Weekly Updates Issue # 714

1. Weekly Markets Changes

[May 17, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,401.75 +104.2 +0.64%	2,859.53 -21.87 -0.76%	25,764.00 -178.37 -0.69%	7,816.29 -100.65 -1.27%	$0.7425 -0.28c -0.38%	$1,286.05 -8.52 -0.66%	$62.76 +1.10 +1.78%

2. Why selling in May and going away is a silly thing to do

[May 17, 2019] Should I really sell stocks in May and go away like that old Wall Street saying suggests?

No! **One of the worst things that an investor can do is try and time the market.** Staying fully invested makes much more sense.

Yes, the market historically does better in the fourth quarter. Returns have tended to be solid from October through December as investors anticipate strong sales and profits for Corporate America during the holiday months.

And, sure, this May is off to a rocky start because of US-China trade tension. But it's a myth that stocks will definitely fall during the supposedly sleepy summer months as traders head to the beach.

Earnings, trade and the Fed matter more than the calendar

During the past three years, the S&P 500 has actually gone up between the beginning of May and end of September, thanks in large part to solid corporate earnings and continued economic growth.

"Blindly going to cash and waiting...to re-invest hasn't been the most profitable strategy lately," said LPL Financial senior market strategist Ryan Detrick in a recent report.

Investors can't take the summer off — especially this year when the United States and China might finally reach a trade deal and the Federal Reserve may drop more hints about a future rate cut later this year, said Fabiana Fedeli, global head of fundamental equities at Robeco.
Both of those events would probably push the market higher, not lower.
"I have a feeling that at a time where there is so much news flow, selling in May and going away is probably not the smartest thing to do," Fedelli said, adding that her firm's clients have been quite active during the summer months for the past few years.
The current market volatility still hasn't hurt buy-and-hold investors all that much.
The Dow is still up more than 10% this year while the S&P 500 has gained about 15%. The Nasdaq is up nearly 20%. And all three indexes are not too far from all-time peaks.
"Record highs tend to be supportive of, rather than detrimental to, near-term returns," said Mark Haefele, chief investment officer with UBS Global Wealth Management, in a recent report.
"A sell-in-May strategy lowers long-term returns. We believe it's important to focus on time in the market, rather than timing the market," Haefele added.
That doesn't mean that stocks are definitely going to head higher over the next few months.
Steve Rhodes, editor of the Mastering Probability investing newsletter, says investors should be "on guard" this summer for a possible sell-off.
But it's not because of seasonal trading patterns. It's because there are worries about a global slowdown.
"Look at the data — not the calendar," he said.

3. Losing Huawei as a customer could cost US tech companies $11 billion

[May 17, 2019] New US measures that restrict exports to Huawei could cost Silicon Valley billions in lost revenue.
The world's biggest telecommunications equipment supplier and No. 2 smartphone seller relies on dozens of American tech companies for key components.
China's Huawei bought $70 billion worth of components and parts last year from 13,000 suppliers. Of that, about $11 billion was spent on products from dozens of US businesses, including computer chips from Qualcomm and Broadcom, as well as Microsoft software and Google's Android.

That revenue is now threatened by the Trump administration's decision to place Huawei on a list of foreign firms barred from receiving components from US exporters without a license.

The blacklisting of Huawei puts at risk "both the company itself and the networks of Huawei customers around the world, as the firm would be unable to upgrade software and conduct routine maintenance and hardware replacement," analysts from Eurasia Group said in a note.

Huawei smartphone users, for example, may not be able to update the Android operating system on their devices because Huawei "does not appear to have a ready alternative," they added.

Changing suppliers

The White House ban also disrupts the global supply chain, because foreign companies can't sell products containing US parts and components to Huawei either, according to Lawrence Ward, a partner at international law firm Dorsey & Whitney.

That means Huawei won't be able to buy, for example, chipsets from a Taiwanese supplier if those chipsets contain any US parts or components.

Huawei says it has spent years preparing for the current scenario.

"This decision is the latest move in the campaign against Huawei, waged by the US government for political reasons," Huawei's rotating chairman Ken Hu wrote in a memo to employees shared with CNN Business on Friday.

"The company has known this could be a possibility for many years," he said. "We have invested heavily and made full preparations in a variety of areas."

'Insane decision'

Huawei's chip design subsidiary also said it had been preparing for this "extreme situation for survival."

In an internal memo seen by CNN Business, HiSilicon chief He Tingbo said the company had assumed that "one day, all advanced chips and technologies in the US will not be available."

To ensure Huawei could continue to serve customers, HiSilicon created "spare tires" so the company would survive, she said.

The United States has "made the most insane decision and put Huawei into the [controlled export list]," she wrote. "Today, as history has made the choice, the spare tires we built have turned in to 'Plan A' overnight."

Still, brokerage firm Jefferies said it would be difficult for Huawei to withstand being cut off from US suppliers for long.

American firms dominate when it comes to software for smartphone and telecommunications equipment, Jefferies analyst Rex Wu said in a note. Huawei also lacks alternatives to American computer chips for telecoms base stations, he added.

That means that even though Huawei is a leader in 5G technology, the products associated with the next generation of ultra-fast wireless networks still need US parts.
Huawei has signed dozens of commercial 5G contracts around the world, including 25 in Europe and 10 in the Middle East. It could be harder to fulfill those contracts if Huawei can't get software or computer chips from US suppliers.
This week's escalation of the US campaign against Huawei has rattled investors.
Shares in Qualcomm, whose sales to Huawei account for less than 10% of its revenue, closed down 4% on Thursday in New York. Huawei sales make up 15% of optical maker Lumentum's revenue. Its stock plummeted nearly 12%.
Shares in other US chipmakers that supply to Huawei — including Qorvo, Skyworks Solutions, and Xilinx — also ended the day in the red.

4. Climate change is a risk to the financial system, BoC says

[May 16, 2019] The Bank of Canada is highlighting its expanding concerns about climate change and, for the first time, is listing it among the top weak spots for the economy and the financial system.
The central bank's financial system health report Thursday included climate change as an important vulnerability, elevating it to a category alongside its long-running worries about household debt and apprehension about the housing market.
The assessment is part of the Bank of Canada's annual report card that explores key weaknesses and risks surrounding the stability of the financial system.
"Economic activity and the environment are intertwined," said the bank, which, like its international peers, is starting to make climate-change factors part of its financial stability research.
"Most experts agree that the global climate is changing and that this has growing implications for the economy. But the range of possible outcomes is large."
Climate-change risks include the consequences of extreme weather events, such as flooding, hurricanes and severe droughts.
In Canada, the bank said insured damage to property and infrastructure averaged about $1.7 billion per year between 2008 to 2017—8.5 times higher than the annual average of $200 million from 1983 to 1992.

Beyond the physical damage, the bank said the shift to a lower-carbon economy will be complicated and could be costly for some.

The transition will likely lead to complicated structural adjustments for carbon-intensive sectors, such as oil and gas, and could leave insurance companies, banks and asset managers more exposed, the report said. In some cases, the bank said fossil fuel reserves could be left in the ground, which could drain the value of important assets.

The bank said the transformation to a lower-carbon economy also will likely provide a boost to sectors like green technology and alternative energy.

"Both physical and transition risks are likely to have broad impacts on the economy," the report said.

In addition to climate change, the report also underlined the emerging vulnerability of rising corporate debt levels in the non-financial sector—a growing concern seen in other advanced economies. Some of the borrowing is of lower quality and the situation needs to be monitored closely, the bank said.

Last year, non-financial corporate debt relative to income was at 315%, which the bank said was "well above its historical average."

The bank said vulnerabilities linked to high household debt and the once-hot housing market have "declined modestly but remain significant."

Both have been persistent weak spots in recent years and the improvements are due to a slowdown in credit growth since 2017 that coincided with stricter mortgage-lending policies and past interest-rate hikes.

The share of Canadians falling behind their debt payments remains "low and relatively steady," the bank said. It noted, however, that since 2015—after the oil-price slump—it's seen a "small but steady increase" in the number of households in Alberta and Saskatchewan that have fallen behind by 60 days or more on at least one loan payment.

Housing prices in key markets of Toronto and Vancouver have cooled in recent years, but imbalances in real-estate markets are still an important vulnerability, the bank said.

"New measures have curbed borrowing, reduced speculative behaviour in housing markets and made the financial system more resilient," Bank of Canada governor Stephen Poloz said Thursday in a statement.

"While the fundamentals in the housing sector remain solid overall and the sector should return to growth later this year, we continue to monitor these vulnerabilities closely."

Overall, the bank said Canada's financial system is resilient, but the risk has edged up since its last report in June 2018, due in part to factors such as slower economic growth and uncertainty around global trade.

The most-important threats to the financial system are a severe Canada-wide recession, a big house-price correction and a sharp re-pricing of risk in markets, the bank said.

5. Foreign investment declines in March, but remains strong for Q1

[May 16, 2019] Foreign investors pared back their holdings of Canadian securities for the first time this year in March, according to new data from Statistics Canada.

StatsCan reported Thursday that foreign investors reduced their Canadian securities exposure by $1.5 billion in March, marking the first divestment in the past three months. The sell-off was concentrated in money market securities, but investors also sold Canadian equities during the month and added bonds.

At the same time, Canadian investors added $1.5 billion worth of foreign securities to their holdings in March. As a result, the economy saw a net outflow of $3.0 billion during the month.

Canadians bought $3.5 billion worth of foreign debt securities in March, largely U.S. corporate bonds, and they sold about $1.9 billion of foreign equities.

Foreign investors reduced their holdings of Canadian money markets by $5.4 billion in March, StatsCan reported.

They also sold off $843 million worth of equities during the month, which was the first drop in equity holdings since May 2018.

"This divestment mainly resulted from sales of shares from the finance and insurance industry," StatsCan says.

The dip in equities holdings in March barely dented the strong investment activity in the first two months of the year, however.

Overall, foreign investors increased their holdings of Canadian stocks by $15.0 billion in the first quarter, marking the largest quarterly investment in two years, StatsCan reports.

Indeed, despite the decline in Canadian securities holdings in March, for the first quarter, foreign buying of Canadian securities remained at $39.9 billion.

For the first quarter overall, Canadian investors reduced their foreign holdings for the first time in three years, resulting in a net inflow of $40.8 billion so far this year.

6. B.C. launches money laundering inquiry

[May 15, 2019] Following a series of reports detailing the scale of money laundering activity in British Columbia, the provincial government is planning a public inquiry into the problem.

The government announced today, May 15, that it has appointed B.C. Supreme Court Justice Austin Cullen to lead an inquiry that will examine the province's money laundering problem, including the role of financial institutions, the corporate and professional sectors, and the real estate and gaming industries.

The Commission of Inquiry into Money Laundering, which will have the power to compel testimony, will also examine various regulators, and possible barriers to effective law enforcement.

"This inquiry will bring answers about who knew what when and who is profiting from money laundering in our province," said David Eby, B.C.'s attorney general.

"The Honourable Justice Cullen will have the mandate, authority and resources to seek answers, perhaps most importantly among people and organizations who refuse to share what they know unless legally compelled to do so," he added.

The commission is to deliver an interim report within 18 months, and a final report by May 2021.

The government said its decision to launch an inquiry stems from "three independent reviews that found extraordinary levels of money laundering in B.C.'s real estate market and other sectors of the economy."

Those reports detail, among other things, the impact of these crimes on B.C.'s economy and its housing markets.

One report estimates that money laundering topped $7 billion in B.C. in 2018, and that it boosted home prices by about 5% overall—possibly more than 20% in markets such as Vancouver.

"People are understandably shocked and upset about money laundering, and it's not right that homeowners and renters are carrying the costs of crime," said Carole James, B.C.'s minister of finance.

"We've already taken action to make our real estate market more fair and transparent," she said. "Moving forward with this public inquiry reinforces our commitment to stamp dirty money out of our province and out of people's lives."

7. Canadian home sales see first year-over-year increase since 2017

[May 15, 2019] Home sales in April posted their first year-over-year increase since December 2017 as gains in Montreal and the Toronto region outweighed a decline in the B.C. Lower Mainland.

The Canadian Real Estate Association said Wednesday that home sales last month were up 4.2% compared with a year ago, when they hit a seven-year low for the month.

On a month-over-month basis, sales through the Multiple Listing Service rose 3.6% in April.

"Canadian housing activity appears to be broadly stabilizing, as there are signs that the market has largely digested the many policy changes," Bank of Montreal chief economist Doug Porter wrote in a report.

"And while the regional divide is wide, fundamentals look to be a bit more supportive in the year ahead, with the policy tightening likely having run its course, job growth surprisingly solid and borrowing costs ebbing."

The national average price for homes sold in April was $494,978, up 0.3% from the same month in 2018.

Excluding the Greater Vancouver and Greater Toronto Area, two of the country's most expensive markets, the average price was just over $391,000.

Canadian home sales softened in the wake of new mortgage stress test rules introduced last year and a rise in mortgage rates.

However, mortgage rates have started to come back down in recent months as expectations that the Bank of Canada will raise its key interest rate have also cooled.

The Canadian Real Estate Association noted that the number of newly listed homes rose 2.7% in April, following an increase of 3.4% in March.

However, the national sales-to-new listings ratio tightened to 54.8% compared with 54.3% in March.

The association noted that sales activity was stabilizing among Canada's five most active urban housing markets, which no longer includes Greater Vancouver for the first time since the recession as sales in that city continue to trend lower.

8. Canadian inflation rises in April; gas prices strengthen from carbon pricing

[May 15, 2019] Canada's annual inflation rate picked up its pace in April—a month that saw stronger price pressures from gasoline in provinces that have new carbon-pricing systems.

The consumer price index posted a year-over-year increase of 2% last month, up from its reading of 1.9% in March and 1.5% in February, Statistics Canada said Wednesday in a new report.

Economists on average had expected an increase of 2.0% for April, according to Thomson Reuters Eikon.

The April reading brought the measure in line with the Bank of Canada's ideal inflation target of 2%—a neutral position that's unlikely to put immediate pressure on governor Stephen Poloz to move his trend-setting interest rate in either direction.

Nor will markets be impacted by today's data. "There's nothing for markets to really chew on today, with the data essentially bang on expectations, and with the headline figure only a tick higher than the prior month and showing no obvious trend," said CIBC chief economist Avery Shenfeld in emailed commentary.

Consumers paid more for mortgage borrowing costs, fresh vegetables and autos last month, while they saw lower price tags for hotels, kids' clothing and digital equipment.

Gas prices rose month-to-month in April in all provinces. Excluding gasoline, the inflation rate rose 2.3% compared to a year earlier.

The report said the six provinces where carbon levies were introduced or increased in April saw a larger month-over-month rise in prices at the pump.

The federal Liberal government applied carbon levies last month on New Brunswick, Ontario, Manitoba and Saskatchewan because they did not have similar systems of their own. The federal move has caused controversy, and provincial governments have vowed to fight the mandated systems.

Last month, Prince Edward Island introduced its own carbon-pricing system, and British Columbia increased its existing levy.

The Statistics Canada report said the average of its three gauges for core inflation, which are considered better measures of underlying price pressures by omitting volatile items like gasoline, slowed slightly to 1.9% in April, down from 2% the previous month.

9. University costs delay parents' retirement: survey

[May 13, 2019] Costs for post-secondary education are taking a toll on parents' finances.

A survey conducted for FP Canada found that 67% of Canadians with children over age 18 have helped their children with post-secondary costs, and doing so prevented one in five parents from paying off debt (20%) and forced 16% to postpone retirement.

Looking ahead, the challenges of post-secondary education costs could affect more Canadians to a greater extent.

The survey found that 82% of Canadians with children under 18 intend to assist their children with post-secondary costs, and nearly half (48%) expect providing this support will cause them to delay retirement — an increase from 41% in FP Canada's 2017 survey.

Similarly, many respondents (42%) said they expect education costs will prevent them from paying off debt, up from 40% in 2017.

Education costs could be exacerbated at tax time: only one-third of respondents said they're familiar with tax credits, grants and other financial assistance programs associated with post-secondary costs.

Students are also challenge by education costs, with almost one-third of parents (31%) saying their children graduated or will graduate from college or university with more than $10,000 in student debt.

For those students, the debt results in postponed life milestones. One in five Canadians with adult children (19%) say student debt has caused their children to postpone buying a home; 10%, to postpone moving out.

Adult children in Atlantic Canada are most likely to have postponed buying a home (25%), and those in Ontario are most likely to have postponed flying the coop (15%).

Canadians with children under 18 forecast that student debt will have an even bigger impact going forward: more than half say they expect student debt will force their kids to postpone buying a home (51%), and four in 10 say they expect their kids to postpone moving out.

About the survey: *The online survey of 1,557 Canadians was completed April 26-29, 2019, using Leger's online panel. The margin of error is +/-2.5%, 19 times out of 20.*

10. Clients don't understand retirement income sources

[May 13, 2019] Many Canadians are unsure they'll have enough to retire, and a new report offers a potential reason why: Canadians don't understand retirement income.

Survey respondents aged 35 to 54 achieved an average score of only 36.5% on their knowledge of Canada's retirement income system, according to a report by the Retirement and Savings Institute at HEC Montreal. Survey questions were based on topics of general financial knowledge, tax-sheltered saving, employer pension plans, CPP or QPP, OAS and GIS.

The low result is concerning, because making enlightened decisions about saving and retirement is "pointedly difficult" when Canadians don't know what makes up the system, the institute said in its report.

Limited knowledge of the system could put those relying on private savings at a disadvantage, similar to the disadvantage of lower-earning individuals, who might be more likely to depend on public programs, the report said.
Employer plans, and OAS and GIS were the least understood topics. Canadians were also unsure about the difference between TFSAs and RRSPs. Older, more educated and higher-earning Canadians received only slightly better scores. For example, those 50 to 54 receiving an average score of about 40%; those with a bachelor's degree or higher, 45%.
About the Retirement and Savings Institute survey: *In December 2018, 3,000 Canadians aged 35 to 54 were interviewed in all 10 provinces proportionally to each province's population weight. An index was developed to portray the proportion of correct answers to 29 questions about financial knowledge and retirement sources.*

Have a fruitful week!

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