Equities Shine in November
Monthly Market Commentary
November 2019

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- Equities continued to climb around the globe during November as volatility trended lower.
- The U.S. and China appeared close to settling the first phase of a multi-part deal aside from an impasse over the degree of tariff rollbacks. Progress was interrupted in late November following the passage of a U.S. law supporting democracy in Hong Kong—deepening divisions between U.S. and Chinese leaders.
- As always, we believe in a diversified approach to investing—and that it is especially important for those with long time horizons to avoid timing the market or making outsized sector or regional bets.

Economic Backdrop

Equities continued to shine brightly around the globe for the full month of November as volatility trended lower. U.S. stocks maintained a steady ascent; U.K. stocks began the period with a rally, which was quickly erased by a downtrend before bouncing sharply to finisher higher. European and Japanese equities plateaued for most of November after a gleaming start.

Hong Kong and mainland Chinese equities started November with sharp rallies, but ultimately ended lower after similarly sharp selloffs gave way to a volatile second half. Brazilian stocks advanced for the full period, mounting a sizeable recovery from a mid-month decline.

Government bond rates increased in the U.S., U.K. and eurozone during November. Oil prices generally advanced outside of a mid-month drop, which was driven by a report about Russia's hesitance to deepen supply cuts. However, the oil-producing nation apparently remained committed to production constraints as part of its non-member alliance with the Organization of the Petroleum Exporting Countries (OPEC), which cut its medium- and long-term forecast for oil demand.

The U.S. and China appeared close to settling the first phase of a multi-part deal during November, agreeing on the necessity of mutual tariff rollbacks—even if still negotiating the degree of such reductions (China wanted the U.S. to remove all tariffs, which remained a non-starter for U.S. negotiators). Signs of trade-talk progress were interrupted, however, when President Donald Trump signed into law a bill that supports democracy in Hong Kong—where protests have been escalating for months. This enflamed divisions between the U.S. and Chinese leaders. China maintained its desire to secure a deal, but now asserted willingness to respond to further trade-war escalations.

Elsewhere, the U.S. delayed a decision on whether to impose tariffs on European automobiles for another six months. At the beginning of December, President Trump announced that steel and aluminum imports from Brazil and Argentina would once again be subject to tariffs after earning exemptions in May 2018.

Domestic U.S. political strains flared in light of a series of public hearings in the House of Representatives, led by the Democratic Party, as part of an impeachment inquiry into Trump. The hearings centred on allegations that he asked Ukrainian President Volodymyr Zelensky to conduct and publically announce investigations into Trump's political opponents—in exchange for $400 million of congressionally approved military aid and a meeting at the White House.

As an explicit act of good will toward North Korea, the U.S. postponed a joint military drill with South Korea that was scheduled for mid-November. However, North Korean officials demanded that joint military drills be stopped altogether if the U.S. wants to resume nuclear disarmament negotiations. At the same time, a meeting between U.S. and South Korean officials over defense spending was cut short over South Korea's apparent unwillingness to accept an increased share of the burden for U.S. military stationed on the Asian peninsula. On a positive note, top U.S. defense officials succeeded in pressuring South Korea and Japan to retain a military information-sharing agreement, at least temporarily, which was set to lapse in late November amid a trade war between the two East Asian countries.

U.K. opinion polling showed the Conservative Party as set to win an outright majority of seats in the House of Commons at a December 12 general election, although with a narrowing projected lead over the course of November. A Conservative majority would keep Prime Minister Boris Johnson at the helm of the U.K. government, enabling him to execute its plan to exit the EU on January 31, 2020.

The Iranian government reignited a set of centrifuges to enrich uranium in early November, representing its latest step away from its commitment to the 2015 multi-party nuclear disarmament agreement. Protests over fuel price increases reached more than one hundred Iranian cities; the Islamic Republic turned off the internet for part of November as it cracked down on riots that extended to the burning of banks and petrol stations.

Central Banks

- The Bank of Canada (BoC) did not meet in November and held the overnight rate unchanged at 1.75% following its meeting on December 4. In its press release, the BoC indicated that it would continue to assess the adverse impacts of trade conflicts against the sources of resilience in the Canadian economy when making rate decisions. The next scheduled meeting is for January 22.

- The Federal Open Market Committee (FOMC) did not meet during November after announcing an expected 0.25% decrease in the federal-funds rate toward the end of October. It was the third cut in as many meetings, but minutes from the October meeting suggest committee members will return to a data-dependent posture. Markets have interpreted this stance as unlikely to produce another cut at the FOMC's final meeting of the year in December.

- The Bank of England's Monetary Policy Committee kept the Bank Rate unchanged at 0.75% following its early November meeting. However, two out of nine committee members voted for a 0.25% rate reduction, the first expressed preference for a rate cut since the immediate aftermath of the Brexit vote in 2016.

- The European Central Bank (ECB) did not hold a formal monetary-policy meeting in November. Christine Lagarde began her tenure as president of the ECB during the month, and made an overture for better-targeted fiscal spending and more government investment by the EU's more frugal members during her first speech in the role.

- The Bank of Japan held no monetary-policy meeting in November, and announced no change in its program following its late-October meeting.

- The People's Bank of China (PBOC) trimmed the one-year Loan Prime Rate (LPR) to 4.15% from 4.20%, the third cut in recent months. The latest decrease in the LPR closely followed cuts to the central bank's seven-day reverse repurchase rate and medium-term lending-facility rate. Taken together with an explicit call by the PBOC in mid-November for China's financial sector to extend credit to struggling companies, these moves represent an acknowledgement by the central bank of the increased economic pressures on China this year.

Economic Data

- According to Statistics Canada, the rate of inflation (as measured by the change in the Consumer Price Index (CPI)) jumped by 0.3% in October, while prices increased at a 1.9% rate for the past 12 months. Gasoline prices bounced back after a notably weak September. Producer prices were mostly lower—the Industrial Product Price Index (IPPI) ticked up 0.1% in October while the Raw Materials Price Index (RMPI) slid 1.9%. Over the past 12 months, the IPPI and RMPI fell by 1.3% and 5.0%, respectively. The unemployment rate spiked higher to 5.9% in November. The economy lost 71,000 jobs during the month, with many of the losses coming from manufacturing and natural resources.

- Conflicting reports on U.S. manufacturing conditions depicted slow but improving growth on one hand, and a middling but persistent contraction on the other. Services sector activity picked up in November from almost no growth to modestly healthier levels. Overall economic growth was measured at a 2.1% annualized rate in the third quarter, slightly higher than both a preliminary estimate and the second-quarter annualized rate.

- A contraction in U.K. manufacturing conditions deepened in November, while services-sector activity also began to contract during the month. The claimant count U.K. unemployment rate ticked up to 3.4% in October from 3.3%, while the three-month average decreased from 3.9% to 3.8% for the July-to-September period. However, average year-over-year earnings growth declined from 3.8% to 3.6% for the same three-month period. Overall economic growth returned to the U.K. during the third quarter, with an early report of gross domestic product showing a 0.3% quarterly growth rate (1.0% year over year), after a contraction of 0.2% in the second quarter (and year-over-year growth of 1.3%).

- Eurozone manufacturing slowed by less in November than during October, but remained well inside contraction territory, while services sector growth slowed. The unemployment rate in the eurozone declined to 7.5% from an upward-revised 7.6% in October. Eurozone economic growth remained sluggish in the third quarter, holding at 0.2% for the three-month period and increasing to 1.2% year over year (from 1.1% year-over-year growth in the second quarter).

Market Impact (in Canadian dollar terms)

Domestic equities bounced back from a weak October as large companies continued to handily outperform smaller companies. Information technology was easily the best performing domestic sector, although consumer staples, consumer discretionary and energy all gained over 5%. Healthcare was the only sector to suffer notable losses; materials also declined slightly. Foreign equities continued to benefit from mostly positive trade war and Brexit developments along with accommodative central bank policies. Developed markets, led by the U.S., easily outperformed emerging markets.

Domestic fixed-income markets were positive as residential mortgages significantly outperformed all other sectors. Corporate debt outperformed government debt. Real-return bonds benefited from improved inflation reports; meanwhile, short-term bonds produced modest gains. U.S. high-yield bonds were positive, with unhedged results outperforming currency-hedged results thanks to a weaker loonie.

Index Data (November 2019)

- The S&P/TSX Composite Index was up 3.59%.
- The FTSE Canada Universe Bond Index returned 0.52%.
- The S&P 500 Index, which measures U.S. equities, rose 4.73%.
- The MSCI ACWI Index (Net), used to gauge global equity performance, climbed 3.52%.
- The ICE BofAML U.S. High Yield Constrained Index, representing U.S. high-yield bond markets, returned 0.27% (currency hedged) and 1.33% (unhedged).
- The Chicago Board Options Exchange Volatility Index—a measure of implied volatility in the S&P 500 Index also known as the “fear index”—drifted slightly lower from 13.22 to 12.62 during the month.
- WTI Cushing crude-oil prices, a key indicator of movements in the oil market, rose from US$54.18 on the last day of October to US$55.17 at the end of November.
- The loonie weakened versus the U.S. dollar; it ended the month at C$1.34 per U.S. dollar. The U.S. dollar, meanwhile strengthened, against the euro and yen, but was essentially unchanged versus sterling. It ended the month at US$1.29 against sterling, US$1.10 versus the euro and 109.51 yen.