Weekly Updates Issue # 708

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1. Weekly Markets Changes

[April 5, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,396.15 +294.06 +1.83%	2,892.74 +58.34 +2.1%	26,424.99 +496.31 +1.91%	7,938.69 +209.4 +2.71%	$0.7470 -0.13c -0.17%	$1,291.76 -0.62 -0.05%	$63.08 +2.94 +4.89%

2. The U.S. economy added 196,000 jobs in March

[April 5, 2019] Hiring in the United States rebounded in March as U.S. employers added a solid 196,000 jobs, up sharply from February's scant gain and evidence that many businesses still want to hire despite signs that the economy is slowing.

The unemployment rate remained at 3.8%, near the lowest level in almost 50 years, the Labor Department reported Friday. Wage growth slowed a bit in March, with average hourly pay increasing 3.2% from a year earlier. That was down from February's year-over-year gain of 3.4%, which was the best in a decade.

The employment figures reported Friday by the government suggest that February's anemic job growth—revised to 33,000, from an initial 20,000—was merely a temporary blip and that businesses are confident the economy remains on a firm footing. Even with the current expansion nearly 10 years old, the U.S. economy is demonstrating its resilience.

At the same time, the economy is facing several challenges, from cautious consumers to slower growth in business investment to a U.S.-China trade war that is contributing to a weakening global economy.

Stock futures rallied after Friday’s jobs data was released at 8:30 a.m., and bond prices rose as well, with yields slipping.
So far this year, U.S. job gains have averaged 180,000 a month, easily enough to lower the unemployment rate over time, though down from a 223,000 monthly average last year.
Last month, job growth was strongest in the service sector. Health care added 47,000 jobs, restaurants and bars 27,000 and professional and business services, which includes such high-paying fields as engineering and accounting, 37,000.
Manufacturers cut 6,000 jobs, marking their first decline in a year and a half. The weakness stemmed from a sharp drop in employment at automakers, likely reflecting layoffs by General Motors. Construction firms added 16,000.
The overall economy is sending mixed signals. Most indicators suggest slower growth this year compared with 2018. That would mean hiring might also weaken from last year’s strong pace.
Consumers have shown caution so far this year. Retail sales fell in February, and a broader measure of consumer spending slipped in January, potentially reflecting a waning effect of the Trump administration’s tax cuts. Businesses have also reined in their spending on industrial machinery and other equipment and on factories and other buildings.
And in Europe and Asia, weaker economies have reduced demand for U.S. exports. Europe is on the brink of recession, with its factories shrinking in March at the fastest pace in six years, according to a private survey.
The U.S. trade war with China has weighed on the Chinese economy, which has hurt Southeast Asian nations that ship electronic components and other goods that are assembled into consumer products in China’s factories.
Economists now forecast that the U.S. economy will expand roughly 2% to 2.5% this year, down from 2.9% last year.
Some positive signs for the economy have emerged in recent weeks: Sales of both new and existing homes rose in February after declining last year. More Americans are applying for mortgages now that rates have fallen.
And some of the weakness in spending earlier this year likely reflected delays in issuing tax refunds because of the government shutdown. Refunds largely caught up with their pace in previous years in March, economists at Bank of America Merrill Lynch said, suggesting that spending may as well.

3. Jobs declined in March after a strong start to 2019: StatsCan

[April 5, 2019] The economy shed 7,200 positions in March after a pair of strong monthly gains to start the year that helped the country still manage to close out its best quarter of job creation since late 2017, Statistics Canada said Friday.

The agency's latest labour force survey found the unemployment rate held firm last month at 5.8%.

The March decline followed monthly increases of 66,800 net new jobs in January and 55,900 in February — which was the country's best two-month start to a year since 1981.

The employment increase over the first three months of 2019 was the strongest quarter since the final months of 2017.

"The party had to end at some point, since Canadian jobs data had outrun other signposts of economic growth so dramatically, making the small retreat in employment in March not much of a surprise," CIBC chief economist Avery Shenfeld said in a research note.

Any prolonged stretch of significant job declines would be a concern for Canada, where employment has been one of the few consistent positives in an economy that has shown signs of slowing down in recent months.

Compared with a year earlier, the March report showed that Canada added 331,600 jobs for an increase of 1.8%.

A loss of 6,400 full-time jobs made up the bulk of last month's decrease, Statistics Canada said.

The number of employee positions in the private sector fell last month by 17,300, while public-employee jobs increased by 4,200 and self-employed occupations rose by 6,000.

Employment for women in the core working age group of 25 to 54 saw a decrease of 47,600 for its biggest month-to-month decline since the start of the data series in 1976.

Year-over-year average hourly wage growth for all employees in March was 2.4%, which was up from February's reading of 2.3%. For permanent employees, wage growth was 2.3%, an increase from the previous reading of 2.25%.

Many experts had expected the surprise job-creation surge at the start of the year to lose momentum. The average economist estimate had predicted a gain of 1,000 jobs, according to a poll by Thomson Reuters Eikon.

4. BlackRock finds climate risks are underestimated by investors

[April 4, 2019] Investors may be increasingly aware that climate-related risks to their portfolios exist, but they aren't adequately factoring them into their investing decisions, suggests new research from the BlackRock Investment Institute.

The report, which uses advances in data science to examine the detailed impact of physical climate risks, finds that investors are underpricing the impacts of these risks and extreme weather events — such as rising sea levels, intensifying hurricane activity, floods, droughts and wildfires. The report also suggests investors need to re-evaluate their vulnerability to these risks.

"Weather events such as hurricanes and wildfires are underpriced in financial assets, including U.S. utility equities. A rising share of municipal bond issuance is set to come from regions facing climate-related economic losses. And many high-risk commercial properties are outside official flood zones," the report says.

The report indicates that while utility stocks are typically hit hard in the immediate aftermath of an extreme weather event, they also tend to recover quickly, "suggesting that investors are focused on headline risk rather than assessing utilities' vulnerability to climate-related weather events."

BlackRock also reports that its analysis finds that the more climate-resilient utilities tend to trade at a slight premium, which, it says, may become "more pronounced over time as weather events turn more extreme and frequent."

The report sets out its analysis of climate-related risks for specific asset classes under a range of future scenarios, starting in 2019 and projecting out to 2100. Based on that analysis, the report forecasts a 275% increase in the risk of category 5 hurricanes between now and 2050. It finds the median risk of a building underlying a mortgage-backed security being hit by a Cat 4 or 5 hurricane has risen by 137% since 1980, and it says New York City is facing the prospect of a three-foot rise in sea levels, which could expose US$73 billion in property to potential losses.

The report also finds that 58% of U.S. metro areas will be facing annualized climate-related GDP losses of 1% or more by 2060-2080, with Arizona, coastal Florida and the Gulf Coast most at risk. Already, Miami is seeing annual GDP losses of more than 1%, and this is projected to grow to 4.5% by 2100.

Other cities in Florida, such as Naples, Panama City and Key West, are likely facing annual GDP losses of up to 15% or more, the report says, "mostly driven by coastal storms."

BlackRock indicates that this analysis, which focuses on the U.S., is a first step, but that it plans to extend this work to different regions, asset classes and sectors as data to enable the analysis becomes available.

"Understanding and integrating these insights on climate-related risks can help enhance portfolio resilience," BlackRock says. "Yet our early work already strengthens our conviction that sustainable investing is increasingly a 'why not?' proposition."

5. Australian lawmakers introduce reforms to restore trust in financial sector

[April 4, 2019] With new powers for regulators to intervene to protect consumers, in addition to new obligations for industry, policymakers in Australia are aiming to restore trust in its financial sector.

Australian lawmakers have passed a set of reforms that create new obligations for financial firms to design and distribute products that meet clients' needs. They have also given the Australian Securities and Investments Commission (ASIC) new product intervention powers.

The reforms follow a 2014 inquiry into the country's financial system, which recommended taking a more proactive approach to consumer protection, and shifting away from a reliance on disclosure.

In proposing the amendments, policymakers noted that traditional rules that rely primarily on disclosure can be ineffective for a variety of reasons, "including consumer disengagement, complexity of documents and products, behavioural biases, misaligned interests and low financial literacy. The availability of financial advice may not be sufficient to overcome these issues."

The new industry obligations, which will be phased in over the next two years, "will require issuers to identify in advance the consumers for whom their products are appropriate, and direct distribution to that target market."

ASIC says its new powers, which take effect immediately, will strengthen its ability to protect investors by giving it the ability to intervene where it sees a risk of significant consumer detriment.

"These new powers will enable ASIC to take broader, more proactive action to improve standards and achieve fairer consumer outcomes in the financial services sector. This will be a significant boost for ASIC in achieving its vision of a fair, strong and efficient financial system," ASIC chair James Shipton said in a statement.

"This will also provide invaluable assistance to ASIC as we all seek to rebuild the community's trust in our banking and broader wealth management industries," he added.

6. StatsCan reports senior households are carrying more debt

[April 4, 2019] On the strength of robust housing markets, Canadian senior households have seen their debt-to-income position deteriorate in recent years, according to new research from Statistics Canada.

In a new study released on Wednesday, StatsCan reports that the median debt-to-income ratio for senior households (whose main income earner is aged 65 and up) has more than doubled from 24% in 1999 to 52% in 2016.

The increase in senior debt is largely being powered by strong real estate markets, which has boosted both households' mortgage debt, but also the value of their assets.

The study says that, among senior households with debt, about two-thirds of the increase in average debt levels is attributable to mortgage debt, with the other third accounted for by various forms of consumer debt (such as credit cards, lines of credit and auto loans).

Alongside the big jump in the debt-to-income ratio, StatsCan also reports that the proportion of senior families that are carrying debt jumped from 27% in 1999 to 42% in 2016. It also says 36% of senior families had more total debt than income in 2016, up from 21% in 1999.

More worryingly, 14% had more consumer debt than income in 2016, compared with 4% in 1999.

"Having more consumer debt than income can place families in an especially vulnerable financial position," the study notes. "For these families, meeting financial obligations could be a challenge as a large portion of their income would go towards servicing debt that is not backed by an asset."

For most households, though, the rise in debt is mirrored by an increase in the value of their assets. The study reports that the debt-to-asset ratio remained relatively stable among senior families between 1999 and 2016, ticking up from 5% to 6% over the period.

"The level of debt and value of assets are especially important for the financial security of seniors. Because income typically declines during the retirement years, seniors often need accumulated assets to finance their consumption, especially if they do not benefit from a private pension plan," it says. "Debt can also be particularly problematic for seniors as repayment can be more difficult on a reduced income."

7. Insolvencies increased by 3.5% in February: StatsCan

[April 3, 2019] The number of insolvencies registered an upswing in February, according to new data from Statistics Canada.

StatsCan reports that the total number of insolvencies, which includes both outright bankruptcies and consumer proposals, rose by 3.5% in February, compared to the prior month. The number of bankruptcies increased by 2%, whereas the number of proposals rose by 4.5%.
On a year-over-year basis, the total number of insolvencies in February was up by 5.1%, with consumer insolvencies rising by 5.4% over that period. At the same time, business insolvencies decreased by 5.1%.
StatsCan also says that for the 12-month period that ended Feb. 28, the total number of insolvencies increased by 3.2%, compared with the same period a year ago (12 months ending Feb. 28, 2018).
Among consumers, the total number of insolvencies increased by 3.3% over the 12-month period ending Feb. 28. Bankruptcies were down by 4.7% over that time frame, while consumer proposals jumped by 10.5%.
Business insolvencies decreased by 1.6% over the same 12-month period, led by a decline in the number that occurred in the manufacturing sector.

8. Great-West consolidates life insurance companies under Canada Life brand

[April 3, 2019] Great-West Lifeco Inc. will be consolidating its three Canadian life insurance companies under a single brand, Canada Life, in a bid to reduce duplication and better compete in an increasingly digital world, its chief executive says.
The amalgamation of Great-West Life Assurance Co., London Life Insurance Co. and the Canada Life Assurance Co. brands under one banner, and a new logo, will allow for more efficient communication with its customers using one “strong voice,” as interactions occur more via digital and social channels rather than face-to-face, said Paul Mahon, head of the Winnipeg-based financial services holding company.
In addition to the brand unification, Great-West Life, London Life, Canada Life and their holding companies Canada Life Financial Corporation and London Insurance Group Inc. have also begun the process to formally amalgamate as one company. Both moves are not expected to result in any job losses, he said.
“To a large extent, this is really a growth play,” Mahon said in an interview. “This is us positioning ourselves for stronger and faster growth in the marketplace, because we fundamentally believe that we can be more focused, we can be faster to market and we can invest more in innovation.”
Great-West, which has more than 11,000 employees across Canada and is a member of the Power Financial Corp. group of companies, said Wednesday

that its businesses in the U.S. and in Europe are not affected by this change. As well, its other subsidiaries Quadrus Investment Services Ltd., Freedom 55 Financial, GWL Realty Advisors and GLC Asset Management Group Ltd. will all retain their current branding.

Mahon expects that by the end of 2019, all of the company's individual or retail products will be migrated to the new brand and throughout 2020, its group insurance customers will transition from Great-West brand to the Canada Life brand.

The overall brand transition will take two or three years, he added.

Once the process of brand transition is complete, this ends the long run of two prominent insurance names in the Canadian market, after Great West Life Assurance Co and London Life were founded in 1891 and 1874, respectively.

The company amalgamation, a multi-step process which requires board, regulatory and policyholder approvals, is not expected to result in any significant impact on its geographic footprint or its existing office structure either, said Mahon.

He notes that when Great-West Life first merged with Canada Life and London Life it did a lot of back-office integration. At the time, the company decided to keep the iconic brands separate in order to reach more Canadians through the associated distribution channels, but the landscape has changed quite a bit over the years, Mahon said.

"As time has evolved, we have ended up in a situation where there is a lot less product differentiation across the various channels that we support," he said.

The company says it now has more than 13 million customers across the country. When asked where the amalgamated entity will be headquartered, the company said the process has just begun and more information will be provided in due course.

Great-West is headquartered in Winnipeg, while London Life and Canada Life are headquartered in London, Ont., and Toronto respectively.

Scott Chan, an analyst with Canaccord Genuity Corp. in Toronto, said the moves announced Wednesday have "limited financial impact to earnings" and left its earnings per share estimates for the Winnipeg-based company in tact.

"With more digital capabilities, one brand should improve marketing effectiveness, allowing cross-selling capabilities with a consistent image," he said in a note to clients.

9. B.C. proposes land registry to crack down on tax evasion, money laundering

[April 3, 2019] British Columbia is stepping up its fight against financial misdeeds, such as fraud, tax evasion and money laundering, with plans for a

new land registry that aims to unmask the true owners of property in the province.
The provincial government introduced legislation on Tuesday to establish Canada's first publicly searchable registry detailing the beneficial owners of property in the province.
Under the proposed Landowner Transparency Act, corporations, trusts and partnerships that own land in the province will be required to disclose their beneficial owners. The new law aims to combat the use of shell companies and other corporate entities to hide assets.
"Tax authorities, law enforcement agencies and relevant regulators will have access to more detailed information and may use it to crack down on tax evasion, fraud and money laundering," the province said in a release.
Additionally, the government introduced amendments to its corporate legislation "to crack down on tax evasion and money laundering by requiring private companies to hold accurate and up-to-date information about the true owners of their shares, and eliminating bearer shares."
"This registry will make information about the true owners of B.C. real estate publicly available and help crack down on illegal activities. It is one of the key steps our government is taking to ensure homes in B.C. are used for people, not speculative investment or money laundering," said Carole James, B.C.'s minister of finance.

10. BoC and Fed rate outlook

[April 2, 2019] A slowing global economy has put central banks on hold—and some forecasts even call for rate cuts. A speech delivered yesterday by Stephen Poloz, the Bank of Canada's governor, added little to the established forecasts, as he made no mention of the potential direction of rates.
In a report, Derek Holt, vice-president and head of capital markets economics at Scotiabank, said the governor's speech "walked a fine line between causes for optimism and risks to the outlook." Holt described the speech's tone as one of "cautious optimism toward Canada emerging from a soft patch."
For example, Poloz noted economic challenges from low oil prices, the housing market and global trade uncertainty. Yet, he also described positive economic indicators for Canada, such as jobs growth, increasing wages and an expected growth in exports.
When asked about the inverted yield curve at a news conference after the speech, Poloz said the central bank isn't forecasting a recession.

"I respect that historically the inversion of the yield curve has happened at key points—it's not that it causes something, but it seems to be coincident," he said.

He stressed that there are different factors related to the recent, slight inversion compared to what's happened in the past. For example, Poloz said interest rates are much lower today, the stock market is performing well and investors haven't pulled away from corporate debt.

"For all those reasons, I think we are looking at an innocent inversion that's more statistical than indicative of a recession," Poloz said, adding that these inversions may happen more often in the future.

Longer-term rate forecasts range from no hikes this year nor next, to potentially one in 2020. In a March 25 report, Desjardins says a better economic environment should persuade central banks on both sides of the border to raise rates around mid-2020. It forecasts one hike from the Bank of Canada (to 2.00%) and two that year from the Fed (to 3.00%).

Outlook for U.S. rates

Last month, the Federal Reserve signalled that interest rate hikes could be on hold this year, but some forecasts still call for potential hikes.

In a March 20 report, National Bank says a Fed rate hike in December 2019 would be justified if, as National Bank expects, "inflation surprises on the upside and global economic uncertainties die down."

While Scotiabank forecasts the Fed's key rate to be 3.00% at the end of 2020, it says that increase overshoots the long-run equilibrium of 2.75%. Thus, it forecasts a Fed rate cut to 2.75% in 2021.

CIBC has forecasted a Fed cut in 2020 when fiscal stimulus ends.

11. WTO downgrades global trade forecast for 2019

[April 2, 2019] The World Trade Organization has cut its forecast for trade growth this year by more than a percentage point, to 2.6%, due to an economic slowdown and amid a trade conflict between the United States and China.

The downgrade—from 3.7% forecast issued in September—reflects how quickly the prospects for global business are fading as, among other things, the U.S. and China struggle to agree on how to lift tariffs on hundreds of billions of dollars-worth of trade.

"Rising trade tensions are the major factor," WTO Director-General Roberto Azevedo told The Associated Press on Tuesday after the release of the forecasts.

Beyond the trade war, the WTO has cited weaker economic growth in North America, Europe and Asia—largely as the effect of fiscal stimulus by the

Trump administration wears off. It noted a "phase-out" of monetary stimulus in Europe and China's efforts to shift its economy away from its traditional reliance on manufacturing and investment toward services and consumption.

In 2018, trade grew by just 3%—far below the WTO's forecast for 3.9%, which had itself been downgraded last year. And next year, the Geneva-based trade body expects only a small uptick in trade growth by volume next year, to 3%.

"There is potential for a slight improvement in 2020 but that is very much dependent on an easing of the trade tensions," he said.

The WTO oversees international trade rules and settles disputes between countries. The Trump administration has also been critical of the WTO, accusing it of being "unfair" with the United States.

The U.S. has slowly squeezed the WTO by blocking appointments to its dispute settlement group, the Appellate Body, which could in December fall below the minimum number of members required.

Azevedo pointed to the "fundamental importance of the rules-based trading system," saying that its weakening would "be an historic mistake with repercussions for jobs, growth and stability around the world."

Have a nice and fruitful week!

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