Weekly Updates Issue # 749

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1. Weekly Markets Changes

[January 31, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
17,318.49 -246.85 -1.41%	3,225.52 -69.95 -2.12%	28,256.03 -733.7 -2.53%	9,150.94 -163.97 -1.76%	$0.7557 -0.53c -0.70%	$1,589.16 +17.63 +1.12%	$51.63 -2.56 -4.72%

2. Ban speculative trading in life policies: CLHIA

[January 31, 2020] The insurance industry is calling on the government of Quebec to take action against speculative trading in life insurance policies, among other recommendations for the next provincial budget.

The Canadian Life and Health Insurance Association (CLHIA) said in its pre-budget submission that trading in life policies — such as viatical settlements, life settlements and stranger-owned insurance — should be prohibited.

The association reported that speculative trading is on the rise in the province, and that such practices target vulnerable consumers, such as people with an urgent need for money.

"This phenomenon is gaining ground in Quebec," the CLHIA stated in its submission. "Indeed, unregulated groups are working to develop a market around the trafficking of life insurance policies for commercial or speculative purposes."

The practice creates unsavoury arrangements, the CLHIA stated.

"The policy buyer's profit depends on how quickly the insured dies: the sooner the person dies after the purchase of the policy by the promoter, the higher the profit from the investment," the group noted.

Despite past promises to address the practice, the CLHIA said, the government hasn't taken enough action to combat the risk of abuse.

“The government must urgently prohibit this practice to stop it from taking hold in Quebec, and work with our industry to define an effective and sustainable solution,” it said.
The CLHIA’s other recommendations to the Quebec government include calls to revise financial sector legislation, which, it says, hampers insurers’ ability to invest while imposing operational constraints.
The group also advocates cutting taxes on insurers, taking steps to combat climate change and working with the industry to contain drug costs.

3. Challenging ‘outdated perceptions’ of emerging markets

[January 30, 2020] Emerging market economies not only have the strength to weather the recent storms of global trade disputes but may well be positioned to thrive.
“Any sort of disruption to a supply chain offers opportunities for someone else,” said Nicole Vettise, senior vice president and institutional portfolio manager of Franklin Templeton’s emerging markets equity investment team in London, in a recent interview.
For example, Vettise said that while China’s exports to the U.S. have fallen since trade tensions escalated between the two countries, Vietnam’s exports to the U.S. have risen dramatically, accelerating a trend that had already been underway.
Emerging markets — including China, South Korea, Taiwan, and India — offer investors a key opportunity for medium- and long-term growth, particularly when looking at regional companies operating in the new technology sector, which can provide banking and other services to a rising consumer class, Vettise said.
“In emerging markets, not as many people have credit cards, mortgages, etc., compared to the developed markets,” Vettise said. “As markets progress, there is more and more of a demand for [those services].”
Emerging market economies have transformed significantly over the last decade, moving away from “old economy” sectors, such as commodities and industrials, and toward the “new economy” sectors of technology, consumer products and services, and financials, Vettise said. Companies in emerging markets are now generating a great share of their sales and revenues domestically, rather than from exports.
“Investors have sometimes outdated perceptions of what the [emerging markets] asset class offers,” Vettise said, “and because of that, maybe they’re

thinking it's a commodity exposure, so they are under-allocating [to emerging markets]."

Emerging market economies are also benefitting from the fact that they can "leapfrog" developed markets when it comes to embracing new innovations, since they aren't held back by outdated technology, she said.

"Because you don't have the legacy infrastructure to deal with," Vettise said, "you get that faster adoption [of new technology]."

Emerging market economies are also more resilient than they were a generation ago, she said. For example, there are have been improvements in corporate governance and reforms in the banking sectors. In addition, countries' international reserves have risen and represent a higher share of gross domestic product than they did in the early 1990s. That has strengthened the markets and allowed countries to avoid the type of regional market upheavals that once occurred more regularly.

"The fact that you've had some [economic] issues in Argentina and Turkey over the last few years, but [that these issues] have been quite isolated to those countries, really demonstrates that point," Vettise said.

And while the U.S.-China trade tensions "provided a bit of a headwind in 2018 and 2019," the market has reacted positively to recent developments, such as the signing of the so-called phase-one trade deal between the two countries in January, she said.

"All of these movements have presented us with [investing] opportunities," Vettise said.

4. Insurance needs a redesign: Manulife Canada CEO

[January 30, 2020] When Manulife Financial Corp.'s president and CEO of Canadian operations Michael Doughty thinks about his biggest competitors, a few names make the list that have nothing to do with insurance: Apple and Netflix.

"We no longer really think of ourselves as competing against other life insurance companies around the world," said Doughty at the Canada 360 Economic Summit on Wednesday. "We're really competing against other companies that are delivering the kind of customer experience that all customers want."

The customer experience offered by streaming platform Netflix Inc. and consumer electronics brand Apple Inc. is constantly on Doughty's mind as Manulife tries to win over customers while grappling with relative newcomers to the insurance space, including Toronto-based customizable benefits brand League, which is picking up attention and raising big money.

“These new services that are so slick and seamless and intuitive and they’re really designed with the customer experience in mind, is what people expect from everything that they do business with,” he said.

Doughty believes they can teach the industry a bit about how to tackle the “massive” numbers of Canadians that have no life insurance and have forgone such protection because they are spending their money on things like Netflix subscriptions and iPhones.

An RBC Insurance survey of 1,001 Canadians between the ages of 25 and 50 revealed that 74% of Canadians are kept awake at night, worrying about their financial situation. Despite being so concerned, the 2018 poll found few would give up daily “luxuries” to pay for life insurance instead.

Of those that are willing to forfeit some of “life’s little pleasures,” 35% said they would sacrifice one dinner out a month, 34% would forgo a trendy clothing item, 28% would nix buying lunch at work one less time per week, 35% would give up a bottle of wine or case of beer and only 25% said they’d agree to ditch their daily coffee.

Such a scenario has presented a “huge opportunity” for Manulife, but also highlighted how often a business like Doughty’s needs to engage with consumers.

To take advantage of that opportunity, Doughty says the company launched Manulife Vitality, a platform with smart watch and fitness tracker integration that allows consumers to receive prizes and discounts for doing things like going for a walk or getting a flu shot.

“In the past, you would buy life insurance… and then you would sort of like put it in a safe deposit box and hope that you never needed it and pay a premium every month,” Doughty said.

“Manulife Vitality turned all that on its head and said why don’t we engage with you so you actually live and a long and happy life because if we can encourage you to be active, have a nutritious diet, not smoke, see your doctor regularly, it is probably going to improve your longevity and that is good for us.”

Vitality has pushed consumers to interact with Manulife on average 23 times a month, a significant jump from the two times a year — when they receive their annual statement and when they get a premium bill — that they used to turn to the brand, says Doughty.

It’s also been an example of how he thinks businesses can “reinvent a traditional product to eliminate some of the barriers that have stopped it from being as popular as it should be.”

“This movement towards what is the customer is something that all industries are having to reinvent,” he says.

"You have to make sure you are reinventing every interaction, every process, from the consumer's point of view."

5. Court rules former terrorist's widow can't collect life insurance

[January 30, 2020] An Ontario appeal court has ruled that a lower court was wrong in allowing the widow of a former terrorist to collect on his life insurance policy.

The Court of Appeal for Ontario ruled in favour of Manufacturers Life Insurance Co., which sought to overturn the ruling of a motions judge who found that the widow, Fadia Khalil Mohammad, was entitled to collect on her dead husband's $75,000 life policy.

According to the decision, Mohammad's husband came to Canada in 1987 using an alias and applied for life insurance that same year as a condition for getting a mortgage.

On the insurance application, the man didn't disclose his past as a member of the Popular Front for the Liberation of Palestine, or his conviction for manslaughter for his role in storming an El Al jet in 1968, which left one person dead.

The man was deported to Lebanon in 2013 after Canadian authorities uncovered his past. He died from lung cancer in 2015.

The appeal decision noted that the motions judge found in favour of the widow, ruling that the insurance application didn't include any questions about his immigration status, citizenship or criminal history, which "signalled that these issues were not material."

However, the appeal court found that the man's past was material to his life insurance risk and should have been disclosed.

"The deceased knew that his past activities were relevant to his application for life insurance. Indeed, shortly after he applied for the life insurance, the deceased filed an affidavit in his immigration proceedings in which he said that his life would be in danger if he were to be deported to Israel," the appeal court noted.

"He was well aware that his past activities, coupled with his illegal entry into Canada, put him at serious risk of physical harm," the court found. It added that intentionally withholding the information was "sufficient to establish fraud" and that his widow was not entitled to the insurance payout.

The court allowed Manulife's appeal and dismissed the case.

6. Bracing for Brexit: financial firms prepare for transition

[January 30, 2020] With the U.K. set to formally leave the European Union (EU), financial sector regulators are gearing up to accommodate the shift.

As of midnight, on Jan. 31, the U.K. will no longer officially be part of the EU, launching a transition period that is set to run until the end of 2020, giving time for citizens and businesses to adapt to the change.

Once the U.K. formally exits the EU, the two sides will set out to negotiate the terms of their ongoing relationship. The transition period could be extended for up to two years if both sides agree by July 1, 2020.

In the meantime, European law will continue to apply to the financial sector during the Brexit implementation period, the U.K.'s Financial Conduct Authority (FCA) said.

Among other things, that means that existing investor protections, transaction reporting requirements and passporting arrangements will remain in effect for financial firms and investment funds.

"The implementation period gives firms a period of certainty while negotiations are continuing on our future relationship with the EU," Andrew Bailey, CEO of the FCA, said in a statement.

Bailey noted that the FCA intends to work with the financial industry, the government, the Bank of England and other regulators "to ensure the financial services industry is ready for the end of 2020."

The industry should start that work immediately, he suggested.

"As things develop during the year, all financial services firms should consider how Brexit will impact their business and what action they need to take to be ready for Jan. 1, 2021 to minimize risks to customers," Bailey said.

Similarly, the European Central Bank (ECB) said that banks will now need to implement their Brexit plans.

"We will work hard to ensure Brexit causes as little disruption as possible for the citizens, employers and financial markets," said ECB president Christine Lagarde.

Among other things, the ECB and the Bank of England have adopted a currency swap arrangement designed to reduce possible sources of stress in the financial system. They've also taken steps to ensure cooperation for banking supervision, the ECB noted.

7. House prices increase in Vancouver

[January 29, 2020] After five straight quarterly declines, housing prices in Vancouver resumed their climb in the fourth quarter of 2019, Statistics Canada reports.

The national statistical agency said that residential property prices rose by 0.2% in Vancouver in the fourth quarter, led by condo resales (1.1%) and resale houses (0.6%). The increase follows five quarters of declining prices in the Vancouver market.

In Toronto, housing prices rose by 0.4% in the fourth quarter, led by a 1.5% increase in condo prices and a 0.7% in resale houses. For 2019, resale prices rose by 4.6% in Toronto, StatsCan said.

While prices for resale properties rose in 2019, new condo prices in Toronto declined by 1.5% in the fourth quarter (the second consecutive quarterly decline) and were down by 3.1% for the year.

Ottawa was the hottest urban market in 2019, due to rising demand. In the fourth quarter, residential property prices rose by 2.3% in the national capital, and prices were up 9.6% for the year.

Housing prices in Montreal rose 1.0% in the fourth quarter. StatsCan said this was the seventh consecutive quarterly increase in the city.

For 2019, residential property prices were up by 6.1% in Montréal, “stimulated by steady demand for housing…coupled with limited housing supply and labour shortages,” StatsCan noted.

Calgary was the only major market to see housing prices decline in the fourth quarter. Prices dipped by 0.2%, “mostly because of an oversupply in the housing market over the previous year and high unemployment rates.”

8. Men’s life expectancy hits a ceiling

[January 28, 2020] Canadian women continue to live longer, but life expectancy for men remains stagnant for the third straight year, Statistics Canada reports.

The national statistical agency reported that life expectancy for Canadian men remained unchanged at 79.9 years in 2018. For women, life expectancy ticked higher, increasing from 84.0 to 84.1 years.

Male life expectancy has now been unchanged for three straight years, which represents the longest streak on record, StatsCan said.

“Since Canada started recording information on deaths in 1921, life expectancy has typically increased from one year to the next, both for males and females,” StatsCan said.

The stagnation in male life expectancy isn't a reflection of the health of older men, but due to an increase in mortality in the 25-to-45 age group that is offsetting a lower probability of dying among all other age groups.
"The increase in mortality among males aged 25 to 45 is likely related to the opioid crisis affecting certain regions of the country," StatsCan said.
The impact of the opioid crisis on male lifespans is most evident in British Columbia, where life expectancy at birth declined by 0.2 years in 2018 to 79.9 years.
Back in 2015, B.C. had the highest life expectancy for Canadian men at 80.5 years, but it has now declined for three straight years.
Additionally, Ontario experienced a decline in male life expectancy "for the first time in decades," StatsCan said.
"As in British Columbia, it is likely that this slight decrease in life expectancy is related to the opioid crisis," StatsCan noted.
Despite the overall stagnation in life expectancy, life expectancy continued to rise for 65-year old men, increasing from 19.3 years in 2017 to 19.4 years in 2018.
For women, life expectancy at age 65 remained stable at 22.1 years.

9. Stocks plummet as coronavirus fears spread

[January 28, 2020] Canadian companies are starting to feel the pinch of the deadly coronavirus epidemic as they call off trips and watch their stock values slide.
The S&P/TSX composite index in Canada had its worst trading day in nearly four months on Monday, dropping more than 100 points before partly rebounding Tuesday morning.
Imax Corp. says it postponed the release of five films after China's more than 60,000 movie theatres shut down, including the company's more than 600 locations. The Mississauga, Ont.-based company is in the midst of a major expansion in China, which hosts roughly 40% of its outlets and generates hundreds of millions in box office revenue.
Air Canada has seen its stock fall about 12% in the past week. The Montreal based carrier offers direct flights to Beijing and Shanghai from Canada's three biggest cities, as well as to the airport at Wuhan — the epicentre of the virus — through a partner. Air Canada is allowing passengers to rebook flights to the Chinese cities free of charge.
All sorts of sectors, such as retail, insurance, mining and manufacturing, are bracing for impact. Companies including Canada Goose Holdings Inc., Sun Life Financial, Teck Resources Ltd., and Magna International Inc. — which

has nearly 19,000 employees at factories and offices in China — put employees' travel plans on hold or instructed staff to work from home. All except Sun Life saw their stock fall between five and 15% since Jan. 20, when authorities confirmed human-to-human transmission of the virus.

Bombardier Inc., the Montreal-based train-and-plane maker employing some 8,000 workers in China, echoes other Canadian companies with a foothold on the mainland and says it is "monitoring the evolving situation" and asking staff to "strictly follow the travel and public health instructions issued by the Chinese authorities."

Markets beyond the Asia Pacific region are stabilized for now, said Colin Cieszynski, chief market strategist at SIA Wealth Management.

"With efforts still underway to contain the coronavirus outbreak, including curtailing transport between Mainland China and Hong Kong, investors have paused to assess the situation, much of which remains clouded in uncertainty," he wrote in a research note.

The virus has killed at least 106 people and infected more than 2,750 others, Chinese officials report. The flu-like illness has spread to at least 14 other countries in Europe and North America, including two confirmed cases in Toronto and one presumptive case in Vancouver.

Broader proliferation beyond China's shores would lead to "a progressively larger global economic disruption," Beata Caranci, chief economist at TD Economics, wrote in a note.

"There's little doubt that confirmed cases will continue to rise globally in the near-term, but Chinese authorities have demonstrated a swifter and more transparent response than the SARS episode, both domestically and in alerting the World Health Organization."

The extent of the epidemic to date falls well short of the spread of Severe Acute Respiratory Syndrome, an illness from the same family as coronavirus, that spread from China to more than two dozen countries, including Canada, in 2003.

SARS infected more than 8,000 people worldwide, killing close to 800, according to the WHO. The disease sickened about 438 Canadian patients and caused 44 deaths in the Toronto area — the epicentre of the virus outside of China.

SARS cost Canada $5.25 billion and about 28,000 jobs in 2003, according to a 2014 report by Kai Ostwald, an assistant professor at the University of British Columbia's School of Public Policy and Global Affairs.

The damage came in large part from fear-based shifts in consumer behaviour rather than higher medical expenditures, Ostwald wrote in the report.

“Specifically, fear of contagion prompted widespread aversion behaviour, in which people significantly reduced activities that put them in close proximity with others. This included not only things like flying and eating in restaurants, but also activities like workplace and school attendance,” he wrote.

Another difference between the two outbreaks lies in China’s supercharged growth as an economic power over the past two decades. In 2003, China comprised 4% of global output, compared to 16% today, according to the World Bank.

A disruption could ripple through supply lines and consumer prices if the virus continues to spread.

“China is the engine of the global economy, churning out goods,” said German health economist Fred Roeder.

Its critical role in international shipping may be thrown into disarray as ships encounter delays at the port at Wuhan, a key hub on the Yangtze River.

“If they cannot leave, it creates huge delays in the supply chain and value chain of businesses all across the world,” Roeder said. “It could actually hit the latest generation of smartphone if ports are shutting down.”

Tourism too is at risk, with travel in many parts of China effectively suspended as full or partial lockdowns restrict more than 50 million residents.

Canada is increasingly reliant on Pacific countries for tourists, with the number of annual visitors from China shooting up by a factor of 10 since 2000 to 757,000 in 2018.

Meanwhile investors are seeking shelter in bonds amid fears the coronavirus could disrupt global economic activity, said Sherry Cooper, chief economist at Dominion Lending Centres.

The Government of Canada five-year bond yield traded at roughly 1.35% Tuesday morning, well below its nearly 1.70% level one month ago, she pointed out.

10. Many Canadians in the dark about TFSAs, RRSPs: Study

[January 27, 2020] Most Canadians agree that TFSAs and RRSPs are “crucial” to their savings strategies, but many don’t know how either account works, according to a survey from Toronto-Dominion Bank (TD).

Fifty-nine per cent of respondents to the TD survey said TFSAs are crucial to their savings, and 57% said the same for RRSPs. But more than a quarter of Canadians (27%) said they don’t know the differences between the two investment accounts.

For example, 22% of respondents said they would invest in a TFSA in order to reduce their taxable income — a benefit that TFSAs do not offer. Thirty-five per cent admitted they don't understand the tax implications of a TFSA.
The numbers weren't much better for RRSPs, with 30% of respondents saying they didn't understand the tax implications.
Twenty-five per cent of first-time homebuyers thought RRSPs were ideal for saving for a down payment; the federal government does allow first-time buyers to use RRSPs for down payments. But 15% of current homeowners thought RRSPs were the best way to save for their next home, despite the tax implications.
"The survey data show that many Canadians do not fully understand key characteristics of a TFSA and an RRSP, such as the tax benefits and withdrawal considerations," Jenny Diplock, associate vice president, personal savings and investing at TD, said in a statement.
The online survey was conducted by Ipsos from Dec. 17 to Dec. 19, 2019. It polled 1,500 Canadians aged 18 and older. Online surveys can't be assigned a margin of error because they do not randomly sample the population.

Have a nice and fruitful week!