Weekly Updates Issue # 782

1. Weekly Markets Changes

[September 18, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,198.97 -23.49 -0.14%	3,319.47 -21.5 -0.64%	27,657.42 -8.22 -0.03%	10,793.28 -60.27 -0.56%	$0.7584 No Change	$1,950.86 +10.31 +0.53%	$41.11 +3.78 +10.13%

2. Outlook grim for unincorporated self-employed individuals

[September 18, 2020] They say two heads are better than one, and when it comes to Covid-19, you may be better off with two jobs.

A new report from Statistics Canada studied the financial wellbeing of two groups of unincorporated self-employed individuals: those whose only income is self-employment income and those who are self-employed but also have another job.

The news wasn't good for people who didn't have a second job. Those folks were likely to "remain under severe financial strain" as a result of the pandemic, StatsCan warned.

Using data from 2016 tax records, StatsCan gauged people's reliance on self-employment income by measuring the median individual share of self-employment income in a person's total income.

StatsCan noted that men who were self-employed and had no other job were highly reliant on their self-employment income to get by.

Men in the lowest income decile were 100% reliant on their self-employment income, while men in the highest income decile were 86.4% reliant on their self-employment income. Overall, men were 93.5% reliant on their self-employment income.

The results were slightly better for self-employed women who didn't have another job.

Women in the lowest income decile were only 78.4% reliant on their self-employment income. This, StatsCan noted, is presumably because women are more likely to receive child benefits, which can represent a large share of income for people who earn very little.

But self-employed women with no other job in the highest income decile were 89.5% reliant on their self-employment income to get by — even higher than men. Overall, self-employed women with no other job were 87.9% reliant on their self-employment income.

The results were markedly different for people who were self-employed but also reported T4 income, StatsCan said.

Men and women in the lowest income decile who also reported T4 income were the most reliant on their self-employment income — 23.6% and 16.4%, respectively. In the highest income decile, men and women barely depended on any of their self-employment income — just 1.3% and 1.7%, respectively. Overall, men and women with an additional job were 4.3% and 4.4% reliant on their self-employment income to get by, respectively. StatsCan added that people with a second job had "considerably higher" income than people who did not.

Those with no other job may face serious hardship when the Canada Emergency Response Benefit (CERB) expires at the end of the month, StatsCan warned.

"As non-employees, they are unlikely to qualify for EI regular benefits after the CERB program expires at the end of September 2020, but many of those who earned at least $5,000 in 2019 or 2020 will qualify for the Canada Recovery Benefit," StatsCan noted.

StatsCan added that self-employed individuals who also have T4 income may benefit from the Canada Emergency Wage Subsidy.

3. Retail sales rose 0.6% in July

[September 18, 2020] Statistics Canada says retail sales rose 0.6% in July to $52.9 billion, helped by higher sales at motor vehicle and parts dealers and gasoline stations.

Economists had expected an increase of 1.0% for the month, according to financial markets data firm Refinitiv.

Statistics Canada says sales were up in six of 11 subsectors in July with the motor vehicle and parts dealers subsector contributing the most to the increase with a 3.3% increase. Sales at gasoline stations rose 6.1%.

However, the agency said core retail sales, which exclude those two subsectors, fell 1.2%.

Sales at building material and garden equipment and supplies dealers fell 11.6%, while sales at food and beverage stores dropped 2.1%.

Retail sales in volume terms were up 0.4% in July.

CIBC senior economist Royce Mendes said it looks like retail sales “hit a wall” in July as outside of automobile and gasoline sales retail sales lost ground.

“It’s a pretty sharp pullback after some explosive growth in retail spending in June,” he said.

Mendes said the slowdown could potentially be explained by a shift in spending towards the service sector.

“It’s possible that households actually just tilted some of their spending away from goods and back towards services,” he said, noting that consumers may have spent more on eating at a restaurant or going for a haircut.

Going forward, Mendes said the “recuperation phase” of reopening after Covid shutdowns will likely be slower and rockier, as predicted by the Bank of Canada.

He said ongoing restrictions and household cautiousness will likely lead to slower growth in the coming months.

4. Avoiding fund redemption nightmares

[September 18, 2020] In the wake of the unprecedented market stress prompted by the Covid-19 outbreak, regulators have been on guard for funds unable to meet investor redemption demands. And now, the Canadian Securities Administrators (CSA) are issuing new guidance for fund managers on dealing with critical liquidity risk.

When it comes to fund liquidity, the central concern for policymakers is a surge in redemption requests leading to panic-selling that could drive down asset prices at the expense of investors who don’t rush for the exit.

To prevent this sort of liquidity crunch, regulators expect fund managers to ensure their funds’ assets can meet redemption demands in a timely manner, even when markets are under stress.

One of the emergency measures that the CSA took in response to the Covid-19 crisis was to provide funds with more room to maneuver by temporarily raising short-term borrowing limits, thereby increasing funds' access to liquidity.

Now, in the wake of concerns being raised about fund liquidity as a potential systemic risk by the Bank of Canada, at the domestic level, and the Financial Stability Board (FSB), at the global level, the CSA has released new guidance to fund managers on liquidity risk management.

That guidance stresses the need for fund managers to ensure they're prepared to address concerns before they arise.

"If a fund does not manage its liquidity risk properly, there could be adverse outcomes for the fund and its investors," the guidance noted. "For this reason, taking a proactive and preventative approach […] is critical to ensuring that this risk is appropriately managed and dealt with in a timely manner, as it is very challenging to address material liquidity problems after they occur."

Among other things, the CSA's guidance covers the creation and ongoing maintenance of firms' liquidity risk management policies, governance, stress testing, and liquidity risk disclosure.

In terms of governance, the guidance suggested that fund managers should determine whether a new or existing committee that's independent of the portfolio management function should be tasked with overseeing liquidity risk management.

Also, while stress testing is not specifically mandated under securities legislation, the CSA's guidance sets out key factors for firms to consider when carrying out stress testing to assess a fund's ability to meet redemption requests.

The regulators note that the guidance doesn't create any new regulatory obligations for fund managers, nor is it one-size-fits-all.

Instead, it aims to provide a framework for fund managers to ensure that they're adequately addressing liquidity risk in their particular funds for both normal and stressed market conditions — such as the current pandemic or the 2008 global financial crisis.

The guidance also outlines the global liquidity risk management recommendations from the umbrella group of global regulators, the International Organization of Securities Commissions (IOSCO). Those also focus on ensuring fund managers can respond to stressed market conditions.

"Taking a preventative and proactive approach to liquidity risk management is critical to ensuring such risks are appropriately managed," said Louis Morisset, chair of the CSA and president and CEO of the Autorité des marchés financiers (AMF).

"We are publishing this guidance to support investment fund managers in their ongoing development and maintenance of robust, effective liquidity risk management frameworks," he said.

Additionally, the CSA noted that it will continue to monitor funds' liquidity risk management as part of its ongoing continuous disclosure reviews.

5. Millennials optimistic about home ownership

[September 17, 2020] Covid-19 has left many millennials working from home — and now some of them are thinking of buying a home because of the pandemic.

A new poll commissioned by Scotiabank found that respondents aged 18–34 were the most optimistic about buying a home in light of the pandemic. Almost one-fifth (18%) said Covid-19 had accelerated their plans to buy a home or investment property.

Low interest rates were the main factor driving respondents' plans to buy a home, the poll said.

But many millennials believe that now may not be the right time to jump into the market. According to the poll, 32% of millennials are waiting for house prices to drop before they make a move to buy.

Millennials were more likely than other respondents to believe that house prices will fall. Thirty-six per cent said house prices would come down, compared to 24% of respondents aged 35–54 and 17% of respondents 55 and older.

Most renters aren't considering getting into the housing market anytime soon, Scotiabank said. The poll found that 77% of respondents who rent have no plans of purchasing a new home in the next year or two.

The 2020 Scotiabank Housing Poll was conducted by Maru Blue on Aug. 24. The online poll surveyed 1,509 respondents across Canada. Online polls can't be assigned a margin of error because they don't randomly sample the population.

6. CSA warns industry against abuses as bans loom for trailers, DSCs

[September 17, 2020] The regulatory ban on fund managers paying trailer commissions to discount brokers will take effect in mid-2022, regulators said in a release on Thursday. That will happen alongside a ban on deferred sales charge (DSC) mutual funds in much of the country. With those measures on the way, the regulators also fired a warning shot across the industry's bow.

The Canadian Securities Administrators (CSA) have adopted final rules that will outlaw the payment of trailers to discount brokers as of June 1, 2022.

The CSA's trailer ban is slated to take effect at the same time as a ban on DSC funds in every market except Ontario. The Ontario government has refused to adopt an outright ban on DSC funds, and is instead considering a series of curbs on the funds that aim to reduce investor harm.

Along with its final rules on trailers, the CSA signalled to the industry that the measures must be implemented in a way that doesn't penalize investors.

In a statement, the CSA said it "expects fund organizations and dealers to take any necessary measures to ensure that investors with DSC holdings will not be required to pay redemption fees as a result of the trailer ban, and to clearly communicate the measures they intend to adopt to investors."

The regulators also warned they will be "highly attuned to inappropriate sales of DSC products ahead of the ban."

More generally, the CSA — along with the industry self-regulatory organizations, the Investment Industry Regulatory Organization of Canada and the Mutual Fund Dealers Association of Canada — cautioned the industry against taking advantage of investors, given the economic and market disruptions caused by the Covid-19 outbreak.

To that end, regulators issued a statement reminding firms of their obligations to "treat investors fairly and recommend suitable products, as many investors face shorter time horizons and heightened needs for liquidity due to continued economic uncertainty caused by the pandemic."

Before the pandemic, the CSA moved to ban the payment of trailers to discount brokers and to eliminate DSCs (ex-Ontario) due to "important investor protection concerns," the CSA said, noting that its policy decisions in this area are based on "extensive research, analysis and consultations."

The practice of fund firms paying trailers to discount brokers, in part for advice to investors that these firms are prohibited from providing, is also the subject of several investor class actions.

"These rules, together with enhanced conflict of interest obligations under the client-focused reforms, address investor protection concerns with clients buying investment fund products subject to trailing commissions where no suitability determination is made," said Louis Morisset, chair of the CSA and president and CEO of the Autorité des marchés financiers.

The CSA said its mid-2022 deadline for banning trailers to discount brokers will provide time for firms to revise their systems and processes to comply with the new rules, and to "reassess their internal compensation arrangements and implement new fee charging systems."

It also gives fund firms time to develop non-trailer-paying versions of their funds for discount brokerage clients.

"Where possible, investment fund managers and [discount brokers] are strongly encouraged to accelerate their transition away from mutual fund series with trailing commissions," Morisset said.

7. Bonds to offer modest returns in year ahead

[September 16, 2020] Investors should expect modest returns for government and corporate bonds in the next 12 months, as both the Bank of Canada and the Federal Reserve intend to keep short-term interest rates low for some time.

"We don't see rates moving aggressively higher in the near term. That would counter what the central banks and the governments have been trying to achieve," says Adam Ditkofsky, vice-president and portfolio manager at CIBC Asset Management.

Long-term rates could "move marginally higher as the recovery continues," he said, in which case both central banks are likely to step up and provide yield curve control.

That means targetting particular maturities and capping any "aggressive upward pressure" on rates, Ditkofsky said during an early September interview.

As such, he predicts 0% to 1.5% returns for Canadian government bonds, adding that those instruments are best-suited to "provide diversification support in risk-off periods."

Corporate bonds are a little more attractive, and they're likely to "modestly outperform government bonds in the next 12 months," Ditkofsky said.

However, he cautions that returns for corporates won't be as strong as in the past six months, when central bank bond-buying propped up the market.

Spreads between government and corporate bonds rose from lows of just under 1% in late January to 2.56% in late March, Ditkofsky said.

Spreads have since "retraced about 75% of their widening through the end of August."

"Portfolios that have been overweight credit since the widening have seen solid performance, and they benefited from material spread tightening and excess carry relative to government bonds," he said, but the picture isn't as rosy going forward.

High-yield bonds are most attractive, though spreads have also tightened in that area, said Ditkofsky, who co-manages the CIBC Canadian Bond Fund.

"Spreads have come in significantly from their highs of more than 10% in March, and they've retraced about 78% of the widening as of the end of

August," he said. "But we still think the sector offers attractive spread of approximately […] 500 basis points."

What's important in that space is company-level analysis.

"Many of these companies in the high-yield sector are heavily exposed to industries such as energy, services and hospitality," Ditkofsky said. "So understanding the companies and doing the credit work is key."

As central banks and governments pull back on stimulus, Ditkofsky is monitoring how the re-opening of the economy affects labour conditions, mobility and spending. Improvements in any or all of these metrics is "favourable for credit," he said.

While spread of Covid-19 remains a risk, "the government has had our back," which "should keep bond yields low and remain supportive for corporate bonds" as the search for a vaccine continues.

8. Consumer price index hits 0.1 per cent in August, says Statistics Canada

[September 16, 2020] The annual pace of inflation held steady in August as lower gasoline and air travel costs helped offset rising prices in other areas as businesses passed on costs related to operating during the pandemic.

Statistics Canada said Wednesday the consumer price index in August rose 0.1 per cent compared with a year ago, matching the 0.1 per cent year-over-year increase recorded in July.

The average economist estimate had been for a year-over-year increase of 0.4 per cent for August, according to financial markets data firm Refinitiv.

Gasoline prices were down 11.1 per cent compared with August 2019, following a 14.9 per cent decline recorded in July. Excluding gasoline from the inflation calculations, the consumer price index rose by 0.6 per cent in August, Statistics Canada said.

The monthly inflation report noted that air travel costs fell 16 per cent compared with August 2019, following a decline of 8.6 per cent in July as demand has fallen during the pandemic and airlines have offered discounts in response.

However, prices were up in other categories such as personal care services like haircuts, which had a year-over-year increase of 7.2 per cent.

Statistics Canada said the increased prices in the category could be attributed to businesses passing on additional costs related to safety measures needed to prevent the spread of COVID-19.

Royal Bank senior economist Nathan Janzen said consumer demand has held up better than expected over the summer, which has allowed for price growth in some categories as well as letting businesses pass on additional costs.
“The overarching question is how long can that last with unemployment still very high and the economy still running below capacity?”
The country has recouped about two-thirds of the three million jobs lost over March and April. The unemployment rate in August was 10.2 per cent.
A key pillar propping up spending has been government aid, including the Canada Emergency Response Benefit that has paid out over $76.4 billion to 8.75 million people since its introduction.
All that aid will mean that the pace of price growth until the end of the year won’t be as slow as may be expected under the economic circumstances, Janzen said.
The CERB will start winding down at the end of the month, and the federal Liberals have promised a $37-billion replacement package of changes to employment insurance and a trio of benefits.
An analysis published Tuesday by the Canadian Centre for Policy Alternatives estimated 2.7 million people receiving CERB payments will receive less when the new system kicks in.
“Income supports are critical to individuals but, also, to our country’s economic stability and positioning for a recovery,” the centre’s senior economist, David Macdonald, wrote in his analysis.
“Consumer spending, largely due to the rapid roll out of the CERB, has been mostly responsible for keeping the economy afloat since March.”
The Bank of Canada intends to keep its key policy interest rate at 0.25 per cent, which is as low as it will go, until inflation is back at the central bank’s two per cent target.
The hope is that by keeping its rate low, the central bank can drive down rates on mortgages and loans to make it easier for people to borrow and spend to aid the economy as it recuperates from the COVID-19 crisis.
Experts suggest the Bank of Canada’s key rate could stay where it is until late 2022 or even into 2023.
In August, the average of Canada’s three measures for core inflation, which are considered better gauges of underlying price pressures and closely tracked by the Bank of Canada, was 1.7 per cent.
Regionally, prices rose the fastest in Prince Edward Island in August, where Statistics Canada said consumers paid more for cigarettes – which registered an annualized increase of 7.8 per cent – after the province instated a special tax in mid-July.

9. Canadian home sales climb again, set record for August: CREA

[September 15, 2020] Canada posted record home sales and prices in August, but the increase was uneven, as the housing market levelled off in some regions.

Home sales in August climbed 6.2% compared with July to hit a record for the month, with gains led by the Greater Toronto Area and B.C.'s Lower Mainland, the Canadian Real Estate Association said on Tuesday.

Compared with a year ago, sales in August were up 33.5%. CREA noted, however, unlike the countrywide home sales spike in June and July, sales in August were up in about 60% of local markets.

"One change in August is that some regional disparity is starting to show again, after all markets were rebounding in unison in recent months," wrote Robert Kavcic, BMO senior economist, in a note to clients.

"(Sales) were driven by gains in Toronto and surrounding markets, as well as Vancouver/Victoria, but others like Calgary and Regina have ebbed…We suspect this regional split will re-establish itself as the dust settles."

The national average home price also set another record in August at more than $586,000, up 18.5% compared with a year ago. Excluding Greater Vancouver and the Greater Toronto Area, two of Canada's most active and expensive housing markets, lowers the national average price by about $122,000.

Ottawa, Montreal and Moncton saw some of the biggest surges in home prices last month, but prices were nearly flat in Calgary, Edmonton and St. John's, CREA said.

Royal LePage CEO Phil Soper attributed the climbing prices with a housing shortage, calling the 18.5% uptick "unhealthy."

CREA said that it would only take 2.6 months to sell the houses currently on the market, as housing inventory fell to a record low, especially in Ontario.

"Both number of homes people are buying and the number of newly listed homes are rising significantly. This cannot hide the fact that August 2020 was the worst on record for available housing," Soper said.

After fears about listing their houses during the height of the COVID-19 pandemic, more sellers are returning to the market. CREA said that in August, new supply outpaced the rise in sales for the first time since May.

Home sales in Canada came to a near halt in the spring due to the Covid-19 pandemic, but have surged through the summer, helped by pent up demand and low mortgage rates. CREA said in addition to a record for August it was the sixth-highest monthly sales figure of any month.

The record-busting sales activity means the housing market has caught up to last year's levels, despite weeks of inactivity this spring. Year-to-date, sales in August were up 0.8% from the first eight months of 2019, CREA said.

But Shaun Cathcart, CREA's senior economist, said comparing 2020 with 2019 sets a "low bar."

"[The] first half of 2019 wasn't really anything to write home about," said Cathcart.

"[With] eight months now in the books and activity showing signs of moderating in September, 2020 is looking like it will go down as a fairly middling year overall — weaker than in a non-Covid world but quite a bit better than we would have given it back in April."

Soper agreed that 2020's sales numbers look strong, in part, because the 2019 market was "unusually slow" amid a set of new laws that pressured housing for about 18 months, ending last August. Now, 2020 is set to be another extraordinary year, as banks begin collecting deferred mortgage payments and jobless rates threaten to languish for the rest of the year.

"The residual impact of rising unemployment and the end of mortgage deferrals should have a dampening affect demand overall, and bring some balance to the market by the end of the year. The real question is what happens in the spring of 2021," Soper said.

Have a nice and fruitful week!