# Weekly Updates Issue # 737

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## 1. Weekly Markets Changes

**[October 25, 2019]**

| S&P TSX | S&P 500 | Dow Jones | NASDAQ | CAD/USD | Gold | WTI Crude |
|---|---|---|---|---|---|---|
| 16,404.49 +27.37 +0.17% | 3,022.55 +36.35 +1.22% | 26,958.06 +187.86 +0.7% | 8,243.12 +153.58 +1.9% | $0.7655 +0.46c +0.60% | $1,504.63 +14.58 +0.98% | $56.66 +2.88 +5.36% |

## 2. Housing starts, sales and prices all expected to increase in next two years: CMHC

**[October 25, 2019]** Canada's federal housing agency expects the housing market to recover in the next two years after declines in home building, sales and prices.

Canada Mortgage and Housing Corp. said in its annual market outlook Thursday that housing starts should come in at around 200,000 units in the next two years. That's above the roughly 194,000 expected this year but still well below the decade-high of almost 220,000 units in 2017.

"Housing starts are projected to stabilize in 2020 and 2021 at levels in line with long-run averages. This follows two years of declines from elevated levels in 2017," CMHC chief economist Bob Dugan said in the report.

Home sales, which have been dropping since 2016, are expected to increase in the next two years, with prices also going up, Dugan said.

"Resale activity and house prices are expected to fully recover from recent declines, supported by growth in income and population."

Home sales reached 533,353 in 2016 but fell to 452,189 last year. By 2021 sales could reach somewhere between 498,500 and 519,100, the agency said.

The average home price hit $511,830 in 2017, but it's expected to come in at around $488,000 this year. CHMC said the average price could be between $539,800 and $569,600 by 2021.

Ontario and British Columbia are expected to lead in sales growth as disposable income grows above the national average, while price growth will be strongest in Ontario and Quebec.

The growth in sales and price is expected to come as economic growth recovers in the next two years, and the population is expected to grow to 38.3 million by 2021. That would be an additional 713,000 people from the 2019 population, and an increase of 2.17 million people from 2016.

CMHC warned that trade tensions and high household debt still present risks to the economy and housing market stability. It also said higher interest rates or a rise in unemployment could hit already strained budgets and put pressure on housing activity.

## 3. What to expect from BoC, Fed rate announcements

**[October 25, 2019]** Economists expect divergent monetary policy on either side of the border on Wednesday when the Bank of Canada and Federal Reserve make interest rate announcements.

With positive economic data on the home front, rate cuts likely won't come from the Bank of Canada.

Canada's central bank lacks the required signals to ease, given that growth over the past year is "only a hair below potential, and inflation is on target," said CIBC chief economist Avery Shenfeld in a report on Friday.

Shenfeld added that the central bank's commentary accompanying its announcement will leave the door open for a cut if, as he expects, global headwinds negatively affect growth in the coming months.

In contrast, "Talking too hawkishly now risks sparking an unwelcome tightening on trade" through a loonie appreciation, he said.

Shenfeld calls for a 25-basis-point cut from the Bank of Canada in January, putting the central bank's key rate at 1.50%, from its current 1.75%.

In a report on Thursday, the C.D. Howe Institute's monetary policy council recommended that Canada's central bank stand pat this month, with a potential 25-basis-point cut by April 2020.

The recommendation reflects the council's view that the central bank's current stance is "appropriate" given the condition of the Canadian economy, with its "moderate" economic growth.

However, "a troubled world economy will likely warrant easing before long," the institute said in its report. It cited weak business investment and productivity growth as headwinds to the country's economic potential. Also, global economic indicators are weakening — "trends likely to hurt Canadian exports and business confidence over time," it said.

Further, with easing expected from the Federal Reserve, a cut in the Bank of Canada's overnight rate would likely be appropriate to limit upward pressure on the loonie, it added.

A Fed rate cut could come in time for Halloween — though the Fed has communicated little about its intentions since it cut its rate in September.

With two dissenting voices on the Federal Open Market Committee (FOMC) last month and a dot plot, or rate forecast, indicating that a minority of FOMC members advocated another cut before year-end, it appeared the Fed was hinting it would stand pat in October and wait for evidence of a further slowing before moving again, most likely in December, said Shenfeld in the CIBC report.

Evidence to support an October cut hasn't appeared. For example, "Stocks haven't nosedived," Shenfeld said, and "10-year yields also sit close to levels prevailing at the last FOMC meeting."

Still, Shenfeld noted that the futures market tilted toward "heavy odds" of an October cut after September's announcement, and the Fed hasn't tried to communicate that the market is mispriced. As a result, the Fed seems likely to cut now and announce a pause in December, he said.

What really matters is that this is likely the last rate cut for this mid-cycle adjustment, he added. Whether the cut comes now or in December, "we're looking for some brightening in global trade risks in early 2020, and enough sustained domestic demand, for the Fed to conclude over the winter that they've done enough," he said.

The Fed's target rate is currently 1.75-2%. Odds for a 25-basis-point rate cut in October stand at more than 93%, according to the CME FedWatch Tool.

## 4. CSA's revamped filing system to be called SEDAR+

**[October 25, 2019]** The Canadian Securities Administrators (CSA) unveiled the name for the rebooted filing system it announced in the spring: SEDAR+. Referred to as "the renewed system" until now, SEDAR+ will combine the CSA's stand-alone filing systems, including SEDAR, SEDI, the National Registration Database (NRD), the national CTO database and its disciplined list.

A release says SEDAR is "Canada's longest running and most well-known securities regulators' national system," which is why that name was kept. The addition of the plus sign "signifies our move to an up-to-date, integrated and

comprehensive system that better serves all market participants and staff," the CSA says.
The new system will be built in four phases beginning in 2021. Once complete, the release says, it will not only offer a one-stop portal for all filings but also greater access to regulatory filings, effective cybersecurity, a better interface and better-quality data.

## 5. Mutual fund sales soared in September

**[October 24, 2019]** Mutual funds gained momentum and far outpaced sales of exchange-traded funds (ETFs) in September, according to new data from the Investment Funds Institute of Canada (IFIC).
The industry trade group reported that mutual funds recorded $1.3 billion in net sales at the end of September, up from $576 million in August.
The upswing is attributed to an increase in long-term fund sales, generating $892 million in net sales after recording $78 million in net redemptions in August. Of that, bond fund sales were almost $2.6 billion, up from $1.5 billion in August, which offset the $2.5 billion in equity fund net redemptions.
Conversely, ETF sales cooled to $562 million in total net sales in September, down from $2.6 billion in August.
The weakness in ETF net sales came as more than $1 billion flowed out of equity funds after net sales of $2.3 billion the previous month. The influx of $1 billion in bond fund net sales was not enough to offset the equity outpour.
Both mutual fund and ETF assets under management (AUM) increased in September.
IFIC reports that mutual fund assets totalled $1.58 trillion at the end of the month, representing a 0.7% increase from $1.57 trillion in August.
ETF assets grew faster, gaining 1% on August numbers, totalling $187.9 billion at the end of September.

## 6. Minority government could go on spending spree: report

**[October 24, 2019]** Canada's new minority government could face pressure to expand spending, imperilling debt reduction expectations, says Fitch Ratings.
In a new report, the rating agency said that the election of a minority government shouldn't result in any major economic policy changes, but that the realities of power-sharing "could lead to a more expansionary federal government fiscal policy," and that the country's elevated government debt "may not stabilize" as expected.

“On fiscal policy, the 2020 budget will be a key signal for whether the new parliamentary makeup will lead to greater spending pressures and an increased federal deficit,” Fitch said.
The rating agency noted that the Liberals’ platform included deficits of more than $20 billion over the next four years. “The NDP, which the Liberals will likely need to rely on to pass budgets, could push for even higher deficits,” Fitch said, noting that its platform included a $33 billion deficit next year.
“A marginally wider federal deficit could still be in line with a falling general government debt to GDP ratio. However, even modest fiscal loosening amid a high general government debt load and moderate growth will increase the vulnerability of public finances to a downturn,” Fitch said.
Indeed, an economic slowdown remains a risk to the government’s debt trajectory, particularly as high household debt levels and the overvalued Canadian housing market “could exacerbate any future downturn, constraining consumption and investment growth.”
“On broader economic policy issues, key issues like the USMCA trade agreement are likely to find sufficient consensus for passage given the support from major parties,” Fitch said. “Other more controversial policies, like the construction of the TransMountain pipeline expansion, should find support from both the governing Liberals and main opposition Conservative Party.”

## 7. Empire Life launches suite of passive-active seg funds

**[October 23, 2019]** Empire Life Insurance Company has introduced eight new guaranteed investment funds (GIFs), six of which are part of a new offering that combines passive and active management.
The two standalone funds are called the Empire Life Global Dividend Growth GIF and Empire Life Short Term High Income GIF. The first, a fund that’s been reopened for GIF clients according to a Wednesday release, invests primarily in mid- to large-cap stocks from around the world. The second emphasizes short-term, higher-yielding corporate bonds.
The other six are part of a multi-strategy suite that’s overseen by portfolio manager Dave Paterson. They combine passive, smart beta and actively managed strategies, and are called:

- Empire Life Multi-Strategy Canadian Equity GIF,
- Empire Life Multi-Strategy US Equity GIF,
- Empire Life Multi-Strategy Global Equity GIF,
- Empire Life Multi-Strategy Global Conservative Portfolio GIF,
- Empire Life Multi-Strategy Global Balanced Portfolio GIF, and
- Empire Life Multi-Strategy Global Moderate Growth Portfolio GIF.

The company’s GIFs provide exposure to ETFs as well as “actively managed investments from third-party managers within one segregated fund solution,” the release said.

## 8. Questions remain about how the Liberals would handle a recession

**[October 22, 2019]** Canadians may know the results of the 2019 federal election, but there are still unanswered questions about the fate of the economy.

The global picture is far from rosy, so what matters now is how well Justin Trudeau’s Liberals handle their minority government and whether they will be ready for a recession, said Christopher Ragan, director of the Max Bell School of Public Policy at McGill University and a former member of the federal economic growth advisory council.

Ragan said he doesn’t doubt that the Liberals will be “more careful and a little bit more thoughtful as they up end negotiating” with other parties. This could possibly lead to “better policy” and “a fairly stable minority” for the next two years, he said, noting that “the other parties aren’t in good enough shape” to push for another election any time soon.

In some post-election reports from Canada’s Big Five banks, a parliamentary alliance with the New Democratic Party was predicted. While policy differences exist between the Liberals and NDP, economists said there are areas of overlap, adding that this isn’t the country’s first experience with a minority government.

From an economic standpoint, Ragan said he’s waiting to see “whether we’re able to get [the Trans Mountain Pipeline] built, whether our current version of climate policy gets locked in and expanded, and how we change the tax system.”

“One of the things that wasn’t talked much about by the candidates was to what extent we should be thinking about the next recession, which is probably around the corner,” Ragain said. “I say that because it’s been 10 years of recovery mode, and it’s been a fairly tepid recovery.”

On the upside, he said, “The economy is probably ready, as long as the government runs small budget deficits — they’re currently a little larger than I think they should be. If the debt-to-GDP ratio continues to fall, then I think we [will] have the flexibility to respond with a fiscal expansion. Monetary policy isn’t completely out of ammunition, but […] the onus will be more on fiscal policy.”

For now, bank economists are predicting modest near-term growth. In a report issued Tuesday, Bank of Montreal predicted GDP growth of 1.5% this year and 1.7% in 2020, spurred by firmer housing and modest fiscal stimulus. A Toronto-Dominion Bank (TD Bank) report discussed the Liberal's "marginally growth positive" platform that could result in expansion of 1.7% next year and in 2021, followed by 1.8% in 2022 and 2023.

Nonetheless, a key factor to watch is business investment sentiment, said Alex Kotsopoulos, partner at Toronto-based RSM Canada LLP. "Things are a lot different than they were four years ago. The global economy is slowing quite substantially," he said, which is affecting domestic expansion.

"I will look at what measures the new government is going to put forward to give a boost to small- and medium-sized businesses, which represent a significant portion of economic growth and entrepreneurialism in this country," Kotsopoulos said.

During the campaign, the Liberals promised to support entrepreneurs launching businesses and expanding online services, in addition to cutting the cost of federal incorporation by 75%. They also said they'd cut corporate taxes in half for businesses that produce zero-emissions technologies.

But these measures may not be enough, based on two surveys released on Tuesday.

The Bank of Canada's autumn business outlook survey said business confidence has improved compared to earlier this year, but regional results were less positive and overall confidence remains below 2017 and 2018 levels. Separately, a global survey of seniors executives, conducted by U.S.-based Russell Reynolds Associates, found that 96% of respondents expect a recession within 12 months and only 8% feel prepared.

In Kotsopoulos' view, the government needs to achieve "the right mix" of fiscal stimulus in coming years.

Investing in infrastructure is favoured by the Liberals, he said, adding that "it can provide a boost to the economy and long-term productivity benefits, especially if you invest in projects that are not just shovel-ready but shovel-worthy." However, "if the economy needs an immediate boost or increase in demand, infrastructure spending isn't the best way to go," he added.

What might be more effective, Kotsopoulos said, are measures targeted at businesses and consumers, such as those targeting accelerated capital cost allowances and tax cuts for low- to middle-income Canadians. More broadly, Kotsopoulos will monitor how major projects and issues are handled, including the Trans Mountain expansion project and housing affordability.

## 9. Like voters, business sentiment shows regional split

**[October 22, 2019]** A new survey by the Bank of Canada suggested that business sentiment in the country has edged higher, but differences between the Prairies, hard hit by the turmoil in the energy sector, and Central Canada have grown more pronounced.

The central bank's survey of senior management at roughly 100 firms suggested "a slight improvement" in overall business sentiment as businesses expected moderate sales growth in the year to come.

However, due to ongoing challenges in the energy sector, the Bank of Canada said overall sentiment was negative in the Prairies.

"The responses to most indicators of business activity, capacity pressures and prices for firms in the Prairies have deteriorated to low levels in this survey," the central bank said.

The report found that business plans to invest more were widespread outside the Prairies.

"Firms frequently mentioned strategic investments in technology, automation and software systems as well as capital spending plans to support demand growth," the Bank of Canada said.

"However, several businesses, many of them in the Prairies, reported that regulation, uncertainty and their balance sheet position are holding back their investment plans."

The overall balance of opinion on hiring intentions came in just below the historical average due to weakness in the energy-producing regions, while businesses in Central Canada and B.C. reported robust plans to add jobs.

The business outlook survey report comes ahead of the Bank of Canada's interest rate announcement and monetary policy report next week.

The Bank of Canada has kept its key interest rate target on hold at 1.75% in recent months, predicting that the weakness in the economy to start the year was temporary and that growth would pick up this year.

The central bank is expected to update is economic forecasts as part of its monetary policy report.

The Bank of Canada business outlook survey was done from Aug. 20 to Sept. 13, near the start of the federal election campaign which kicked off officially on Sept. 11.

The Liberals were returned to power in the election Monday but reduced to a minority government that will have to find support from other parties in the House of Commons if it hopes to survive.

The Liberal campaign platform did not include a timeline for the federal government to return to a balanced budget.

## 10. What a minority Liberal government means for Canadians

**[October 22, 2019]** Justin Trudeau's Liberals survived a contentious, scandal-plagued election year to emerge with a minority government after Monday's vote.

The Liberals had won 157 seats at press time, beating the 121 seats for Andrew Scheer's Conservatives. Jagmeet Singh's New Democratic Party had won 24 seats, while a reinvigorated Bloc Québécois won 32.

Elizabeth May's Green Party won 3 seats, while Maxime Bernier lost his own seat and his People's Party was shut out. Independent candidate Jody Wilson-Raybould was leading the remaining riding, Vancouver Granville, at press time.

The Liberals staked their re-election on a plan to combat climate change and lower taxes for the middle class. Trudeau promised to raise the basic personal amount by almost $2,000, to $15,000, for people earning less than $147,000 per year.

After instituting a carbon tax last year, the Liberals promised to raise the per-tonne price and to get Canada to net-zero emissions by 2050.

The party also pledged to boost Old Age Security by 10% for seniors over 75 who earn less than $77,580 and raise the Canada Pension Plan survivor's benefit by 25%.

Trudeau offered no timeline for balancing the budget, pledging to keep the federal debt-to-GDP ratio on a downward trend.

After winning a majority government in 2015 and enjoying broad popularity for a couple of years, the Liberals faced controversy in the second half of their mandate. Changes to tax rules for small businesses around passive income and income splitting faced a backlash among doctors, dentists and other private corporation owners, forcing a partial retreat.

The scandal this year around the government's handling of SNC-Lavalin's efforts to secure a deferred prosecution agreement, and old photos that surfaced in September of Trudeau in blackface and brownface, dogged the Liberals throughout the campaign.

The Liberal win means proposals from the 2019 federal budget that haven't been legislated will likely receive renewed attention.

Over the summer, the government introduced draft legislation for a number of items that weren't part of the budget implementation bill passed in June.

The Liberals proposed a $200,000 limit for employee stock options at large companies taxed at a preferential rate. The comment period on the draft legislation ended in September.

The fund industry has already been adapting in anticipation of the new rules constraining how ETFs and mutual funds deduct income or capital gains when unitholders redeem units.

The comment period for legislation to allow for advanced deferred life annuities and variable payment life annuities ended Oct. 7, though industry experts said there's little time for companies to produce products for 2020 if legislation is passed this fall.

Other budget proposals included in the draft legislation related to individual pension plans and Registered Disability Savings Plans.

## Governing from the left?

A minority government means the Liberals will have to find support from other parties in the House of Commons to pass legislation. According to the seat count at press time, the Liberals would need backing from either the NDP or the Bloc for a majority of votes.

Singh's NDP campaigned to boost government spending for programs such as pharmacare, financed by taxes on the wealthy. The NDP pledged to increase corporate taxes and income tax for top earners, raise the inclusion rate on capital gains tax to 75%, and tax rich families 1% annually on wealth exceeding $20 million.

Singh listed a universal pharmacare and dental care program, reducing emissions, and the "super wealth tax" among the priorities for supporting a minority government.

Other Liberal pledges

The Liberals made a number of campaign promises related to housing, taxation and social policy. Here are some that may impact your clients:

- increase the Canada Child Benefit by 15% for parents of children under the age of one, and make maternity and parental benefits tax-exempt at source;
- allow mortgages of up to $750,000 to qualify for the first-time homebuyer incentive in the most expensive housing markets;
- "crack down" on corporate tax loopholes that allow businesses to deduct debt from earnings to reduce taxes;
- impose a 10% luxury tax on vehicles that cost more than $100,000;
- cut the cost of federal incorporation to $50 from $200;
- double the child disability benefit;

- cut corporate taxes in half for companies that develop and manufacture zero-emissions technologies; and
- introduce a 15-week leave for adoptive parents.

## 11. Canada faces US$2.5-trillion pension shortfall: Mercer

**[October 21, 2019]** Canada improved its standing in the latest edition of the Melbourne Mercer Global Pension Index (MMGPI), but there's still room for improvement.

The 2019 index, which ranks the pension systems of 37 countries from around the world, saw Canada jump to ninth place, up from 10th in 2018.

Canada's overall index value — measured as a weighted average of its ratings in the adequacy, sustainability and integrity categories — increased to 69.2 from 68, and the country retained its overall B rating on the index.

The improved showing was due in part to the growth in assets under the Canada Pension Plan and the Quebec Pension Plan. But, in spite of Canada's higher ranking, "large risks are on the horizon," said Jean-Philippe Provost, senior partner with Mercer Canada's wealth business, in a release.

Notably, Mercer reported that Canada has a US$2.5-trillion gap between existing retirement savings and future retirement needs. The country's weakest rating (61.8; C+) was in the sustainability category, which measures the long-term sustainability of retirement income systems.

Mercer noted that Canada's ranking reflects demographic forces, limited access to corporate pension plans and a challenging long-term investment environment.

The MMGPI report said that Canada could improve its standing by creating attractive retirement products for people who don't have employer-sponsored pensions, increasing household savings while reducing debt, reducing government debt as a percentage of GDP and increasing the labour force participation rate at older ages.

The top-ranked country in the MMGPI was the Netherlands, with an index value of 81. The bottom-ranked country was Thailand, with an index value of 39.4.

This year's report also documented the "wealth effect," which shows that individuals take on more debt as their pension assets increase.

"As the wealth of an individual grows, whether it be in home ownership, investment portfolios or their retirement savings, so does their comfort with amassing debt," David Knox, senior partner at Mercer, said in a statement.

“The evidence suggests on a global basis, for every extra dollar a person has in pension assets, their net household debt rises by just under 50 cents.”

## **Have a nice and fruitful week!**