision triggered a big rally in stock prices as investors grew less concerned that the Fed could over-do its tightening cycle and push the country into a recession.

The Fed raised rates four times in 2018. Its December rate hike, along with a forecast of two more hikes in 2019, sent the market down sharply as investors worried that the central bank was in danger of over-doing its credit tightening and could end up sending the country into a recession.

As the stock market began tumbling last October, President Donald Trump increased his attacks on the central bank, calling the Fed's rate hikes his biggest threat and saying that the central bank should not be raising rates at all because there was no threat of inflation.

7. Why corporate debt is a risk to the global economy

[February 25, 2019] Corporate debt is now double what it was before the global financial crisis in 2008. Global corporate debt is at record levels, representing a growing risk to the global economy, says the Organization for Economic Cooperation and Development (OECD).

In a new report, the global policy group says that corporate debt issued by non-financial companies finished 2018 at record levels, reaching \$13 trillion (all figures in U.S. dollars), which is double the amount it reached before the global financial crisis in 2008.

Much of the growth in corporate bond issuance has come in emerging markets, led by companies in China, which now rank collectively as the second biggest source of corporate debt. Chinese companies were negligible issuers before the global financial crisis, it says.

This increase in corporate debt represents a potential vulnerability, the report suggests. "In the case of a downturn, highly leveraged companies would face difficulties in servicing their debt, which in turn, through lower investment and higher default rates, could amplify the effects of a downturn," it warns.

Not only has the size of corporate borrowing grown sharply, but the OECD reports that the composition of bond issuance has also changed dramatically, with the lowest-quality investment grade bonds now accounting for more than half (54%) of outstanding corporate debt. This represents a historic high for these bonds, it notes, adding, "There has been a marked decrease in bondholder rights that could amplify negative effects in the event of market stress."

The report estimates that a financial shock similar to the one experienced during the 2008 crisis would hit the fixed income market with \$500 billion worth of corporate bonds being downgraded to non-investment grade status

within a year, “forcing sales that are hard to absorb by non-investment grade investors.”

The OECD also reports that, while annual corporate bond issuance has averaged \$1.7 trillion in the 10 years since the crisis—which is double the \$864 billion in average annual issuance in the years leading up to the crisis—global net issuance declined by 41% in 2018 compared to 2017.

“Importantly, net issuance of non-investment grade bonds turned negative in 2018 indicating a reduced risk appetite among investors,” it says. “The only other year that this happened over the last two decades was in 2008.”

8. Mutual fund net sales negative in January: IFIC

[February 25, 2019] Canadian mutual fund net sales were negative again in January, while assets under management (AUM) increased by \$49.9 billion, or 3.5%, from the month prior.

The January numbers from the Investment Funds Institute of Canada (IFIC) were an improvement from much larger negative net sales in recent months. December’s net redemptions of \$7.9 billion led to a monthly decline in AUM. January saw negative net sales of \$53 million, with net assets increasing to \$1.47 trillion.

Bond funds saw the largest inflows, with \$1.18 billion in net sales, while balanced funds saw net redemptions of \$1.69 billion.

ETF assets totalled \$164.2 billion at the end of last month. Assets increased by \$7.6 billion, or 4.8%, from December. ETFs recorded net sales of \$904 million in January, compared to \$2.18 billion in December.

The mutual fund data reflects the activity of Canadian retail investors, while the ETF data includes retail and institutional investors, an IFIC release said.

9. Warren Buffett says he can't beat the S&P 500

[February 25, 2019] The world's most well-known investor says it's hard for him to do better than the broader market. So should you even try?

Warren Buffett told CNBC on Monday that he's had a "tough time" trying to beat the S&P 500. The Oracle of Omaha, who just released his annual Berkshire Hathaway shareholder letter, suggested that the index is still the best way to invest in the stock market for most people. He even joked that most of the time he doesn't know how to pick individual stocks.

Buffett told the network that his two investing gurus, Ted Weschler and Todd Combs, have each underperformed the S&P 500 during the past few years by a "tiny bit." Even so, he added that their stock picks have done better than his.

Of course, the long-term track record of the world's third-richest man says otherwise. But he has a point.

Taking less risk

It seems silly for investors to try picking and choosing the best stocks — the market, writ large, historically tends to go higher. Just ride the wave, and you'll do fine.

But why the S&P 500 and not the Dow Jones Industrial Average? The S&P 500 may not be as famous as the Dow. But this blue chip index has exposure to nearly all of America's most important companies, and it ranks them by how large they are.

That makes it a much better proxy for the US economy than the Dow, which has only 30 stocks in it and weighs them by their stock prices.

Unsurprisingly, the S&P 500 now skews toward technology. The sector has done extraordinarily well over the past decade because of growth in online advertising, social networks, e-commerce, cloud computing and mobile gadgets.

The four most valuable companies in the S&P 500 are Microsoft, Apple, Amazon and Google owner Alphabet. Facebook ranks sixth. The only non-tech company among this group of giants: Berkshire Hathaway, which is in fifth place.

Berkshire Hathaway is famously underweight the technology sector, however. Yes, Buffett's top holding is now Apple. But before Berkshire invested in the company, its favorite tech stock was IBM — not exactly the most exciting name in the industry.

Most of Berkshire's other top stocks are far less dynamic than Apple, too. Big financial firms Bank of America, Wells Fargo and American Express rank among its five largest investments.

Buffett is also a fan of consumer staples Coca-Cola and struggling Kraft Heinz. And his firm has recently fallen in love with airlines: Southwest, Delta, United Continental and American are among Berkshire's top 20 holdings.

All of that means it should not be a major surprise that the Berkshire portfolio has lagged the market lately.

Better than bonds

Instead of looking at Berkshire, investors should focus on what Buffett thinks about the stock market broadly. He noted that the market is cheap, especially with longer-term US Treasury bond yields like the 30-year hovering around 3%.

Buffett told CNBC that faced with a choice between bonds and stocks, the decision is easy.

"I'd buy the S&P in a second," Buffett said, adding that he would give "enormous odds" that the S&P 500 will do better than 30-year bonds over the next three decades.

Have a nice and fruitful week!

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