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1. Weekly Markets Changes

[November 8, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,877.42 +283.35 +1.71%	3,093.08 +26.17 +0.85%	27,681.24 +333.9 +1.22%	8,475.31 +88.91 +1.06%	\$0.7563 -0.38c -0.50%	\$1,462.90 -52.40 -3.47%	\$57.24 +1.04 +1.85%

2. Canada's jobs drop in October, while unemployment rate holds

[November 8, 2019] The number of people working in Canada edged lower in October as the manufacturing and construction sectors lost jobs, while the unemployment rate held steady at 5.5%.

Statistics Canada said Friday the economy lost 1,800 jobs in October, following gains of 54,000 jobs in September and 81,000 in August.

The number of full-time jobs fell by 16,100, offset in part by a gain of 14,300 part-time jobs.

Economists on average expected the economy to add a total of 15,900 jobs and an unemployment rate of 5.5%, according to financial markets data firm Refinitiv.

The manufacturing sector lost 23,000 jobs, mostly in Ontario, while the construction sector lost 21,000. Employment in the "other services industry" also fell by 18,000.

The losses were offset in part by an increase of 20,000 jobs working in public administration and 18,000 in finance, insurance, real estate, rental and leasing. The jobs report comes after the Bank of Canada's decision late last month to keep its key interest rate on hold at 1.75%.

In making its decision, the central bank said inflation was on target and the domestic economy has held up well in many respects, even though it's feeling the negative effects of slowing global growth.

Despite the small decline in the number of jobs, wage growth in October held steady. Average hourly wage growth, year-over-year, for all employees was 4.3% for the month, the same as September.

The number of self-employed workers in October fell by 27,800, while public sector employees rose by 28,700. The number of private sector employees fell by 2,700.

Regionally, B.C. added 15,000 jobs, while Newfoundland and Labrador added 2,700 jobs.

On a year-over-year basis, employment was up by 443,000, an increase of 2.4%.

3. Alberta mulls withdrawing from CPP

[November 8, 2019] Alberta Premier Jason Kenney says there's a "compelling case" to be made for his province to exit the half-century-old Canada Pension Plan — an idea sure to face increasing scrutiny over the coming months.

With growing frustrations in his province about its place in the federation, Kenney has revealed that a deeper analysis is on the way to consider Alberta's potential withdrawal from the national pension plan.

The move, if it goes forward, would pull Albertans' multibillion-dollar share from the \$400-billion pool of assets that are handled by the investment manager, the Canada Pension Plan Investment Board.

The proposed departure, Kenney said, will be examined by a panel his government intends to create as a way to assess "fairness" for Alberta within the federation.

Talk of the CPP withdrawal follows a federal election result late last month that many say exemplified Prairie frustration toward the Liberal government in Ottawa. The federal Liberals were reduced to a minority mandate after failing to capture a single seat in Alberta or Saskatchewan.

There's also been momentum behind separatist sentiments in the two resource-dependent provinces, where their economies have struggled through a commodity downturn.

Much of the anger has been directed at Ottawa and other parts of Canada — which are accused of preventing the landlocked Prairie provinces from getting their natural resources to the coast for export.

Now, Kenney is ready to take a long look at ditching the CPP, which has been in place everywhere in Canada, except Quebec, since the mid-1960s. Quebec has been managing its own sister pension plan.

“I can certainly tell you that will be one of the issues studied by the panel that I will be appointing to consult with Albertans on fighting for a fair deal in Canada,” the Alberta premier said in a recent video clip, which was posted last week on Facebook.

“I believe that a compelling case can be made for such a shift.”

In his message, Kenney said he understands about \$40 billion worth of Albertans’ premiums are managed by the CPPIB.

He said the funds, if pulled from the CPPIB, would be transferred to the Alberta Investment Management Corporation, also known as AIMCo. The institutional investor, which includes the province’s public-sector pension plans, already manages about \$100 billion in assets for Alberta taxpayers, he said.

With Alberta home to Canada’s youngest population, he added it’s the biggest net contributor to the CPP.

“Let me underscore, our government has not made any decision in this respect — but it is certainly one of the ideas that people will be presenting to our panel on fairness within the federation,” Kenney said.

The premier argued the extra funds would enable AIMCo to diversify further and potentially improve the returns over time. Kenney also noted that Quebec has responsibly managed its own pension plan outside of CPP for decades.

Bill Morneau, who is widely expected to stay in his role as finance minister once Prime Minister Justin Trudeau forms his new cabinet Nov. 20, was asked Thursday whether Alberta should be able to leave the plan.

“I think there will be more that we’ll have to discuss after Nov. 20 and we’re looking forward to having those discussions,” Morneau said in Ottawa on his way to a post-election meeting of current and defeated Liberal MPs.

Kevin Milligan, a University of British Columbia economist, said Alberta’s proposed exit from the CPP should be taken seriously given it’s coming from the premier.

Any push by Alberta to abandon the CPP is a much more credible suggestion than the debate about equalization, given the pension plan is a joint federal-provincial project with exit provisions, while equalization is a federal program, Milligan said.

“I do wonder what the goal of this is,” he said of Alberta’s possible withdrawal from the CPP. “Alberta could certainly do this — it is in their rights to do so. But in doing so they would have to set up their own administration, set up their own benefits structures... and these things are not cost-free.”

The Quebec pension plan comparison, he added, is difficult to make because trying to undo the CPP arrangement now — after decades — would be far more complicated than at the outset.

Milligan also said from the future of the pension plan's standpoint a threat by Alberta to leave the CPP is unlikely to cause considerable concerns in the rest of the country. Actuarial projections, he added, show the CPP is tens of billions of dollars ahead right now than where it should be.

"The idea that this would be a way to get people in the rest of Canada, to poke them in the eye — I'm not sure that's true in terms of the fact (the CPP) is in pretty good shape right now," he said.

Keith Ambachtsheer, a pension expert, said he sees no economic argument for Alberta to exit the CPP and that it would be purely a political decision.

"There's nothing in it for the Alberta taxpayer. So, it's pure spite," said Ambachtsheer, director emeritus of the University of Toronto's Rotman International Centre for Pension Management.

"I think it's important that people understand there's a difference between bluster and hard, economic analysis."

A spokesman for the independent CPPIB declined to comment about Alberta's exit proposal.

Kenney has already promised to hold a referendum on his province's participation in Canada's equalization program. It's a federal program designed to help poorer provincial governments provide public services that are reasonably comparable to those in other provinces.

Alberta, despite its economic difficulties, has continued to pay into the program while other provinces like Quebec — which has seen significant improvements — has kept on receiving billions through the program.

The complex equalization formula is based on a three-year moving average of economic performance, so a province's have- or have-not status can lag behind economy-altering events.

4. Nasdaq uses AI for market surveillance

[November 7, 2019] Nasdaq Inc. has beefed up its market surveillance of The Nasdaq Stock Market with artificial intelligence (AI) technology designed to improve the detection of malicious trading activity, such as market manipulation and illegal insider trading, the exchange operator announced Thursday.

Among other things, the new technology aims to enable market regulators to uncover "extremely complex patterns and hidden relationships in massive

amounts of data” and detect new forms of financial crime in new markets. It also employs human analysts to improve the model.

“By incorporating AI into our monitoring systems, we are sharpening our detection capabilities and broadening our view of market activity to safeguard the integrity of our country’s markets,” said Martina Rejsjo, Nasdaq vice president and head of market surveillance, North America equities, in a statement.

Nasdaq says it plans to expand the technology to other exchanges and regulators around the world through its market technology business.

“Through transfer learning, we have now built a framework to provide those learnings to other marketplaces around the world. We believe this is a major step in the evolution of how we use artificial intelligence technology to maintain the integrity of capital markets,” said Tony Sio, Nasdaq vice president and head of marketplace regulatory technology .

Earlier this year, the Investment Industry Regulatory Organization of Canada implemented a new market surveillance system from Nasdaq to oversee the Canadian markets.

5. J.P. Morgan predicts slow global growth

[November 6, 2019] Amid global population aging, J.P. Morgan Asset Management is trimming its growth projections, and sees weak investment returns over the next decade or so.

In a report detailing its latest long-term market assumptions, J.P. Morgan Asset Management forecasted modest global growth over the next 10 to 15 years. It said that real global growth is expected to average 2.3% over that period, down by 20 basis points (bps) from its previous projections.

The forecast for developed market growth remains unchanged at 1.5%, but the firm has trimmed its forecasts for emerging markets by 35 bps to 3.9%.

“Population aging is broadly to blame for the low forecasts for global growth,” the report stated.

For Canada, J.P. Morgan Asset Management has raised its forecast assumption by 10 bps to 1.6%.

Global inflation is forecast at 2.2% over the time horizon, and monetary policy is expected to remain “extremely accommodative throughout this cycle and well into the next one, leading to a significant delay in rate normalization being built into forecasts,” the report said.

“Our growth projections for the 10-15-year investment horizon remain relatively modest with aging populations a key headwind, while a technology-

driven boost to productivity represents the main upside risk,” David Kelly, chief global strategist at J.P. Morgan Asset Management, said in a statement. “Portfolio flexibility remains key for investors looking to manage cycle uncertainty, with those seeking higher returns continuing to be drawn to private markets and other alternatives as a both a diversifier and source of alpha,” he added.

The firm also trimmed its return expectations for a 60/40 U.S. stock-bond portfolio by 10 bps to 5.4%.

Its long-term return outlook for equities is 6.5% (in U.S. dollar terms), up by 20 bps from its previous forecast, and its forecast for emerging markets is 8.7% (in local currency terms).

Stronger returns are expected from private equity (PE). The firm has raised its forecast for PE returns by 55 bps to 8.8%.

“Casting the net more widely, forecast returns from global real assets and infrastructure have held up remarkably well, and given the resilience of their cash flows they may even act as a proxy for duration in portfolios with limited short run liquidity demands. Manager selection remains the primary determinant of returns across alternatives,” the report stated.

“Our 2020 assumptions are being released against a backdrop of trade uncertainty between the world’s economic superpowers and a recent reversal in the trajectory of global monetary policy,” said John Bilton, head of global multi-asset strategy at J.P. Morgan Asset Management.

“In an environment of very low bond yields, investors must reassess how to design the optimal portfolio as the trade-off is no longer between foregone risky asset returns and reduced portfolio risk but is instead between a zero or even negative return in exchange for that risk reduction.”

6. Ontario proposes small business tax cuts in fall fiscal update

[November 6, 2019] Ontario’s fall fiscal update shows a government trying to undo the damage caused by a year of cuts.

The fall economic statement boosts spending by \$1.3 billion — largely due to a reversal of cuts to programs and services that were included in the spring budget.

The government is proposing to reduce the small business corporate income tax rate from 3.5% to 3.2% beginning Jan. 1.

The small business dividend tax credit rate would be reduced from 3.2863% to 2.9863% to correspond to the lower small business rate. Recipients of non-

eligible dividends would receive reduced dividend tax credits as a result, the document says.

The shift comes as the Progressive Conservatives are attempting to adopt a new tone following a tumultuous first year-and-a-half in power.

The government is putting an additional \$279 million into its autism program following an outcry about service changes.

An extra \$310 million is going to social services, including continuing a child benefit it had planned to stop.

Municipalities had also been angered when the government announced cuts to childcare, public health and ambulance funding, and today's fiscal document shows that partial backtracks on those cuts are costing about \$189 million.

Ontario's deficit is now expected to be \$9 billion for this fiscal year, down from the \$10.3-billion projection in the budget.

7. Profits up for IA Financial Group in Q3

[November 6, 2019] Quebec City-based IA Financial Group exceeded earnings expectations in the third quarter.

The firm reported diluted earnings per share (EPS) of \$1.72, an increase of 15% from \$1.50 per share in the same quarter last year. This was the second straight quarter that EPS grew by 15% or more and return on equity was above target range, the company said in a release.

iA Insurance recorded a net income of \$183.4 million, up from \$164.9 million the same time last year, due to increased revenues in net premiums and investment income.

Expected profit on in-force insurance policies increased to \$206.9 million, representing an increase of 14% year over year. iA Financial attributed this growth to its U.S. operations and group insurance, which were up by 35% and 24%, respectively.

Individual insurance also saw positive results, with an experience gain of \$0.05 EPS, or \$5.8 million, resulting from favourable policy holder experience (+\$0.03 EPS), favourable morbidity (+\$0.02 EPS), and positive market impact on universal insurance policies (+\$0.01 EPS), among other factors.

Individual wealth management saw a gain of \$4.5 million (+\$0.04 EPS) thanks to the positive market impact on iA's segregated fund hedging program.

Premiums and deposits of more than \$2.7 billion were up 15% year over year, due to growth in iA's individual wealth management and group savings and

retirement lines of business. The firm saw an increase in assets under management and administration, which rose to \$187.1 billion in the third quarter, up 2% since Q2 and 6% year over year.

8. CPPIB focusing on tools to assess climate risks

[November 6, 2019] Climate change is, and will continue to be, the top environmental, social and governance (ESG) issue for pension giant the Canada Pension Plan Investment Board (CPPIB).

In its annual report on sustainable investing, which was released Wednesday, the CPPIB details its work over the past year on the issue of climate change and singles out climate-related risks and opportunities as the top issue for the year ahead.

According to the report, the CPPIB has undertaken a bottom-up initiative requiring its investment teams to analyze the climate-related risks and opportunities for every major investment they consider.

“The sustainable investing team will continue to play a leadership role in developing our firm-wide view of climate change and tools to better identify and assess specific risks posed by climate change to the fund,” it says.

In 2020, it will be incorporating the lessons from its securities selection efforts to “assess climate change risks and their impact on the risk/reward profiles of certain investments.”

The board also intends to beef up its ESG database and research, which can be utilized both as part of its investing process and when engaging with companies in its portfolio to “enhance the value creation/protection elements of these investments.”

In real terms, the CPPIB reports that its investments in global renewable energy companies more than doubled in the year to June 30, to \$3 billion — up from just \$30 million in 2016. Overall, the fund has more than \$400 billion in assets under management.

“Over the past year, we advanced our goal to be a leader among asset owners in understanding the risks posed, and opportunities presented, by climate change,” said Mark Machin, CPPIB president and CEO, in a statement.

“We’re mindful that fully understanding the implications of climate change — including physical, transition and adaptation risks — will be a continuous process.”

Alongside climate change, gender diversity on corporate boards is also a top ESG issue for the CPPIB, which reports that it expanded its efforts to improve board diversity among its portfolio companies last year.

For example, it has started voting against nominating committee chairs for boards with no female directors, which saw it vote against 626 directors during the 2019 proxy season.

9. Bitcoin still largely the domain of speculators, but other uses emerge

[November 5, 2019] More Canadians are aware of Bitcoin and more are buying it, but early adopters have also dumped it, according to the Bank of Canada.

The latest edition of the central bank's survey that monitors Bitcoin trends found that awareness rose from 62% in 2016 to 89% in 2018. The prevalence of Bitcoin ownership also rose, from 3% to 5%.

However, the central bank noted that the proportion of past Bitcoin owners also increased, "suggesting an influx of Bitcoin owners who subsequently divested after the steep rise of prices in 2017."

Indeed, the survey found that the primary reason for owning Bitcoin is speculation — but the number of Canadians who used Bitcoin for transactions, such as buying goods and services, or making transfers to others, also increased in 2018.

The survey's findings indicated that the overall increase in Bitcoin ownership was not uniform across demographic groups. "For example, while there was little change in ownership among men or those aged 18 to 34, ownership increased more among women and those aged 35 or older," the Bank of Canada found.

The central bank reported that those with high education or high household income were much more likely to own Bitcoin than people with low education or income. Survey respondents with higher levels of financial literacy were more likely to have heard of Bitcoin, but were less likely to own it.

Looking ahead, the Bank of Canada said future editions of the survey may ask about the awareness of proposed regulatory frameworks for cryptoassets in Canada, and whether the recent events involving crypto exchanges have discouraged people from adopting Bitcoin.

The central bank also intends to study Canadians' adoption and usage of privately issued digital currency, particularly stablecoins.

10. DB pension returns were modest in Q3: report

[November 5, 2019] Weaker markets and the dimming global economic outlook combined to curb investment returns for Canadian defined benefit

(DB) plans in the third quarter, according to new data from RBC Investor & Treasury Services (RBC I&TS).

RBC reported that its DB pension index recorded a 1.7% median return in the third quarter, down from 2.7% in the previous quarter.

“While markets remain volatile, the ongoing trade tensions between the U.S. and China, in addition to the geopolitical turbulence surrounding Brexit, continue to propel very modest pension plan returns,” said Ryan Silva, director of client coverage at RBC I&TS.

While Canadian equity returns actually ticked up in Q3, global equities were weaker.

Global equity returns declined from 1.8% in the second quarter to just 0.8% in Q3.

RBC reported that returns from Canadian fixed income were also weaker in Q3 “as Canadian bond yields also continued to drop in step with global bonds.”

Canadian equities were the bright spot in the quarter, returning 2.5%, up from 2.3% in the previous quarter.

RBC noted that nine of 11 sectors on the TSX posted positive returns in Q3, led by the utilities and real estate sectors.

“Plan sponsors are encouraged to consider taking a defensive approach to lower investment risks, such as moving into private assets, blue chips and other relatively safe investments with stable track records,” said Silva.

11. Home prices up in Toronto, down in Vancouver

[November 5, 2019] Home sales rose in Canada’s two most valuable real estate regions in October as a rebound in the market continued as interest rates remain low.

Greater Vancouver home sales were up by 45.4% in the month compared with a year earlier, while Greater Toronto Area home sales were up by 14%.

Gains for the Vancouver area followed a similar jump in September and mark the fourth month in a row of rising sales after significant declines at the start of the year.

Toronto area home sales were also rebounding from declines at the start of the year, though they were much more moderate than what Vancouver went through.

Toronto Real Estate Board president Michael Collins said GTA home sales have been helped along by the economy and population gains.

“A strong regional economy obviously fuels population growth. All of these new households need a place to live and many have the goal of purchasing a home,” he said in a statement.

For Toronto, the strong demand and economy have pushed home prices higher. The composite benchmark price rose by 5.8% in October for the strongest annual growth rate since December 2017, while the average selling price was up 5.5% to \$852,142.

In Vancouver, sales have been boosted in part by price declines.

The Real Estate Board of Greater Vancouver said the composite benchmark price was down by 6.4% from a year ago to \$992,900, and down 1.7% over the past six months.

Buyers are returning to the market with more confidence than the first half of the year, said Ashley Smith, president of the Vancouver area board.

“With prices edging down over the last year and interest rates remaining low, hopeful home buyers are becoming more active this fall.”

The Vancouver-area market has seen a steeper correction in recent years after the provincial government introduced numerous measures including a foreign buyer tax meant to cool the market. Ontario also imposed a foreign buyer tax but has not imposed the vacant home and other speculation taxes imposed in B.C.

The federal Liberals also promised during the election campaign to impose a 1% speculation and vacancy tax for properties owned by non-resident, non-Canadians.

Real estate markets have seen a boost this year as fixed mortgage rates have fallen for much of the year after climbing for much of the past two years.

Have a nice and fruitful week!

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