This is the last issue for 2019. Dear clients, friends and constant readers, I wish to all of you and your families

The next issue will be published on January 10th, 2020.

Weekly Updates Issue # 745

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1. Weekly Markets Changes

[December 20, 2019]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
17,118.44 +115.3 +0.68%	3,221.22 +52.42 +1.65%	28,455.09 +319.7 +1.14%	8,924.96 +190.1 +2.18%	$0.7596 +0.10c +0.13%	$1,481.64 +5.31 +0.36%	$60.36 +0.29 +0.48%

2. Canadian retail sales dipped by 1.2% in October

[December 20, 2019] Statistics Canada says retail sales fell 1.2% to $50.9 billion in October as sales at motor vehicle and parts dealers as well as building material and garden equipment and supplies dealers declined.

Economists on average had expected an increase of 0.5% for the month, according to financial markets data firm Refinitiv.

Statistics Canada says sales fell in eight of 11 subsectors, representing 81% of retail trade.

Sales in the motor vehicle and parts dealers subsector fell 3.2% as sales at new car dealers declined 3.0% and used car dealers dropped 5.2%, the largest decrease since September 2017. Building material and garden equipment and supplies dealers saw sales fall 3.1%.

Sales at gasoline stations rose 1.5% in October, due to higher prices at the pump.

Retail sales in volume terms fell 1.4%.

3. CSA to ban DSCs everywhere but Ontario

[December 19, 2019] Ontario will remain a holdout, but the rest of Canada's securities regulators are moving ahead to ban deferred sales charges (DSCs).

The Canadian Securities Administrators (CSA) have announced that they intend to publish a final set of rule changes in 2020 that will effectively outlaw DSCs and eliminate the practice of paying trailer fees to discount brokers — but Ontario is only on board with the action on trailers.

Specifically, the CSA said that it intends to ban the payment of upfront sales commissions from fund companies to dealers, "which would lead to the end of the [DSC] option and associated redemption fees."

"The ban on upfront sales commissions from investment funds to dealers will eliminate an incentive for dealers to recommend investment products that provide them with an upfront commission from the fund company, instead of recommending other suitable investments that have lower costs and do not have redemption fees," the CSA said in a notice spelling out its plans.

Ontario's government, which opposes a ban on DSCs, will not be enacting the change in that province.

Instead, the the Ontario Securities Commission (OSC) said in its own notice that it's continuing to consider alternatives to an outright ban, such as placing restrictions on the use of DSCs to "mitigate negative investor outcomes."

Possible restrictions include banning DSC sales to seniors; limiting redemption fee schedules; banning leveraged DSC sales; setting account-size limits; and allowing hardship exceptions from redemption penalties.

In the meantime, the OSC will be joining the rest of the CSA in banning the payment of trailers to discount brokers.

"The ban on trailing commissions to certain dealers will end the charging of fees for advice that those brokers do not provide," the CSA said.

The planned rule changes banning upfront sales commissions will be published in early 2020, and the changes banning the payment of trailers to discounters will be published later in the year.

"These expected rule changes, together with new conflict-of-interest rules that are being implemented under our Client Focused Reforms, will bring greater transparency to the fees paid by investors when they buy mutual funds," said Louis Morisset, chair of the CSA and president and CEO of the Autorité des marchés financiers, in a statement.

The regulators said that they expect both bans will have a transition period of at least two years.

Once the planned DSC ban takes effect, fund firms will not be allowed to make new sales using the DSC option, the CSA said. The redemption schedules on funds sold via DSC before the ban is adopted will be allowed to run their course.

4. TFSAs are great, but could be better: report

[December 19, 2019] Tax-free savings accounts (TFSAs) are already wildly popular with Canadians, but a new report from the C.D. Howe Institute argues that policymakers could make them even more attractive.

The Toronto-based think tank said that TFSAs have proven popular with both younger Canadians who use them as a savings vehicle, and retirees who employ them to draw down their savings.

"A review of the data shows that [TFSAs] are partly used as a tax-efficient vehicle for long-term capital accumulation, widely used for decumulation of retirement wealth in old age, and very popular among younger Canadians to save for both near-term major purchases and achieve long-term saving purposes," the C.D. Howe Institute's report said.

But the report argued that TFSAs could be improved for both younger and older users.

It recommended that retirees be allowed to buy life annuities within a TFSA, which would help them guard against the risk of outliving their savings. It also said that widows and widowers should be entitled to the unused TFSA contribution room of their deceased spouse, which is possible with RRSPs.

"Permitting the surviving spouse, who is the successor or the beneficiary of the deceased's TFSA, to utilize the unused TFSA contribution room of the deceased spouse would encourage more savings at a critical time for spouses, helping them to financially prepare for living longer than they may anticipate and facing long-term care costs," the report said.

"Just as for RRSPs, reasonable limits could apply on the amounts of, and the period of time within which, contributions could be made," it added.

For younger, lower-income workers, the report recommended that policymakers look at creating a new tax-free pension account (TFPA), which would operate alongside TFSAs and enable lower-income workers to save more efficiently for retirement than they can with RRSPs.

"Ideally, workplace capital accumulation plans – such as individual DC, multiemployer, pooled plans, and group-TFSAs – would offer a TFPA option. This would effectively provide a tax-prepaid option for long-term retirement capital accumulation, benefiting from the same creditor protection as pensions and RRSPs," the report said.

Finally, the report noted that there are cross-border (Canada–U.S.) tax issues that need to be resolved to improve the operation of TFSAs.

"These reforms, building on the early successes of TFSAs, would encourage the continued growth of TFSAs and their ability to reach their objectives," the report concluded.

5. Why household insolvencies are climbing in a strong economy

[December 18, 2019] The rise in Canadian household insolvencies demonstrates the impact of interest rate increases on a population carrying large amounts of debt, a CIBC report says, with lessons for investors and policymakers.

Consumer insolvencies are up more than 9% year over year, and Canadians' debt to income ratio ticked up to 175.9% in the third quarter.

It's a strange time for household credit stress to climb, with unemployment near multi-decade lows until last month, CIBC Economics said in a report released Wednesday. Ontario has seen just as large a spike in insolvencies as Alberta, whose economy is in rougher shape.

The report also ruled out the housing boom as the problem's source, even though almost two-thirds of households' outstanding credit is in mortgages.

That’s because the numbers show that households are prioritizing mortgages but falling behind on other debt.
So which debt is causing problems? The report pointed to products where interest rates were reset with increases in prime tied to the Bank of Canada’s 2018 rate hikes.
Write-offs are up on unsecured lines of credit and home equity lines of credit, for example, but not on credit cards, whose rates aren’t influenced by monetary policy.
“Households have been shifting debt from credit cards to lines to save on interest costs but were then squeezed as rates on [unsecured lines] began to climb,” the report said.
It called non-mortgage consumer debt “the canary in the coal mine” for turning points in the credit cycle.
While insolvencies have risen, the report pointed out that the increase has come from proposals to restructure debt rather than more costly bankruptcies. It also noted that more people seem to be seeking proposals before they start missing payments. This could be due to marketing for insolvency trustees that’s created more awareness of alternatives to struggling through missed payments.
The report also noted that big banks have seen rising loan-loss provisions.
Last week, the Office of the Superintendent of Financial Institutions said big banks need to set aside more capital to prepare for future economic turmoil, pointing to risks from elevated household debt.
A report from Moody’s warned about the risk consumer debt poses to Canadian banks.
“Employment remains strong, but bank asset quality will deteriorate from consumer insolvencies if there is a significant increase in unemployment,” Moody’s vice-president Jason Mercer said in a statement.
The CIBC report downplayed the risks to investors but stressed the lessons for central bankers. The economy, with its high levels of household debt, would be “much more sensitive to interest rate hikes than in the past,” it said — something the Bank of Canada has repeatedly warned about.
“If raising the overnight rate to only 1.75% could set off a climb in insolvencies, before any major job losses have been seen, it’s clear that taking rates to anywhere near what was historically neutral, or even where some models might currently put neutral, could prove to be overkill,” the report said.
“Monetary policy will have to look a bit dovish to be only neutral for the economy as a result.”

6. Home prices up 0.2% in November

[December 18, 2019] The downward trend in home prices reversed in November, says the Teranet-National Bank Composite National House Price Index (HPI), released today.

Home prices pushed up 0.2% in November, following a 0.1% drop in October. Prices rose in six of the 11 markets covered, including Edmonton (0.1%), Calgary (0.2%), Montreal (0.3%), Vancouver (0.4%), Hamilton (0.4%) and Quebec City (1.0%), and remained flat in Toronto, Victoria and Ottawa-Gatineau.

The index only retreated in Halifax (-1.3%) and Winnipeg (-0.6%).

The national HPI increase is atypical for this time of year, the report said. Over the last 10 years, the index has dropped seven times in the month of November.

In addition, the monthly drops in Halifax and Winnipeg constitute the lowest diffusion of declines in November over the decade.

7. Inflation climbed in November

[December 18, 2019] The annual pace of inflation heated up in November as gasoline prices posted their first year-over-year increase since October 2018, Statistics Canada said Wednesday.

The agency said the consumer price index rose 2.2% compared with a year ago to end a three-month streak where the annual pace of inflation had held steady at 1.9%.

The increase in the pace of inflation compared with October came as energy prices in November posted their first year-over-year increase since April. Energy prices climbed 1.5% compared with a year ago compared with a decline of 2.9% in October.

Gasoline prices were up 0.9% year-over-year compared with a drop 6.7% in October.

Canadians also saw the price for meat rise 5.2% compared with a year ago, the fifth month of increases at or above 4.0%. The cost of fresh or frozen beef was up 6.2%, while ham and bacon prices rose 9.1%. Fresh or frozen pork was up 0.7%.

Regionally, prices on a year-over-year basis rose more in November in every province except British Columbia.

Excluding gasoline, the consumer price index was up 2.3% compared with a year ago, matching the increase in October.

The overall increase in prices was driven by increased mortgage interest costs, passenger vehicles and auto insurance premiums. The increases were partly offset by lower prices for telephone services, Internet access and traveller accommodation.

The average of Canada's three measures for core inflation, which are considered better gauges of underlying price pressures, was 2.17% compared with a revised figure of 2.10% for October.

The core readings are closely monitored by the Bank of Canada, which adjusts its key interest rate target to manage inflation.

The central bank, which targets annual inflation of 2%, has kept its key interest rate on hold at 1.75% for more than a year.

8. Fitch forecasts slow mortgage growth

[December 17, 2019] Amid high housing prices and tougher mortgage rules, Fitch Ratings is forecasting tepid mortgage growth in Canada over the next couple of years.

In a new report, the rating agency said that it is expecting Canadian house prices to remain relatively flat for the next two years.

It predicted that nominal prices will rise by about 1% over the coming couple of years, and that real prices will fall.

"Stretched affordability and [macro-prudential] measures limiting the number of borrowers able to qualify for home loans will limit home price growth," Fitch said in the report.

Fitch also noted that government involvement in the Canadian mortgage markets is expected to decline, "which will make some home loans modestly more expensive."

The rating agency forecasted 1% mortgage growth for Canada in 2020 and 2021.

Fitch said that mortgage performance is expected to remain stable in 2020, "supported by strong employment, projected income growth and low interest rates."

Additionally, Fitch said that Toronto and Vancouver "remain the most overvalued cities with home prices vulnerable to shocks."

9. Crypto-mining operation a sham: OSC

[December 17, 2019] The Ontario Securities Commission (OSC) is alleging that a purported crypto-asset mining scheme was not what it appeared to be.

The regulator has unveiled allegations accusing Miner Edge Inc., Miner Edge Corp. and their founder, Rakesh Handa, of violating securities rules by raising over $100,000 from 90 investors around the world to finance purported crypto-mining efforts — which, the OSC alleged, were simply "a sham."

In its allegations, the commission said that “no meaningful steps were taken to establish [the mining] operations, Miner Edge’s promotional materials were full of misrepresentations, and Handa misappropriated investor funds to benefit himself and his family.”
The firms purportedly raised funds from investors through an initial coin offering (ICO) and through direct solicitations, which were promoted via social media.
“This proceeding serves to caution investors regarding the presence of illegal and dishonest conduct in the emerging crypto-asset sector,” the OSC said in its allegations.
The regulator also alleged that Handa “repeatedly lied to and misled staff while testifying under oath, concealed critical documents, unlawfully disclosed that he was to be examined by staff and interfered with a key witness.”
The allegations have not been proven.
The OSC will hold a hearing into the matter on Jan. 20, 2020. It is seeking permanent bans and monetary sanctions against the defendants.

10. Provinces divided on priorities prior to meeting with Morneau

[December 17, 2019] Provincial finance ministers appeared divided into two camps going into a Tuesday meeting in Ottawa with federal Finance Minister Bill Morneau, who indicated that few concrete decisions would be made at the gathering.
Ministers from Alberta and Newfoundland and Labrador declared the need to expand the fiscal stabilization program as their top priority in talks with the federal finance minister.
“We believe that the fiscal stabilization program needs fundamental change in order to deliver on its purposes,” Travis Toews, the Alberta finance minister, declared on his way into the meeting.
“Our No. 1 priority is to request that the caps be lifted.”
The fiscal stabilization program is easier to change than the more complex equalization program, and amendments could be worth billions to provinces whose finances have been hit by low oil prices.
The stabilization program provides financial assistance to provinces facing a year-over-year decline in its non-resource revenues, but the money available to eligible provinces is capped at just $60 per resident.
Toews said those rules left Alberta to pretty much fend for itself when it was facing a budget deficit resulting from cratering oil prices.

Prior to attending a working dinner Monday evening with his provincial and territorial counterparts, Morneau acknowledged the program, which has not changed since 1995, needs some adjustments to how stabilization payments are calculated.

"The calculations are antiquated and no longer reflect the priorities of provinces, especially resource-producing provinces," said Newfoundland and Labrador Finance Minister Tom Osborne.

Meanwhile finance ministers from some other provinces, including Manitoba, Prince Edward Island and Quebec, said increasing federal transfers for health care was their most pressing concern.

"I know from talking to my colleagues, and I know from talking to Minister Morneau, that health care is a key priority of this government and additional support from the federal government is going to be critical to doing that," said Ontario Finance Minister Rod Phillips.

For his part, Morneau said it came as no surprise that the provinces would be requesting more funding at their meeting. He suggested, however, that the Trudeau government would not be making any near-term commitments to additional spending on the stabilization program.

"I think it's important for us to listen to the issues that we hear today and to take that back, and consider how we can look at the program in a way to make sure it continues to be effective," Morneau told reporters.

None of those going into the meeting Tuesday morning expressed strong concerns about the federal government's ballooning budget deficits, saying they believe Ottawa has more room to manoeuvre.

Figures released Monday showed the federal deficit is slated to hit $26.6 billion this fiscal year, up from last spring's projection of $19.8 billion.

11. Investors prefer human advice: survey

[December 17, 2019] Three quarters of Canadian investors say they need financial advice to come from a human, according to new research from the Investment Industry Regulatory Organization of Canada (IIROC).

Together with the Strategic Counsel, IIROC surveyed over 2,000 current and aspiring investors, and found that the majority of both favoured human advice.

Seventy-four per cent of current investors (62% of aspiring investors) said they need their financial advice to come from a human, and 91% (69% of aspiring investors) said it's important for the advice to be personalized to their specific needs and goals.

The survey found that the percentage of Canadian investors who preferred receiving advice from a human increased with age, with 82% of seniors (aged 65 and older) saying they value human advice.

The majority of Canadian investors (86%) also said it's important to access a range of financial products and services without having to go to different providers. They also said it was important that they receive the financial advice they want, when they want it (90%).

Additionally, almost half of current investors (48%) said they want advice to consider the needs of their immediate family.

12. In search for yield, big banks exposed to risky loans: DBRS

[December 16, 2019] In the low interest rate environment, Canadian banks have increased their exposure to risky loans, says DBRS Ltd. in a new report.

The rating agency reported that loans to riskier, non-investment-grade borrowers has grown faster than investment-grade loans over the past five years, increasing their share of the Canadian banks' commercial lending books.

"Non-investment-grade loans now represent 50% of the large Canadian banks' aggregate loan portfolios versus 43% in 2014," said Maria-Gabriella Khoury, senior vice-president, global financial institutions group at DBRS.

This shift "exposes the Canadian banks to higher risk in the event of a significant downturn," DBRS said.

The growing exposure to riskier borrowers reflects the banks' search for yield "in light of low interest rates and the benign credit environment," it noted.

The riskier loan mix is somewhat mitigated by increased sector diversification, DBRS said.

In particular, it said the banks have reduced their reliance on the traditional cyclical commodity-based sectors, such as energy and mining.

"Although this diversification is a mitigating factor, we believe that the banks' exposure to non-investment-grade loans could pose a risk in the event of a severe economic downturn as these borrowers could face greater challenges in rolling or paying down their debt versus their investment-grade peers," DBRS explained in its report.

Ultimately, "the increased exposure to non-investment-grade borrowers is a risk that bears monitoring," Khoury concluded.

Have a nice and fruitful week!