Weekly Updates Issue # 604

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1. Weekly Markets Changes

[March 3, 2017]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,608.50 +75.03 +0.48%	2,383.12 +15.78 +0.67%	21,005.71 +184.0 +0.88%	5,870.75 +25.45 +0.44%	$0.7474 -1.64¢ -2.15%	$1,235.00 -23.00 -1.83%	$53.20 -0.82 -1.52%

2. Fed hike on the way, hints Yellen

[March 3, 2017] Federal Reserve Chair Janet Yellen signalled Friday that the Fed will likely resume raising interest rates later this month, to reflect a strengthening job market and inflation edging toward the central bank's 2% target rate.

In a speech in Chicago, Yellen said that the Fed expects steady economic improvement to justify additional rate increases. While not specifying how many rate hikes could occur this year, Yellen noted that Fed officials in December had estimated that there would be three in 2017.

The Fed will next meet March 14-15. At that meeting, Yellen said in her speech, the policymakers will "evaluate whether employment and inflation are continuing to evolve in line with our expectations, in which case a further adjustment of the federal funds rate would likely be appropriate."

Yellen's signal of a likely rate hike this month reflects an encouraging conclusion by the Fed: that nearly eight years after the Great Recession ended, the U.S. economy has finally regained most of its health.

Her comments echoed remarks that several other Fed officials made this week suggesting that they were all but certain to resume raising rates at their next meeting.

Still, a rate increase this month isn't necessarily a certainty. Any unexpected wave of poor economic news or worrisome global developments could give the Fed pause. The government's jobs report for February, to be issued next Friday, will be of particular interest.

But the most recent data–notably on job growth, manufacturing and consumer confidence–along with surging stock prices have been broadly encouraging.

In December, the Fed raised its benchmark rate by a quarter-point to a range of 0.5% to 0.75%. It was its first increase since December 2015, when the Fed raised its key rate from a record low. In estimating three rate hikes for 2017, the Fed was indicating a quickened pace of increases.

In a reaction report, Scotiabank's Derek Holt, vice-president and head of capital markets economics, says markets haven't reacted strongly to Yellen's comments so far. "Markets are largely shaking off Chair Yellen's speech, in terms of the USD and two- year Treasuries," he notes.

But, he says, "gone from the speech is any reference to 'months ahead' that Yellen used just two weeks ago to signal uncertainty over timing the next hike in her testimony before Congress, and this omission is what is more important than anything that's actually in the speech. […] From a rates and currency standpoint, there is nothing in this speech that goes beyond what is already largely priced in."

Holt adds, "Yellen is reaffirming the last dot plot and neither signalling more nor fewer hikes. […] "With the job market strengthening and inflation rising toward our target, the median assessment of FOMC participants as of last December was that a cumulative 3/4 percentage point increase in the target range for the federal funds rate would likely be appropriate over the course of this year." Holt and his team expect additional but gradual rate hikes in 2018 and 2019.

In her speech, Yellen sought to explain why the Fed has been slow to raise rates in the past two years. She pointed to the prolonged drop in oil prices that started in 2014 and slowed spending by energy companies. And she noted a rise in the value of the dollar, which depressed inflation and hurt export sales by making American goods costlier overseas.

Other disruptive events last year led the Fed to proceed cautiously. They included anemic U.S. economic growth early in the year, global fears about a sharp slowdown in China and Britain's vote to leave the European Union.

Despite all that, Yellen said, "The U.S. economy has exhibited remarkable resilience in the face of adverse shocks."

She said she saw no evidence to suggest that the Fed has been excessively slow to raise rates or that inflation is threatening to rise too quickly. "I

therefore continue to have confidence that a gradual removal of accommodation is likely to be appropriate," Yellen said.
At the same time, she added: "Unless unanticipated developments adversely affect the economic outlook, the process of scaling back accommodation likely will not be as slow as it was during the past couple of years."
In a research note, CIBC Capital Markets chief economist Avery Shenfeld says, "Yellen was about as clear as she could be in a pre-meeting remark in suggesting that the Fed is likely to hike in March, and that will swamp any attention to [James] Bullard's dovish take." Bullard is the 12th president of the Federal Reserve Bank of St. Louis and he's known as dovish.
Shenfeld says Yellen commented on how "the last half of 2016 allowed the Fed to gain confidence that it would meet its goals for employment and inflation." For a March hike, the Fed committee will zero in on employment and inflation expectations, he adds.
Market expectations
Before central bank officials began speaking out this week, many Fed watchers and investors had been doubtful of a rate increase this month.
The assumption was that Fed officials would want to assess President Donald Trump's proposed tax cuts and increased spending for the military and infrastructure projects, after the details of those projects and the likelihood of their congressional passage became clear. Many thought the Fed would want to wait until June to resume raising rates.
A major reason for the recent signals from Fed officials for a rate increase is the robust job market. On Thursday, for example, the government reported that first-time applications for unemployment benefits _ a proxy for the pace of layoffs–fell last week to their lowest level in nearly 44 years.
The stock market, in the meantime, has been setting a string of record highs, fueled by confidence that Trump's plans for cutting taxes and boosting spending will win congressional approval.
And inflation, which had been lagging at chronically low levels, has been edging steadily up, reflecting in part a rebound in gasoline prices and higher wages. The Fed's preferred inflation gauge showed that prices rose 1.9% over the 12 months that ended in January. That was the largest 12-month gain in nearly five years and just below the Fed's 2% target for inflation.
Some Fed officials suggested that the rise in inflation and the low 4.8% unemployment rate were evidence that the central bank was now close to achieving its dual mandates of maximum employment and stable prices.
As of 2:05 pm CT, CME Group's FedWatch tool indicated there was an 81.9% chance that the Fed would hike. That compares to 77.5% yesterday.

3. What to do with insurance after a divorce

[March 3, 2017] As clients lives get more complex, their divorces do, too. This is particularly the case when spouses are connected by assets like insurance.

Here's how family lawyers can approach life and health insurance upon a separation or divorce.

Life insurance

When people separate, former often spouses remain connected well beyond the physical separation — usually through a co-parenting relationship or because of ongoing child or spousal support obligation.

It is customary when negotiating the financial terms of a divorce to ask the person with an ongoing financial obligation to secure that obligation.

The most frequent type of security is life insurance. Whether the support payor has life insurance privately or through a group plan at work, it's fairly simple to determine the death benefit required. It is based on the amount and duration of the support obligation, and it does not have to be the entire amount of the policy.

The most common type of beneficiary designation is when the non-insured spouse is the direct irrevocable beneficiary. A more complicated method is where the beneficiary is constituted "in trust for the children." This would require the parties to work with a lawyer to create the trust agreement. In more acrimonious cases, the insured may select a family member, rather than the former spouse, to be the direct beneficiary or beneficiary in trust for the children. This adds complication, because the beneficiary should be someone who can help the non-insured spouse access the insurance proceeds after the insured's death.

If the person who will have an ongoing financial obligation does not have life insurance, but could obtain it, and if there are sufficient financial means, they will likely be asked to apply.

But if the person is uninsurable, there are alternatives. One might be to accelerate the support obligation through a lump sum payment of either the full or a partial amount, so that even if the payor dies during the support period, the payee still has sufficient funds. If the payor doesn't have enough cash to pay a lump sum, another option is making the payee the beneficiary of a registered savings plan. This is an imperfect solution, however, because there is no way to make the designation irrevocable or to prevent the spouse from depleting the plan.

In a recent case, Dagg v. Cameron Estate, the court found that an irrevocable designation may not prevent a subsequent spouse of the deceased from making a dependant's support relief claim against the life insurance policy. Family lawyers are struggling to find more secure alternatives. New language around the confirmation of the charge on the estate if the insurance is not fully available is likely to emerge.

Separation agreements may allow a variation of the security if circumstances change. Examples include when someone's life insurance policy is no longer available through employment, if premiums rise significantly, if the person originally entitled to receive support is no longer receiving it, or if the duration of the support obligation is ending.

If the prescribed security is not in place at the time of death, separation agreements usually allow for the balance of the support obligation, or for the designated amount of life insurance, to become a first charge against the estate of the deceased.

Health insurance

Coverage for the children and former spouse

The spouse who has health insurance is usually asked to keep the former spouse as beneficiary for as long as the plan allows, or until the spousal support obligation ends.

Many plans allow a former spouse to remain a beneficiary under the insured's health policy until a divorce is finalized. Other plans terminate the beneficiary coverage for a former spouse immediately upon a separation. Some high-end executive-type insurance policies may be more flexible, but still need to have the carrier's underwriter approve any continuation of benefits.

It's likely necessary, then, for former spouses to apply for their own health insurance. Discuss this with the former spouse well in advance of the coverage ending; generally, a non-insured spouse's right to apply for their own coverage under the insured's plan expires one month after termination of coverage.

If the non-insured spouse has pre-existing medical conditions, some policies don't require medical information, but the premiums tend to be high and the coverage limited. If the former spouse is healthy, they may get better benefits by applying for individual coverage (which does require medical information). This type of plan provides more coverage and options.

In the case of the children, it is generally not a problem to maintain them under the plan until age 25, provided they are full-time students. If both spouses have health insurance, coordination of benefits can be done according to the older spouse.

Insurance refund cheques

A common problem exists with the reimbursement of the health expenses paid by the non-insured spouse and claimed through the insured's health plan.

Often, the insurance company will send the insurance refund cheque directly to the insured's bank account regardless of which spouse actually paid the expense.

Some, but not all, insurance policies permit the insurance refund cheque to be sent directly to the non-insured spouse.

In non-acrimonious cases, a joint credit card can be used to pay for the children's health expenses, and the insurance refund cheques can be deposited in a joint bank account.

In acrimonious cases, separation agreements should contain clauses to compel the insured to provide the insurance refund cheque to the non-insured spouse who paid for the expenses within a certain period, along with the statements sent by the insurance company to verify the amounts.

4. CPP enhancements receive final sign-off

[March 2, 2017] Canada's governor general has signed an order in council to bring the Canada Pension Plan enhancements in Bill C-26 into force, marking the final step in implementing the expanded plan, according to a release from the Ministry of Finance.

It noted Canada's provincial governments have now met all necessary legislative requirements to implement the agreed-upon enhancements. The provincial governments have been working towards reaching an agreement on making changes to the CPP since June 2016.

"Today, we mark the final step in delivering an enhanced CPP that will give workers today and future generations a safer, more secure and dignified retirement," said Minister of Finance Bill Morneau.

"I would like to thank Canada's finance ministers for their hard work in reaching an historic agreement to make the CPP even better. Their commitment to improving the lives of Canadians in retirement is an example of what we can accomplish together — and of federalism at its best."

The CPP enhancements will raise the contribution rate for both employers and employees to 5.95% from the current 4.95% over a seven-year phase-in period that will begin on Jan. 1, 2019.

According to the government, it will take roughly 40 years of contributions for a worker to fully accumulate the enhanced benefit.

"This CPP enhancement will not only mean more money for Canadians when they retire, it will also mean a stronger economy and more middle class jobs over the long term," said Morneau.

5. Don't fall for binary options fraud

[March 2, 2017] To raise awareness and protect Canadians from binary options scams, the CSA has launched a resource website, which explains to investors how the scams work, how to report fraud and how to protect themselves. One method of protection is checking sellers to see if they're registered. They likely won't be, because no registered people or firms are permitted to trade binary options in Canada.

Binary options take the form of a wager in which investors bet on the performance of an underlying asset — often a currency, stock index or share. The timeframe on the bet is typically very short, sometimes hours or even minutes. When the investment period is up, the investor receives a predetermined payout or loses the entire amount.

The overwhelming majority of binary options sites are rigged to lure in victims with small early returns. In many instances, no actual trading occurs, and the entire interaction takes place for the purpose of stealing money. Once larger sums are invested, the losses begin to spiral, often through unauthorized credit card withdrawals and requests to send money offshore to an unregistered firm. Once a victim loses money, it's almost impossible to recuperate those losses.

In addition to creating the new website, the CSA's binary options task force works with online advertisers and mobile companies to eliminate binary option advertising and mobile apps in Canada. The task force co-ordinates efforts with international organizations and governments to create and maintain a system to share and track fraudulent activity across the country, and it works closely with the fraud teams at major credit card and financial institutions to cut off funding mechanisms.

"Binary options fraud is a leading type of investment fraud facing Canadians today," says Jason Roy, chair of the CSA binary options task force and senior investigator with the Manitoba Securities Commission, in a release. And sellers have no specific targeted victim profile — every age, investor skill level and gender has been affected.

6. Household consumption boosts growth to 2.6% in Q4

[March 2, 2017] The Canadian economy outperformed expectations in the final three months of 2016 by growing at an annual rate of 2.6%, Statistics Canada said Thursday.

The agency's latest report on real gross domestic product said the biggest contribution to the fourth-quarter increase came from household consumption, which rose at an annual rate of 2.6%.

Downward pressures on economic growth were led by an 8.2% decline in business investment, which was the category's ninth consecutive quarterly contraction.

A consensus of economists had predicted economic growth in the fourth quarter would expand by 2%, according to Thomson Reuters.

Overall, the economy expanded by 1.4% in 2016 — compared to 0.9% growth in 2015.

The real GDP figures were released as the Bank of Canada and the federal government try to gauge the direction of U.S. economic policy under President Donald Trump. Concern has spread through corporate Canada and Ottawa over the impact of potential changes to taxation and trade policies by Trump's administration.

The fourth-quarter real GDP result followed growth in the third quarter at a revised annual rate of 3.8%. That third-quarter reading was driven by a strong rebound in energy exports after the devastating spring wildfires in the Alberta oil patch.

Over the final months of 2016, exports of goods and services increased at an annual rate of 1.3%.

The overall GDP figure received a boost from a sharp quarterly drop in imports, which fell at an annual rate of 13.5%. Statistics Canada said some of the decline was due to the one-time, third-quarter import of a large module for the Hebron offshore oil project.

The last time Statistics Canada saw such a significant drop was the first quarter of 2009, when the headline import figures dropped at an annual rate of 33.3%.

7. 82% of Canadian millennials expect to buy homes soon

[March 1, 2017] The generation that disrupts business by demanding customization and embracing the sharing economy is showing a more traditional side when it comes to home ownership.

That's because a whopping 82% of Canadian millennials say they intend to buy a home in the next five years, reveals an HSBC study. Further, more than a third (34%) already own a home, despite stagnant wages and rising house prices.

Though having a first child might have pushed previous generations into home ownership, that might not be the case for millennials: 30% say they're willing to delay parenthood so they can buy a home.

In fact, work may supersede parenthood as a reason to become a homeowner, because almost half of Canadian millennials work from home (48%), the study finds.

Homebuyer help

Regardless, millennials need help making their dreams of home ownership come true. More than two-thirds (70%) don't have enough for a down payment. And 53% have only an approximate budget, while 27% have no budget. Further, many millennials who bought a home in the last two years overspent (42%).

Indeed, a recent poll found a mere 12% of Ontario millennials are confident about making mortgage decisions. For instance, 25% don't know what closing costs are.

Buyers in real estate hot spots like Toronto and Vancouver might be particularly challenged. For example, new condos in the Greater Toronto Area are going for about half a million dollars, and new homes recently surpassed the $1-million mark for the first time.

But millennials are willing to budget, saying they are open to spending less on leisure (59%) and are also open to buying a smaller home (37%).

The banking industry is ready to help. For millennials taking advantage of the bank of Mom and Dad (37%) or pursuing home ownership with a roommate, it's now possible to pool money for a family-and-friends mortgage, where up to four people can be placed on title.

Millennials and all prospective homebuyers can also get help from in a new step-by-step homebuying guide from the Canadian Mortgage and Housing Corporation.

About the study: *The findings are based on a survey of homeowners and non-owners aged 18 or older from a nationally representative online sample of 9,000 people in eight countries (1,000 in Canada). The research was conducted by Kantar TNS in October and November 2016. Millennials are defined as those born between 1981 and 1998.*

8. BoC holds rates, notes 'material excess capacity'

[March 1, 2017] The BoC pointed to "material excess capacity" in the economy as it held its benchmark lending rate at 0.5%.

January's higher inflation reading of 2.1% reflected the impacts of provincial carbon pricing measures, the BoC said in a statement, adding that it expects this upward pressure on energy prices to be temporary.

"Don't talk to the Bank of Canada about rate hikes," CIBC economist Nick Exarhos said in a note. "[I]t's more of the same of the BoC, and we continue to see them as on hold until next year."

The bank said its measures of core inflation "continue to point to material excess capacity in the economy" as it noted "competitiveness challenges" for Canadian exports. Without referring directly to Donald Trump or U.S. trade policy, the bank said it was "attentive to the impact of significant uncertainties weighing on the outlook."

The BoC added: "While there have been recent gains in employment, subdued growth in wages and hours worked continue to reflect persistent economic slack in Canada, in contrast to the United States."

TD economist Brian DePratto called the statement dovish, with the bank leaning more towards easing than tightening. "[T]he level of the loonie and movements in bond yields are not seen as helpful given the economic slack still remaining in Canada," DePratto said.

9. Consumer confidence hits highest level in 7 years

[February 28, 2017] The Conference Board of Canada's Index of Consumer Confidence rose nine points in February to 110.6. This was the largest monthly increase since March 2015, putting the index at its highest level in more than seven years.

"February's gains suggest the recent string of solid job creation at the national level as well as the improved economic outlook for 2017 have Canadians feeling more upbeat," said Matthew Stewart, Associate Director, National Forecasting.

Quebec and Ontario had the most significant improvements in consumer sentiment, with increases of 13.9 and 10.5 points, respectively. Both provinces are highly dependent on trade with the United States, which is continuing to show solid economic momentum and strong job creation. Also, the first meeting between President Trump and Prime Minister Trudeau may have also helped to allay some fears.

Consumer confidence also increased in Alberta in February, with the provincial index rising 8.2 points to 67.5 – its highest level since March 2015. The recent stability in crude prices above US$50 a barrel seems to have translated into optimism in Alberta about the future course of the province's economy. And, despite a weak employment performance last month, expectations regarding job prospects improved for the fourth consecutive month in February.

However, even after reaching a near two-year high in February, Alberta's index remains more than 30 points below its 2014 average.
The Saskatchewan–Manitoba index also rose, by 7.1 points to 83.9. Manitobans were feeling significantly more optimistic about their household finances and the prospect of making a major purchase. Meanwhile. British Columbia's index rose 2.3 points in February to 126.4; the province saw an improvement in the balance of opinion regarding future financial conditions.
The index for the Atlantic provinces was the only one to decline in February, falling by 3.9 points. The weak economic outlook for much of the region likely contributed.
This survey was conducted between February 6-16, 2017.

10. Would you buy 100-year government bonds?

[February 27, 2017] Last week, U.S. Treasury secretary Steven Mnuchin said he and his staff are considering issuing government debt with maturities of as long as 100 years, reports Financial Times.
Mnuchin hasn't made a formal announcement, but FT says the decision to move forward with longer-dated issues "would mark a historic shift in policy." It would also mean the U.S. would follow the path of countries such as Belgium, Austria and Mexico, which have sold longer bonds.
Mnuchin's hint begs the question as to how attractive such issues would be.
In a December 2016 blog post, Cullen Roche of Orcam Financial Group argues the U.S. Treasury secretary should be doing opposite: rather than extending maturities in the face of higher interest rates, he should consider "reducing the maturity level of new debt issuance."
One of Roche's reasons for this is, in his view, extending maturities would actually "increase the current and future interest burden" of the U.S. government. He says, "With a 3.1% 30-year T-Bond the U.S. government would almost certainly have to pay much higher rates than 1.2% to issue a 50- or 100-year bond."
Domestically, the fate of Canada Savings Bonds is uncertain. In October, two experts shared their views on whether the bonds still have a place in portfolios.

Have a nice and fruitful week!