Weekly Updates Issue # 709

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1. Weekly Markets Changes

[April 12, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,480.53 +84.38 +0.51%	2,907.41 +14.67 +0.51%	26,412.30 -12.69 -0.05%	7,984.16 +45.47 +0.57%	$0.7502 +0.32c +0.43%	$1,290.43 -1.33 -0.10%	$63.89 +0.81 +1.28%

2. Global economy threatened by trade standoffs: IMF

[April 12, 2019] With global growth slowing and many countries struggling with high debts, now is not the time for the "self-inflicted" economic wound of trade wars, the head of the International Monetary Fund is warning.

"The key is to avoid the wrong policies, and this is especially the case for trade," IMF Managing Director Christine Lagarde said Thursday at a news conference at the opening of spring meetings of the IMF and its sister lending organization, the World Bank. "We need to avoid self-inflicted wounds, including tariffs and other barriers."

A key guideline for policymakers at this "delicate" time, she said, should be: "Do no harm."

Lagarde didn't specifically mention a year-long standoff between the United States and China, but she didn't have to: The world's two biggest economies have slapped tariffs on $350 billion worth of each other's products in the biggest trade war since the 1930s.

They are fighting over Beijing's drive to challenge American technological dominance—an effort the U.S. says involves stealing technology and coercing U.S. companies into handing over trade secrets in exchange for access to the Chinese market.

The trade tensions are coming at an especially bad time. The outlook for the global economy has deteriorated. A year ago, Lagarde was talking up a world of shared growth: 75% of the global economy was enjoying a synchronized upswing. Now, she says, 70% of the global economy is enduring slower growth.

The IMF this week downgraded its forecast for growth this year in the United States, Europe, Japan and the world overall. The fund's economists expect global growth to decelerate from 3.6% last year to 3.3% in 2019—tied with 2016 as the weakest performance since the recession year 2009.

World trade is expected to expand just 3.4%, —a sharp slowdown from the 4% the IMF had expected when its previous forecast in January and down from 3.8% trade growth in 2018.

Earlier Thursday, newly installed World Bank President David Malpass said that the current slowdown is jeopardizing the fight against extreme poverty, especially in sub-Saharan Africa. Extreme poverty refers to people who live on less than $1.90 a day.

Paul Sheard, senior fellow at the Mossavar-Rahmani Center for Business and Government at Harvard University's Kennedy School, said the biggest worry isn't the current health of the global economy. It's the fear that world central banks won't be able to respond effectively if conditions deteriorate. That's because interest rates around the world are already so low there isn't much room to cut them to give growth a jolt.

"Every policymakers' nightmare is what would happen if the global economy went into a downturn soon," said Sheard, who is attending the meetings.

Despite the gathering gloom, Lagarde noted that financial markets have rallied this year on optimism over "man-made solutions" to the global economy's ailments. For one thing, the Federal Reserve has stopped raising U.S. interest rates, after four hikes in 2018, to give the U.S. economy time to gain strength. For another, there is growing optimism that the Washington and Beijing will settle their trade differences. In fact, China said Thursday that talks are "moving forward" after nine rounds of negotiations.

3. Ontario budget aims to regulate planner and advisor titles

[April 11, 2019] Ontario's provincial government says it will take action to restrict the use of financial planner and advisor titles, while also pursuing a plan to bolster confidence in the capital markets, promote industry innovation, and improve the investor experience.

In Thursday's provincial budget, the government pledged to move ahead with legislation that will "protect" the use of **financial planner** and **advisor** titles. While the budget is short on specifics, it reiterates the long-standing concern that a lack of requirements for industry titles exposes investors to the risk of receiving unqualified advice, while also undermining industry professionalism.

To address these concerns, the government promised to introduce some form of proficiency requirement. "The proposed new framework is being developed for the financial services industry to require that individuals using the financial planner and financial advisor titles have an appropriate credential," it said in today's budget.

Without specifying what the new requirements will be, the government said the proposed framework "will take a measured approach to enhance consumer protection without introducing unnecessary regulatory burden, and will be mindful of the current regulatory oversight of licensees and registrants."

The province also indicated the new regime will be developed with input from the industry, and with an eye to avoiding industry disruption, noting that it is "mindful of the need to ensure a smooth transition for existing experienced and well-qualified professionals."

The government also announced it will pursue a five-point plan for boosting confidence in the capital markets. "The focus of this plan will be to strengthen investment in Ontario, promote competition and facilitate innovation," it said.

The plan features the Ontario Securities Commission's (OSC) ongoing effort to ease regulatory costs through its Burden Reduction Task Force, which is already engaged in consultations on this issue.

The government also said it will establish an Office of Economic Growth and Innovation within the OSC to, among other things, promote the adoption of technology to reduce costs, increase competition and accelerate industry innovation.

Additionally, it said the OSC will lead efforts to improve the investor experience and investor protection through greater use of "plain language" requirements, implementing its Seniors Strategy, improving financial literacy and eliminating outdated requirements.

The province also promised greater use of cost-benefit analysis in OSC rule making, and said it will work with the OSC to ensure that the province's capital markets are globally competitive. To start, this will involve the OSC reporting Ontario's competitiveness relative to other jurisdictions.

Other planned changes to securities legislation included "clarifying the payment of awards under the OSC whistleblower program," and certain, unspecified technical amendments to securities law.

Finally, the government also indicated it's committed to launching the new provincial regulator, the Financial Services Regulatory Authority of Ontario (FSRA), in June, and that it is also pursuing the cooperative capital markets regulator (CCMR). Yesterday, it was announced that Nova Scotia is officially joining that ongoing effort.

4. Regulator finalizes revisions to banks' liquidity requirements

[April 11, 2019] Federal banking regulators have issued final revisions to the liquidity and funding requirements for the big banks that aim to address the growth of higher risk deposits.

The Office of the Superintendent of Financial Institutions (OSFI) released the final version of its revisions to the liquidity rules that, among other things, tailor the requirements for less stable retail deposits. The rules now also include net stable funding ratio (NSFR) standards.

"Some institutions increasingly rely on deposit funding that may experience higher risk of withdrawals in periods of stress. Such funding models can amplify risks for both individual institutions and for the financial system at large," the regulator said.

"To help mitigate this risk, OSFI has introduced targeted changes to the [liquidity rules'] metrics that better reflect the increased risks posed by different types of retail deposits that may be subject to sudden withdrawals," it noted.

OSFI said the revisions aim to ensure that the rules properly capture banks' liquidity risk. "The revised guideline will help financial institutions enhance their resiliency to short-term liquidity stresses, and will ensure that they maintain stable funding profile over the longer-term," it said.

OSFI also released the final version of disclosure requirements for banks' NSFR ratios, which aim to ensure that the big banks "provide clear and consistent disclosures regarding their funding risks."

The revisions to the liquidity rules take effect Jan. 1, 2020. The NSFR disclosure requirements are to be implemented for quarterly reporting ending Jan. 31, 2021.

5. Don't fear the inverted yield curve—yet

[April 10, 2019] When the yield curve inverted last month, talk quickly turned to recession. But on its own, yield curve inversion is likely insufficient as a recessionary warning sign.

Last month, long-term yields fell below short-term yields in both Canada and the U.S. for the first time since 2007. Leading up to the inversion, Avery Shenfeld, chief economist at CIBC, said in a March 4 interview that the flattening yield curve isn't necessarily warning of recession but is responding to economic indicators.

The flattening curve is "a message in markets that they don't see the need for a lot more rate hikes at the front end of the curve, which is why short rates have gotten close to longer-term rates," he said.

The yield curve is picking up on slower economic growth, for example—and so are central banks, which Shenfeld appreciates.

"We were quite concerned late last summer that the central banks in both Canada and the U.S. were on a path that would risk an overkill in terms of the pace and destination of interest rate hikes," he said. Excessive tightening in borrowing conditions is a recession trigger, Shenfeld explained in a recent report.

For its part, the Bank of Canada (BoC) raised its key rate five times from mid-2017 to October 2018. But going forward, a more measured approach is expected.

"Both central banks now seem to be recognizing the reality of this cycle," Shenfeld said, "which is that neither the U.S. nor the Canadian economy is showing enough momentum to make a convincing case that they can continue to do well with sharply higher interest rates."

The BoC has held its key rate since the October hike, and at its last rate announcement on March 6 it said the economic outlook continues to warrant a policy interest rate below the 2.5% to 3.5% neutral range. When the Fed last held its key rate on March 20, it projected no hikes this year.

And 2020 could even see a Fed rate cut. With U.S. fiscal stimulus expected to fade that year, "we might well see the Fed cut interest rates a quarter point to keep the economy from dipping into more of a slowdown than they were bargaining for," Shenfeld said.

He also noted that yield curve inversion is characteristically different from previous periods—another reason not to sound the recession alarm bell.

"The new normal for long-term interest rates is lower than it was in the '70s and '80s," he said, "because markets no longer fear the risk of an escalation of inflation and no longer demand the same set of term premium to lock in money over the longer term."

A better indicator of recession would be "a steeply negative slope for the yield curve, coupled with a softening in employment data," he said.

Yet, 10-year yields are now just above three-month yields in Canada and the U.S., and jobs growth is solid. In Canada, jobs growth over the first quarter of

2019 was the strongest since late 2017, and the U.S. economy added 196,000 jobs in March.
Said Shenfeld: “We don’t have either of those signals yet for the U.S. or Canada.”

6. Global and Canadian growth downgraded

[April 10, 2019] Global growth, already expected to be slow, was downgraded Wednesday by the International Monetary Fund (IMF).
In its latest world economic outlook report, the IMF forecasted global growth to slow to 3.3% in 2019 from 3.6% the year before. In 2020, growth is expected to return to 3.6%.
The growth projections for 2019 and 2020 were marked down by 0.4 and 0.1 percentage points, respectively, since the IMF’s October outlook.
While growth is expected to moderate in the near term, a projected pickup is forecast in the second half of 2019 because of a buildup of policy stimulus in China, recent improvements in global financial market sentiment, less drag on growth in the euro area and stabilizing conditions in emerging markets.
The balance of risk remains to the downside, the IMF report said. For example, growth could weaken from an escalation in trade tensions or a sharp deterioration in market sentiment, which would “imply portfolio reallocations away from risk assets, wider spreads over safe haven securities, and generally tighter financial conditions, especially for vulnerable economies,” it said.
Market sentiment could sour over such things as Brexit, persistently weak economic data and prolonged fiscal uncertainty, it said.
For Canada, the IMF forecasted 2019 growth of 1.5%, half a percentage point lower than it projected in October.
U.S. growth was downgraded 0.2 percentage point for 2019, to 2.3%. China’s 2019 growth was forecasted to be 6.3%, a 0.1 percentage point increase from October projections because of fiscal stimulus and reduced global trade tensions.
An alternative economic outlook projected Canadian growth to be even lower. “Growth is unlikely to bounce back substantially in early 2019 as drag from residential investment and cautious households weighs on growth,” said the latest economic outlook report from Deloitte, released Tuesday.
It projects the Canadian economy will grow by a “weak” 1.3% this year and a slightly better 1.5% in 2020, keeping the Bank of Canada on hold and the loonier weaker.
The Bank of Canada’s forecasted figures from January put growth at 1.9% and 2.1%, respectively, for 2019 and 2020 (fourth quarter annualized). New

projections will be released later this month with the central bank's April monetary policy report.
The Deloitte report said that modest growth leaves the Canadian economy more vulnerable to unexpected negative shocks, though Deloitte didn't forecast a recession. Rather than be rattled by potential risk, it suggested companies "adapt, innovate and overcome."

7. Firms file proposed class action over alleged 'closet index' funds

[April 10, 2019] RBC and TD could be facing class action lawsuits concerning allegations that they overcharged clients for mutual fund management fees.
On Tuesday, Investigation Counsel P.C. and Paul Bates Barrister announced they had filed two proposed class actions with B.C.'s Supreme Court against RBC Global Asset Management Inc. (RBC GAM) and subsidiary The Royal Trust Company, and TD Asset Management Inc. (TDAM).
The proposed lawsuits allege the investment managers charged "excessive" management fees for the RBC Canadian Equity Fund and TD Canadian Equity Fund, respectively.
A release from the law firms said RBC GAM and TDAM "received fees for conducting an investment strategy based on active management" when they were allegedly using a "closet indexing" strategy instead, designed to replicate—but not exceed—the performance of the S&P/TSX Composite Index.
"It appears investors might not have received adequate disclosure about the true investment objectives and strategies of these Canadian equity funds," said John Archibald, a lawyer at Investigation Counsel P.C., in a release.
"Mutual fund trustees and managers are accountable for legal compliance with a set of serious obligations that protect investors from harmful conduct, including excessive fees that deplete fund assets and diminish investor returns," said Paul Bates, co-counsel for the plaintiffs.
The proposed RBC GAM class action was filed on behalf of clients who have held (either directly or indirectly) units of the RBC Canadian Equity Fund at any time from June 1, 2005 to present. The proposed TDAM class action was filed on behalf of clients who have held units of the TD Canadian Equity Fund at any time from Jan. 1, 2010 to present.

8. Research paper calls for tax-free pension plans

[April 9, 2019] Policymakers should create a new retirement savings vehicle — tax-free pension plans (TFPPs) — as a way of enabling more middle- and lower-income workers to prepare themselves for retirement, suggests new research from the National Institute on Ageing (NIA) at Ryerson University.

A paper published on Tuesday said TFPPs would function like TFSAs in that they would be funded by after-tax dollars, but they would grow tax free, and investment gains would not be considered taxable income on withdrawal.

"This means pension income from TFPPs would not be considered when determining eligibility for federal or provincial income-tested benefits, credits and subsidies," it said.

The new vehicle is being proposed to address the fact that the existing pension system can create disincentives for lower-income workers to save for retirement, as pension contributions are tax-deductible but the withdrawals are taxed as income, "which negatively affects lower income earners who collect Guaranteed Income Supplement and other government programs that have an income tested clawback."

"By replacing the existing tax deferral with 'pre-paid taxes' on contributions, TFPPs could do for workplace pensions what TFSAs did for individual savings," the paper said.

"By improving the attractiveness of workplace plans, and offering better value to both workers and plan sponsors, TFPPs have the potential to raise pension coverage in Canada, and ultimately improve the retirement income adequacy of Canadians and empower employers while protecting the public purse," it added.

"TFSAs have been very popular for personal savings, and the same option could be provided to workplace pension plans. It would open the pension plan world to many more Canadians, particularly those at risk of becoming Canada's more financially vulnerable seniors in the future," said Dr. Bonnie-Jeanne MacDonald, the director of financial security research at the NIA.

"Canada's modest income earners are the least likely to belong to any plan, despite being the most vulnerable to financial insecurity in older age. TFPPs could be an attractive way to get more Canadians into pension plans," added Michael Nicin, executive director of the NIA.

9. Almost half of business owners fail to plan for succession: survey

[April 9, 2019] Seventy per cent of private company owners in Canada plan to either transfer or sell their businesses when they retire—but many don't

have a plan in place, according to a new report from PricewaterhouseCoopers (PwC).
A survey by PwC found that 48% of family business owners plan to pass ownership and/or management of their businesses to the next generation, but 47% of them don't have a succession plan, and 27% haven't involved the next generation in preparing for the changes.
The report noted that 70% of family business transfers fail between generations. Sixty per cent of those failures are due to breakdowns in communication and trust, and 25% result from inadequate training. Only 5% of business transfers survive four generations.
"It's important for owners to start thinking about what business continuity looks like and how they are going to proactively plan for this going forward," PwC partner Bill McLean said in a release.
The report also found that 22% of Canadian private and family business owners plan to sell or float their businesses, and that the valuations of Canadian private businesses have been increasing, leading to more M&A demand from domestic and foreign buyers. This, PwC said, has made the proper valuation of family businesses critical.

10. Increase in shadow banking poses risks: DBRS

[April 9, 2019] Credit rating agency DBRS Inc. sees risks to the global financial system from the fast-growing shadow banking sector.
In a new report, the Toronto-based rating agency notes that the sector continues to grow quickly, and that it "sees significant risks stemming from [this] continued growth."
Since 2010, the sector's assets have risen by 75%, DBRS reports, from $30 trillion (all figures in U.S. dollars) to $52 trillion, currently.
"Fixed income funds, mixed funds, hedge funds and other collective investment vehicles are driving this shadow banking growth," it says. "Since 2010, this segment has grown by 130% to $36.7 trillion in assets."
Total non-bank assets have grown by 61% over the same period to about $185 trillion, and now account for almost half (49%) of total global assets held by financial institutions. The share for non-banks is up from 44% in 2010, DBRS says.
Alongside this robust growth, DBRS says that the shadow banks also have some structural weaknesses that pose significant risks to the financial system.
"Weaknesses in these non-bank financial institutions arising in their maturity intermediation, liquidity, leverage and credit transformation could result in runs that would exacerbate financial market stress," the report says.

In particular, investment funds are vulnerable to runs, it notes. “Many shadow banking institutions are not well structured to cope with a stressed environment in which market liquidity is sharply reduced and fund withdrawals are accelerating,” the report says.
Additionally, these sorts of firms have less capacity than banks to deal with deteriorating credits in a stressed market, DBRS says. And, it notes that their earnings are typically less diversified, limiting their ability to absorb losses.
DBRS says that it “sees significant risks stemming from continued growth in shadow banking globally.”

11. RBC reports increase in non-traditional homebuyers

[April 9, 2019] Canadians grappling with unaffordable housing are dealing with it in various ways, including sharing the purchase of a home with a family member or resigning themselves to being “house poor,” according to an annual homeownership poll by Toronto-based Royal Bank of Canada.
Almost as many prospective home buyers are purchasing (or planning to purchase) a home with family members (28%) as alone (32%), the poll found. Combined, these nontraditional arrangements have eclipsed the traditional arrangement of purchasing a home with a partner or spouse (42%).
“We’re seeing a fundamental contrast in who’s at the buying table,” Nicole Wells, vice president, home equity financing, RBC, said in a statement. “There is a surge in confident, in-control solo home buyers and, on the polar opposite end, those who are saying they can’t do it alone and need the assistance of family.”
Amid this shift and prevailing stress test guidelines, down payments are trending upward: nearly half of homebuyers (47%) plan to put down 15% or more, the poll found.
The issue of being “house poor,” or stretching one’s budget to make homeownership work (usually by spending upwards of 30-40% of household income or more), has also affected about four in 10 Canadians, either now or at some point in the past. And although 92% say that “mental stress” is a potential result of being house poor, the poll found that 47% say it’s worth the sacrifice. The other half of respondents, on the other hand, said they wouldn’t put themselves in that position.
“While many Canadians tell us that house poor may be a reality, it doesn’t have to be. It may require more effort or time upfront, but being more prepared in the home-buying journey can help bring it all together,” Wells said.
Many Canadians are delaying the purchase of a home because they’re uncertain about the country’s economy, and many survey respondents living

in hot housing markets expect home prices to come down (68% of B.C. respondents and 58% of Ontario respondents).

Have a nice and fruitful week!

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