Weekly Updates Issue # 712

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1. Weekly Markets Changes

[May 3, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,494.43 -119.0 -0.72%	2,945.64 +5.76 +0.20%	26,504.95 -38.38 -0.14%	8,164.00 +17.6 +0.22%	$0.7447 +0.18c +0.24%	$1,279.11 -7.05 -0.55%	$61.94 -1.36 -2.15%

2. HSBC's profit drops in Q1 amid slower credit loss recoveries, higher operating expenses

[May 3, 2019] HSBC Bank Canada's operating income increased by 0.7% in the first quarter of 2019 compared to Q1 2018, but its profit was down by 8.8%, the bank announced Friday.

While revenue grew across the bank's three global business lines (commercial banking, global banking and markets, and retail banking and wealth management), a release from HSBC showed the bank's profit dipped to $229 million, down from $251 million in Q1 2018.

HSBC attributed the decrease in profitability to lower than expected credit loss recoveries ($12 million in the quarter, down from $28 million in Q1 2018) and an increase in operating expenses ($328 million in the quarter, up from $318 million in Q1 2018) as the bank invested in growing its business.

"As we continue to invest in providing the new products and services our customers are asking for, costs increased as planned," HSBC president and CEO Sandra Stuart said in a release. "We are carefully watching the headwinds we see in the economy and are mindful of maintaining cost

discipline, ensuring our continuing investments are appropriately balanced with revenues."

Retail banking and wealth management netted a total operating income of $184 million (up from $175 million in Q1 2018) and an improved profit of $7 million (up from $3 million in Q1 2018) thanks to higher margins and growth in total relationship balances (comprised of lending, deposits and wealth balances), HSBC said.

Global banking and markets increased total operating income to $80 million (up from $72 million in Q1 2018) and improved profit to $39 million (up from $37 million in Q1 2018). Commercial banking also reported an increase in total operating income ($244 million, up from $226 million in Q1 2018), although profit was unchanged year over year at $157 million.

3. Digital economy eclipsing traditional sectors: StatsCan

[May 3, 2019] Canada's so-called "digital economy" accounts for a higher share of gross domestic product (GDP) than mining, energy extraction or agriculture, according to Statistics Canada's first "Digital Economy Survey."

In a report released Friday, StatsCan estimates that digital economic activities — activity enabled by digitalization, such as e-commerce, products delivered online and IT equipment — accounts for about 5.5% of GDP, putting it ahead of such traditional sectors as retail trade, mining, and oil and gas extraction.

StatsCan reports that the nominal GDP derived from digital economic activities in 2017 was $109.7 billion. It also reports that the digital economy grew notably faster than the overall economy between 2010 and 2017, growing by 40.2% over that period, compared with 28.0% for the overall economy.

Telecom represents the biggest component of the digital economy in Canada, at 28.7%, but this measure is down from 36.9% in 2010. At the same time, the contribution from e-commerce more than doubled, StatsCan reports, rising from 5.5% to 12.4%.

In terms of its impact on employment, StatsCan says the digital economy accounts for about 4.7% of all jobs in Canada, which is less than its contribution to GDP.

However, employment in the digital realm is growing rapidly, with the number of jobs rising by 37.0% between 2010 and 2017, compared with just 8.6% for the economy overall.

While the data released Friday represent StatsCan's first attempt to measure the digital economy, the agency says it is exploring new ways to capture this

output, including crowdsourcing and web scraping, instead of traditional economic surveys.

4. U.S. unemployment at 49-year low after adding 263K jobs in April

[May 3, 2019] U.S. employers added a robust 263,000 jobs in April, suggesting that businesses have shrugged off earlier concerns that the economy might slow this year and now anticipate strong customer demand.

The unemployment rate fell to a five-decade low of 3.6% from 3.8%, though that drop partly reflected an increase in the number of Americans who stopped looking for work. Average hourly pay rose 3.2% from 12 months earlier, a healthy increase though unchanged from the previous month.

Friday's jobs report from the Labor Department showed that solid economic growth is still encouraging strong hiring nearly a decade into the economy's recovery from the Great Recession. The economic expansion is set to become the longest in history in July.

Many businesses say they're struggling to find workers, yet each month they seem to add a substantial number. Some have taken a range of steps to fill jobs, including training more entry-level workers, loosening educational requirements and raising pay sharply.

Years of steady hiring have sharply lowered unemployment for a range of population groups. The unemployment rate for women fell last month to 3.1%, the lowest point since 1953. The rate for Latinos dropped to 4.2%, a record low since 1973, when the government began tracking the data.

For Asians, joblessness has matched a record low of 2.2%. And the unemployment rate for veterans of the Iraq and Afghan wars dropped to 1.7%, also a record low.

Most of last month's job growth occurred in services, which includes both higher-paying jobs in information technology and lower-paying temporary work. Manufacturers added just 4,000 jobs. Construction firms gained 33,000, mostly on public infrastructure projects.

Professional and business services, which include IT networking jobs as well as accountants and engineers, led the gains with 76,000. Education and healthcare added 62,000 jobs, while a category that mostly includes restaurants and hotels gained 34,000.

The brightening picture represents a sharp improvement from the start of the year. At the time, the government was enduring a partial shutdown, the stock market had plunged, trade tensions between the United States and China were

flaring and the Federal Reserve had just raised short-term interest rates in December for a fourth time in 2018. Analysts worried that the economy might barely expand in the first three months of the year.

Yet the outlook soon brightened. Chair Jerome Powell signalled that the Fed would put rate hikes on hold. Trade negotiations between the U.S. and China made some progress. The economic outlook in some other major economies improved. Share prices rebounded.

And in the end, the government reported that the U.S. economy grew at a 3.2% annual rate in the January-March period—the strongest pace for a first quarter since 2015. That said, the growth was led mostly by factors that could prove temporary—a restocking of inventories in warehouses and on store shelves and a narrowing of the U.S. trade deficit. By contrast, consumer spending and business investment, which more closely reflect the economy's underlying strength, were relatively weak.

But American households have become more confident since the winter and are ramping up spending. Consumer spending surged in March by the most in nearly a decade. A likely factor is that steady job growth and solid wage increases have enlarged Americans' paychecks.

Businesses are also spending more freely. Orders to U.S. factories for long-lasting capital goods jumped in March by the most in eight months. That suggested that companies were buying more computers, machinery and other equipment to keep up with growing customer demand.

Housing, too, is rebounding after home sales had slumped in the second half of last year. Mortgage rates rose to nearly 5% last fall as the Fed raised interest rates. With the Fed now putting rate hikes on hold, borrowing costs have declined.

In February, sales of existing homes jumped by the most in three years. And in March, more Americans signed contracts to buy a house. Contract signings usually lead to finished sales one to two months later.

5. Canada's housing market no longer 'highly vulnerable': CMHC

[May 2, 2019] The Canada Mortgage and Housing Corp. says it no longer rates the country's housing market as highly vulnerable after an overall easing of price acceleration.

The federal agency said in a report Thursday that it rates the overall market at moderate after 10 consecutive quarters at the highly vulnerable rating, though some cities remain at elevated risk.

"The state of the national housing market has improved to moderate vulnerability," CMHC chief economist Bob Dugann said in a statement.
"Even though moderate evidence of overvaluation continues for Canada as a whole, there has been improved alignment overall between house prices and housing market fundamentals in 2018."
The inflation-adjusted average price decreased 5.4% in the last quarter of 2018 from the same period a year earlier.
CMHC said that while house prices in Vancouver, Victoria, Toronto and Hamilton moved closer to sustainable levels, it continues to see a high degree of vulnerability in those markets.
The agency noted that while Vancouver remains rated at highly vulnerable, evidence of overvaluation has changed from high to moderate.
The biggest cities in the Prairies remain at a moderate degree of vulnerability, while Ottawa, Montreal, Quebec City, Moncton, Halifax and St. John's are rated as low vulnerability.
The report based its vulnerability assessment on several criteria including price acceleration, overvaluation, overbuilding, and overheating.
Price acceleration has eased nationally after the federal government's mortgage stress tests came into effect in 2018 and raised the bar for qualifying for a mortgage, the report said.
"Tighter mortgage rules, likely reduced demand for housing, and contributed to the observed decline of house prices."
CMHC also noted that inflation adjusted personal disposable income dropped by 1.2% to reduce buying power, but that was partially offset by a young-adult population that grew by 1.9% to continue to increase the pool of potential first-time homebuyers.

6. $2.5-billion class action against Sun Life set to proceed

[May 2, 2019] The Supreme Court of Canada (SCC) has ruled that a proposed $2.5-billion class action against insurance giant Sun Life Assurance Co. over the alleged miss-selling of certain universal life policies by predecessor Metropolitan Life Insurance Co. can go ahead.
The SCC issued a ruling on Thursday denying Sun Life leave to appeal a ruling by the Court of Appeal for Ontario on Sept. 5, 2018, which certified the suit as a class action. The application for leave was dismissed with costs.
The proposed class action was launched in 2010 alleging various breaches in the sale of 230,000 life insurance policies by MetLife between 1985 and 1998.

Sun Life took over administration of the policies when it acquired Clarica Life Insurance Co. in 2002; Clarica bought MetLife's Canadian operations in 1998.
Initially, a lower court ruled that the proposed suit could not be certified as a class action because most of its claims were time-barred. However, that ruling was reversed on appeal last year.
The appeal court certified three alleged breach of contract claims related to the policies. Now, the SCC has rejected Sun Life's bid to appeal that decision. The allegations have not been proven.

7. Fed foresees no rate hikes despite 'solid' economic activity

[May 1, 2019] The Federal Reserve left its key interest rate unchanged Wednesday and signalled that no rate hikes are likely in coming months amid signs of renewed economic health but unusually low inflation.
The Fed left its benchmark rate—which influences many consumer and business loans—in a range of 2.25% to 2.5%. Its low-rate policy has helped boost stock prices and supported a steadily growing economy.
A statement from the Fed spotlighted its continuing failure so far to accelerate annual inflation to at least its 2% target rate. The Fed's preferred 12-month inflation barometer is running at about 1.5%. In pointing to persistently low inflation, the Fed may be raising expectations that its next rate change, whenever it happens, could be a rate cut rather than a hike. The Fed cuts rates when it's trying to stimulate inflation or economic growth.
The Fed also made a technical adjustment Wednesday to reduce the interest it pays banks on reserves as a way to keep its benchmark rate inside its approved range, rather than at the upper end of that range.
The central bank's decision to make no change in the policy rate policy—approved on a 10-0 vote—had been expected despite renewed pressure from President Donald Trump for the Fed to cut rates aggressively to help accelerate economic growth.
The Fed offered a more upbeat view of the economy, saying "economic activity rose at a solid rate." In March, the Fed had said it appeared that growth had slowed from the fourth quarter of last year.
The generally brighter outlook for the economy and the stock market represents a sharp rebound from the final months of 2018, when concerns about a possible global recession and fear of further Fed rate increases had darkened the economic picture. Stock prices tumbled late last year, especially

after the Fed in December not only raised rates for the fourth time in 2018 but suggested that it was likely to keep tightening credit this year.

Yet starting in January, the Fed engineered an abrupt reversal, suggesting that it was finished raising rates for now and might even act this year to support rather than restrain the economy. Its watchword became "patient." And investors have responded by delivering a major stock market rally.

The market gains have also been fed by improved growth prospects in China and some other major economies and by the view that a trade war between the world's two biggest economies, the United States and China, is nearing a resolution.

Last week, the government reported that the U.S. economy grew at a surprisingly strong 3.2% annual rate in the January-March quarter. It was the best performance for a first quarter in four years, and it far surpassed initial forecasts that annual growth could be as weak as 1% at the start of the year.

If economic prospects were to brighten further, could Fed officials rethink their plans to suspend further rate hikes and perhaps resume tightening credit? Possibly. But investors don't seem to think so. According to data tracked by the CME Group, investors foresee zero probability that the Fed will raise rates anytime this year. And in fact, their bets indicate a roughly 64% likelihood that the Fed will cut rates before year's end.

One factor in that dovish view is that the economy might not be quite as robust as the latest economic figures suggest. The first quarter's healthy 3.2% annual growth rate was pumped up by some temporary factors—from a surge in restocking of companies' inventories to a narrowing of the U.S. trade deficit—that are expected to reverse themselves. If so, this would diminish the pace of growth and likely hold down inflation.

Indeed, for all of 2019, growth is expected to total around 2.2%, down from last year's 2.7% gain, as the effects of the 2017 tax cuts and billions of dollars in increased government spending fade.

At the same time, the Fed is still struggling to achieve one of its mandates: To produce inflation of roughly 2%. This week, the government reported that the Fed's preferred inflation gauge rose just 1.5% in March from 12 months earlier. Many analysts say they think the Fed won't resume raising rates until inflation hits or exceeds its 2% target.

Too-low inflation is seen as an obstacle because it tends to depress consumer spending, the economy's main fuel, as people delay purchases in anticipation of flat or even lower prices. It also raises the inflation-adjusted cost of a loan.

In the meantime, President Donald Trump has attacked the Fed leadership of Chairman Jerome Powell as being too restrictive toward rates and has pressed the Fed to cut rates—something few mainstream economists favour.

On Tuesday, Trump tweeted that the U.S. economy has "the potential to go up like a rocket" if the Fed would only slash rates and resume the emergency bond buying programs it unveiled after the Great Recession to ease long-term loan rates to stimulate spending and growth.

"Yes, we are doing very well at 3.2% GDP (growth in the first quarter), but with our wonderfully low inflation, we could be setting major records," Trump tweeted on the first day of the Fed's two-day policy meeting.

Powell has so far stuck to his long-standing position that the Fed will keep pursuing its goals of maximum employment and stable inflation without regard to outside influence.

In recent months, Trump tapped two conservative political allies for vacancies on the Fed's influential board in hopes that they would push for lower rates and counter Powell's influence. One of them, Herman Cain, has since withdrawn. The other, Stephen Moore, faces diminishing prospects but is aggressively campaigning for the board seat despite criticism of his qualifications and sometimes inflammatory writings. As recently as December, Moore was calling for Trump to try to fire Powell.

8. Court orders banks to provide information on offshore accounts

[May 1, 2019] A U.S. court has ordered three financial firms — TD Bank, Bank of America and Charles Schwab — to turn over information on Finnish taxpayers with offshore accounts in the U.S.

The U.S. Department of Justice (DoJ) announced on Wednesday that a federal court in North Carolina has issued summonses to the three banks, seeking information on residents of Finland with offshore accounts at those banks.

The request comes from Finnish tax authorities, who are trying to trying to determine whether residents there are complying with its tax rules. It doesn't allege any wrongdoing on the part of the banks.

Previous investigations of Finnish taxpayers who use foreign accounts this way have revealed "extremely high rates of tax non-compliance," the DoJ noted.

The request comes as part of an effort in a number of countries to crack down on cross-border tax evasion.

"The Department of Justice and the IRS are committed to working with the United States' international treaty partners to identify and stop individuals using hidden offshore accounts to evade tax laws," said Richard Zuckerman, principal deputy assistant attorney general in the DoJ's tax division.

“The United States does not tolerate offshore tax evasion, nor does it sanction tax evasion committed through U.S. financial institutions,” he added.

9. Statistics Canada says economy contracted 0.1% in February

[April 30, 2019] Statistics Canada says the economy contracted in February after showing strong growth in January.

The agency says gross domestic product pulled back 0.1% in February as both goods-producing and services-producing industries declined. Growth in January was 0.3%.

Economists had expected no change in gross domestic product for February, according to Thomson Reuters Eikon.

The mining, quarrying and oil and gas extraction sector fell 1.6% overall, with mining and quarrying down 4.4% and oil and gas extraction slipping 0.6%.

Transportation and warehousing fell 1.6%, due to a 10.8% drop in rail transportation as cold weather, heavy snowfalls and a derailment in B.C. that closed an important rail line through the Canadian Rockies hurt the sector.

The utilities sector gained 1.5% in February as cold temperatures contributed to higher demand for electric power generation, transmission and distribution and natural gas distribution.

10. Most Canadian equity fund managers underperformed the S&P/TSX composite index in 2018

[April 29, 2019] Defenders of active management often argue that these mutual funds shine when markets get choppy, but that wasn’t the case for Canadian equity managers in 2018, as most managers underperformed in last year’s volatile markets.

According to the latest SPIVA Canada Scorecard report released Monday by S&P Dow Jones Indices, more than 75% of Canadian equity fund managers trailed the S&P/TSX composite index benchmark in 2018 — a year in which volatility surged in the fourth quarter, and the index dropped 8.9% on the year.

The biannual report tracks the performance of actively managed Canadian mutual funds versus that of their benchmarks.

“This highlights the fact that heightened market volatility does not necessarily lead to outperformance by active managers,” the report says.

Small-cap managers particularly struggled, the report finds, with 80% of small- and mid-cap managers lagging the S&P/TSX completion index. This index, which includes the components of the S&P/TSX composite index that are not in the S&P/TSX 60, dropped 12.85% for the year.

The majority (65.2%) of Canadian dividend and income equity funds also underperformed the S&P/TSX Canadian dividend aristocrats index, the report notes.

"With long-term Canadian yields remaining below their long-term average, income-seeking investors may want to remember the long-term underperformance of active equity income funds as they formulate strategic asset allocation," the report says.

The report also finds that most U.S. equity funds (78.6%) underperformed the S&P 500, which returned 4.3% in Canadian dollar terms (thanks in part to a decline in the loonie against the U.S. dollar).

International equity managers fared somewhat better, with 44.4% of funds beating the S&P EPAC largemidcap benchmark in 2018.

However, the report notes that, over longer time periods, most managers in this asset class are lagging the benchmark.

Indeed, it is exceedingly difficult for active managers to beat any benchmark in the long run.

"More than nine in every 10 funds underperformed their respective benchmark over the 10-year period, and a similar story was evident over the five-year horizon," the report says.

Have a fruitful week!

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