Weekly Updates Issue # 719

1. Weekly Markets Changes
2. Why stocks are soaring while bonds tumble
3. Retail sales edged up 0.1% in April: StatsCan
4. Desjardins data breach, affecting 2.9 million members, sparks class action lawsuit
5. Ontario gets new finance minister
6. Fed holds key rate — for now
7. Canadian home prices increase for first time in 7 months
8. Pace of inflation hit 2.4% in May
9. Liberals' mortgage help for first-time buyers' lands Sept. 2, weeks before vote

1. Weekly Markets Changes

[June 21, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,525.43 +223.52 +1.37%	2,950.46 +63.48 +2.2%	26,719.13 +629.52 +2.4%	8,031.71 +235.05 +3.0%	$0.7569 +0.98c +1.31%	$1,399.63 +57.93 +4.32%	$57.43 +4.92 +9.37%

2. Why stocks are soaring while bonds tumble

[June 21, 2019] Why is the stock market so happy and the bond market so gloomy?

Just as the S&P 500 was setting a record high Thursday, bond yields were tumbling to their lowest levels since Donald Trump was elected. The yield on the 10-year Treasury, which influences rates for mortgages and other loans, dropped below 2% at one point. It was above 3.20% in November.

Usually, stock prices rise when investors are feeling confident. Bond yields, meanwhile, often fall when investors are worried about a softening economy. How can both be happening at the same time? In large part, it's because investors are locking in bets based on expectations for what the Federal Reserve will do with interest rates. The U.S.-China trade war is also playing a role. Here's a look at how ebullience and trepidation can occur simultaneously:

How is the Fed pushing the stock market higher?

Most investors expect the Fed to cut interest rates at its next meeting in July for the first time since the economy was swamped under the Great Recession in 2008. Not only that, many investors expect the central bank to cut rates another one or maybe even two times later this year. It's a sharp turnaround from December 2018, when the Fed raised rates for the seventh time in two years.

For stocks, lower rates can goose prices higher because stocks suddenly look more attractive than bonds. Lower rates also can encourage borrowing and more economic activity.

"Markets have accepted the new world order where low interest rates are viewed as a huge positive and people buy into the fact that you can afford to pay higher valuations" for stocks, said Nate Thooft, senior portfolio manager at Manulife Asset Management.

It's also not just the Fed. Central banks around the world have shown their willingness to keep interest rates low to invigorate their economies.

Why are Treasury yields falling?

Short-term yields tend to fall when expectations build for coming rate cuts. Longer-term yields, meanwhile, fall when expectations for inflation are low and worries about the economy are growing.

Inflation has remained remarkably tame. Some concerning economic figures, meanwhile, have been popping up around the world. Particularly in manufacturing, countries have seen slowing momentum as the global trade war weighs on trade and business confidence.

"The bond market has reacted more powerfully than the equity markets over the last several months, both in anticipation of Fed news and when it comes to global growth worries," said Thooft.

The bond market is usually seen as the soberer one when it comes to assessing economic trends, rather than the stock market, but Thooft said the movement in bond yields may have been overdone.

Is the trade war also moving markets?

Yes. Optimism is rising that the world's largest economies can make progress on their trade dispute when the U.S. and Chinese leaders meet at the Group of 20 summit next week. Trump's tweet announcing the meeting earlier this week helped send the S&P 500 to one of its better days of the year, up 1%.

Aren't the two things moving markets mutually exclusive? If the trade war gets resolved, will the fed still cut rates?

If Trump and Chinese President Xi Jinping make so much progress that a deal seems near, Fed policymakers may not cut rates, or at least not in July. But few economists expect much progress will be made. Most analysts say that the most likely outcome is that the two sides agree to schedule talks. It's not clear whether Trump will suspend his threat to slap more tariffs on the remaining $300 billion in Chinese imports that haven't yet been taxed.

Even if the Trump-Xi meeting goes well, the effects of Trump's trade fights with Europe and Mexico, as well as China, will likely linger. U.S. farmers have been hurt by retaliatory tariffs imposed on agricultural exports and U.S. business investment has slowed, as companies delay planned expansions amid greater uncertainty.

Trade fights "don't unwind rapidly," Diane Swonk, chief economist at Grant Thornton, said.

There are signs that the U.S. economy is stumbling, and that low inflation is stubborner than the Fed previously thought, both of which argue for lower rates.

"They're getting the cuts," said Joe Brusuelas, chief economist at tax advisory firm RSM, referring to stock market investors who bid up shares on anticipation of the Fed slicing rates. "The U.S. domestic economy is decelerating at an accelerating pace."

But the economy is doing well, isn't it?

Yes, for now. Few economists are forecasting a recession.

But Brusuelas and others expect growth could come in as low as 1.8% this year, sharply below last year's 2.9%. The boost to consumer spending from the tax cuts is fading, Brusuelas said. And while the unemployment rate remains low, hiring is on track to fall to its slowest pace since 2010.

Inflation has remained below the Fed's 2% target, which Chairman Jerome Powell said as recently as April was likely a temporary issue stemming from cheaper gas and other factors. But Wednesday, Fed policymakers forecast that inflation would be just 1.5% at the end of this year. While lower inflation might sound good, it suggests that wages won't rise by enough to push prices higher.

What if the Fed surprises everyone and doesn't cut rates at all?

The expectation for rate cuts is so deeply entrenched in markets that most investors don't consider this a likely scenario.

Brian Jacobsen, senior investment strategist at the multi-asset solutions team at Wells Fargo Asset Management, is outside the mainstream in saying that the Fed might stand pat. He says China's slowing economy adds urgency for its leaders to reach a deal, while Trump has seen how much the stock market wants a trade agreement.

If next week's meeting does offer some resolution, expectations for a rate cut will be dashed. But any disappointment could be offset by expectations for more durable economic growth around the world. "Once again, we could be in a position where bond yields rise and stocks rise as well," Jacobsen said. "We'll no longer have this divergence."

3. Retail sales edged up 0.1% in April: StatsCan

[June 21, 2019] Statistics Canada says retail sales edged up 0.1% in April to $51.5 billion, boosted by food and drink sales and higher prices for gasoline. Economists had expected an increase of 0.2%, according to Thomson Reuters Eikon.

Sales were up in seven of 11 subsectors tracked by Statistics Canada.

Sales at gasoline stations were up 1.2%, although sales fell 0.7% in volume terms, reflecting higher prices at the pump.

Food and beverage stores saw sales climb 0.4%, boosted by higher sales at beer, wine and liquor stores and specialty food stores.

Motor vehicle and parts dealers saw sales edge up 0.1% on the strength of a 1.2% increase in sales at new car dealers that offset lower sales at other store types within this subsector.

Retail sales in volume terms fell 0.2%.

In a report, National Bank of Canada economist Kyle Dahms noted that the tepid April sales figures followed a strong month in March, which saw sales increase by 1.3% (revised upward from an initial estimate of 1.1%).

"The strong handoff from March will provide some lift in the second quarter, and stronger prints for May and June are likely given the strong labour market in 2019," Dahms wrote.

Alberta saw sales increase for the third straight month in April, which suggests "the economy is improving from the slump caused by last year's fall in oil prices," Dahms added.

In another report, Derek Holt, vice-president and head of capital markets economics with Scotiabank, suggested wetter-than-normal weather across much of Canada in April put a damper on sales.

Only Ontario, Manitoba and Alberta saw increases in the dollar value of sales, while Prince Edward Island remained flat and the rest of the country bore the brunt of weaker sales figures—and, in many cases, inclement weather.

"Sales fell in the other six provinces with a particular slant toward weakness in the wettest provinces," Holt wrote. "Quebec and the four Atlantic provinces account for about 30% of total Canadian retail sales and [they] were all weak and wet during April."

4. Desjardins data breach, affecting 2.9 million members, sparks class action lawsuit

[June 21, 2019] Desjardins Group is facing a legal backlash after a class-action lawsuit has been initiated in connection with a data breach affecting nearly three million members.

The proposed class action, filed in Quebec Superior Court on Friday, alleges the co-operative financial group was negligent in safeguarding its members' personal and financial information.
Desjardins chief executive Guy Cormier said yesterday a former employee shared the personal information of more than 2.9 million members with third parties outside of the organization.
The data includes social insurance numbers, names and birthdays, and affects 2.7 million individual members and 173,000 business members.
Applicant Hugo Langlois says the fact that additional security measures were implemented following the internal breach suggests Desjardins failed to live up to its obligations and owes affected members $300 each, plus punitive damages.
On Friday, Desjardins extended its offer to pay for a credit monitoring plan and identity theft insurance for affected members to five years, up from the 12 months announced Thursday.

5. Ontario gets new finance minister

[June 20, 2019] Finance Minister Vic Fedeli is one of several high-profile ministers demoted in a major cabinet shuffle announced today by Premier Doug Ford.
The Progressive Conservative government has faced weeks of criticism after the public learned of funding cuts that were hidden in Fedeli's April budget.
Environment Minister Rod Phillips, who played a major role in the cancellation of the province's cap-and-trade program, replaces Fedeli, who will be in charge of economic development.
Lisa MacLeod, who angered parents over her handling of the autism file as minister of children, community and social services, is taking over the tourism, culture and sport portfolio.
Another minister being demoted in the shuffle is Education Minister Lisa Thompson who will be responsible for government and consumer services.
Merrilee Fullerton, who came under fire for changes to post-secondary education as minister of colleges and universities, will be responsible for long-term care. And Attorney General Caroline Mulroney is being moved to transportation, but will continue to be responsible for francophone affairs.
The shuffle is also bringing huge promotions for some backbenchers — Stephen Lecce becomes minister of education, while Doug Downey becomes attorney general.

Health Minister Christine Elliot, Solicitor General Sylvia Jones and Treasury Board President Peter Bethlenfalvy are among the high-profile members of cabinet keeping their posts.

The shuffle comes just after Ford and his Tories marked the one-year anniversary of winning a majority government.

Ford has been slipping in the polls, and some suggest he could hurt Conservative Leader Andrew Scheer's chances of winning in Ontario in the October federal election.

6. Fed holds key rate — for now

[June 19, 2019] The Federal Reserve left its key interest rate unchanged Wednesday but signalled that it's prepared to start cutting rates if needed to protect the U.S. economy from trade conflicts and other threats.

The Fed kept its benchmark rate — which influences many consumer and business loans — in a range of 2.25% to 2.5%, where it's been since December.

It issued a statement saying that because "uncertainties" have increased, it would "act as appropriate to sustain the expansion." That language echoed a remark that Chairman Jerome Powell made two weeks ago that analysts interpreted as a signal that rate cuts were on the way.

In its statement Wednesday, the Fed removed a reference to being "patient" about adjusting rates. That suggested that the central bank is now inclined to begin cutting rates for the first time in more than a decade. It remains unclear when that might happen.

The Fed's decision was approved on a 9-1 vote, with James Bullard, president of the Fed's St. Louis regional bank, dissenting because he thought the central bank should begin cutting rates now. It marked the first dissent from a Fed decision since Powell became chairman in February last year.

The policymakers are considering cutting rates in part because President Donald Trump's trade conflicts, especially with China, have become a threat to the economy. The economic expansion that has followed the Great Recession next month will become the longest on record.

A survey of the 17 Fed officials showed that nearly half now expect at least one rate cut this year, with seven projecting two. When they met in March, no officials had forecast a rate cut.

Many Fed watchers have said they think the policymakers want to first see whether a meeting that Trump and President Xi Jinping are to hold late next week produces any breakthrough in the U.S.-China trade war.

But economists say when — or even whether — the Fed eases credit will depend on a host of factors that are hard to predict. Will Trump's trade wars be resolved before they inflict real damage on the economy? Will the job market remain resilient even as growth slows? Will inflation finally edge close to the Fed's target level?

Many analysts think the central bank will wait until September at the earliest to announce its first drop in its benchmark short-term rate since 2008 and might not cut again in 2019. A few Fed watchers foresee no rate cut at all this year, especially if the United States and China reach some tentative resolution to the trade war.

Complicating the timing of possible rate cuts is an escalation of attacks on the Fed by Trump as he gears up for his 2020 re-election campaign. Trump's public criticism, a highly unusual action for a president, has raised concern that he is undermining the Fed's independence as a central bank. The president has asserted that under Powell's leadership, the Fed hurt the economy by tightening credit too much last year and by failing to lower rates since then.

This week, Trump was asked about a news report that the White House in February had explored whether the president had the authority to demote Powell as chairman while leaving him on the Fed's board.

"Let's see what he does," Trump said of Powell. "They're going to be making an announcement very soon. So we'll see what happens."

The president has previously explored firing Powell. But under the law, a Fed board member, like Powell, can be fired only for cause.

The Fed is meeting at a time when the U.S.-China trade war, with its tariffs and counter-tariffs on each other's products, has magnified concern and uncertainty for businesses and investors about whether and how much the economy will suffer.

The U.S. manufacturing sector, in particular, is weakening. This week, the Federal Reserve Bank of New York reported that an index it compiles of manufacturing in New York state plunged this month into negative territory — to its lowest point since 2016. The index reflects manufacturing conditions in the state.

In some encouraging news, Trump tweeted Tuesday that he had spoken by phone with Xi and that the two leaders plan "an extended meeting" at a Group of 20 nations summit in Japan late next week. Trump also said that before his meeting with Xi, negotiators for the two sides will resume talks.

Also Tuesday, Mario Draghi, head of the European Central Bank, said the ECB was ready to provide further stimulus, including rate cuts, if the eurozone economy doesn't strengthen soon.

Draghi’s comments sent the value of the euro tumbling against the dollar, prompting an angry tweet from Trump accusing the ECB leader of acting to weaken the euro to gain a competitive trade advantage against the United States.

7. Canadian home prices increase for first time in 7 months

[June 19, 2019] The downward trend of home prices reversed in May, says the Teranet–National Bank House Price Index, released today.

After six months of decreases—partly the result of rising interest rates and policy measures—the index increased 0.5% last month.

Prices rose in nine of 11 markets, including Hamilton (+2.2%), Ottawa-Gatineau (+1.7%) and Halifax (+0.9). The two markets where the index fell were Vancouver (–0.2%) and Edmonton (–0.3%).

However, the report warned against a too-optimistic view of the index’s first gain in seven months: the increase represents the weakest performance on record for a month of May. May is historically the second strongest month of the year, the report said.

Further, the index’s annual increase moderated to 0.7%, the lowest since the Great Recession 10 years ago.

Still, despite policy measures intended to cool Canada’s previously too-hot housing market—the mortgage stress test for uninsured mortgages, the introduction of a foreign buyers’ tax in parts of Ontario and B.C., and earlier increases in mortgage rates—the market is stabilizing.

For example, home sales have increased for the third consecutive month, rebounding close the their 10-year average, “a development made possible thanks to a booming labour market and a plunge in mortgage rates,” the report said.

In Toronto, prices for condos and other dwellings pulled back in May, but resale market conditions don’t suggest “significant deterioration” in coming months, the report said, especially when the Greater Toronto Area has created 92,000 jobs so far this year. The index rose 0.7% in Toronto in May and 2.6% annualized.

While Vancouver’s market had the index’s second-weakest monthly performance and weakest annual performance (–4.1%), its job market is also strong this year and potentially contributed to a strong rebound in resales in May of 24%.

8. Pace of inflation hit 2.4% in May

[June 19, 2019] The annual pace of inflation picked up in May as the consumer price index rose 2.4% compared with a year ago, its largest increase since October last year, Statistics Canada said Wednesday.
The move compared with a 2.0% increase in April and was the fourth straight month of rising year-over-year increases. Economists had expected an increase of 2.1% for May, according to Thomson Reuters Eikon.
Broad-based gains helped boost prices in all eight major components of the index compared with a year ago.
Food prices rose 3.5% as fresh vegetable prices climbed 16.7%, the largest year-over-year increase since February 2016.
Transportation prices gained 3.1% as the cost of air transportation added 8.9% and the cost of passenger vehicles rose 4.2%. Passenger vehicle insurance premiums rose 8.1%.
However, drivers paid 3.7% less for gasoline compared with a year ago.
Excluding gasoline, the consumer price index increased 2.7% compared with a year ago, compared with a 2.3% increase in April.
The rise in prices put inflation ahead of the Bank of Canada's ideal target for inflation of 2.0%.
The Bank of Canada, which adjusts its key interest rate to keep inflation in check, has kept rates on hold in recent months after the economic weakness at the end of 2018 and the start of this year.
However, the central bank has been predicting the economy will pick up.
The Statistics Canada report said the average of its three gauges for core inflation, which are considered better measures of underlying price pressures because they omit volatile items like gasoline, rose to 2.07% compared with 1.90% in April.

9. Liberals' mortgage help for first-time buyers' lands Sept. 2, weeks before vote

[June 19, 2019] The federal Liberals say a new program to help new buyers pay for their first home will kick in on Labour Day.
The program that will help cover some mortgage costs will be available starting Sept. 2, only weeks before the October federal election.
The government's plan will see it pick up 5% of a mortgage on existing homes for households that earn under $120,000 a year, on a mortgage of no more than $480,000.
It plans to cover up to 10% to spur construction for new homes.
There isn't any interest on the federal money.

A buyer will have to repay it if they sell their house, or after 25 years of living in the home.

Have a nice and fruitful week!

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