Market Matters

NOVEMBER 2015 HIGHLIGHTS

- A number of tragic events sent waves of sorrow and fear around the world and contributed to some market volatility, particularly mid-month.
- Dropping oil prices and the strong U.S. dollar weighed on Canada's resource sectors, moving the S&P/TSX Composite just slightly into negative territory for November.
- Following a mid-month decline, U.S. equities rallied (helped by the banks) to end November just about the flat line.
- Expectations that the European Central Bank would announce further monetary policy easing in December supported Eurozone equities.
- Emerging markets lagged their developed counterparts as the stronger US dollar weighed on emerging market currencies.
- The broad-based Canadian fixed income market posted a modest gain, helped by corporate bonds.

Table 1
Summary of major market developments

Market returns*	November	YTD
S&P/TSX Composite	-0.4%	-7.9%
S&P 500	0.1%	1.0%
- in Canadian dollars	*2.2%*	*16.2%*
MSCI EAFE	1.1%	5.7%
- in Canadian dollars	*0.4%*	*12.8%*
MSCI Emerging Markets	-2.7%	-6.8%
FTSE TMX Canada Universe Bond Index**	0.1%	2.4%
FTSE TMX Canada all corporate bond index **	0.4%	2.1%

*Local currency (unless specified); price only
**Total return, Canadian bonds

Table 2
Other price levels/change

	Level	November	YTD
CAD per USD exchange rate	$0.748	-2.1%	-13.0%
Oil (West Texas)*	$41.65	-10.6%	-21.8%
Gold*	$1,064	-6.8%	-10.4%
Reuters/Jefferies CRB Index*	$182.54	-6.7%	-20.6%

*US dollars

Table 3
Sector level results for the Canadian market

S&P/TSX Composite sector returns*	November	YTD
S&P/TSX Composite	-0.4%	-7.9%
Energy	-4.1%	-21.3%
Materials	-1.2%	-20.9%
Industrials	1.0%	-8.3%
Consumer discretionary	-3.1%	2.3%
Consumer staples	2.8%	11.3%
Health care	1.5%	-26.4%
Financials	0.8%	-2.0%
Information technology	7.5%	13.6%
Telecommunication services	0.0%	7.2%
Utilities	-2.4%	-9.4%

*Price only
Source: Bloomberg, MSCI Barra, NB Financial, FTSE TMX Global Debt Capital Markets Inc.

HARD ACT TO FOLLOW

Global equity markets had a hard act to follow after broad gains in October. Global markets were mostly down in November and commodities also had a weak showing.

The Canadian resource sectors kept the S&P/TSX in the red. Oil prices dropped over 10% in November alone. It was also a difficult start to the month for the S&P 500, as global events (Paris and Turkey) tested world markets. However, by the end of the month the American index managed a slight gain as banks were supported by the likelihood of the U.S. Federal Reserve (Fed) raising interest rates (and therefore creating higher net interest margins for banks). Offsetting some of the gains were challenges faced by US multinational companies reporting their earnings in USD. The strengthening USD means they face significant currency depreciation of their revenues from other countries. Consumer sectors tend to get the most attention this time of year, and it appears the bricks-to-clicks trend is continuing as poorer store showings are being somewhat offset by better online sales. In both Canada and the U.S., the consumer discretionary sector posted a negative monthly return, but remains positive for the year.

Eurozone equities tended to outperform other regions, supported by expectations that the European Central Bank (ECB) would announce further monetary policy easing in December. Meanwhile emerging markets lagged their developed counterparts as the stronger US dollar weighed on emerging market currencies.

With expectations rising for a Fed rate hike in December, U.S. fixed income markets fell into the red. While the Canadian fixed income market tends to follow similar moves to that of the U.S., Canadian government bonds have traditionally outperformed their U.S. Treasury peers in rising yield environments. As such, the broad-based Canadian fixed income market managed to stay in the black this past month, helped by strength in corporate bonds.

FAMILIAR THEMES

A number of familiar themes returned to the forefront in November, including lackluster global growth; diverging monetary policies; and sadly, political and ideological strife, resulting in more human tragedy.

LACKLUSTER GLOBAL GROWTH

The contribution to global GDP from emerging markets has also been slowing. A low oil price hasn't helped the economic growth of emerging markets like Russia and Brazil, and in turn the slowing economic growth in China hasn't helped oil prices. And while low fuel prices should be a help to consumers and industries (and therefore net out to be a benefit for global growth), the benefits have been slow to materialize.

DIVERGING MONETARY POLICIES

The market narrative this past month (alas this past year) has been increasingly centered on the diverging monetary policy paths of the Fed, in contrast with nearly every other major Central Bank in the world.

After a relatively positive string of US economic data (most notably a robust jobs market report for October), conditions appear to be in place for the Fed to feel confident lifting rates off their ultra-low zero-bound levels at their next meeting on December 16. Also helping increase the expectations for a U.S. rate lift-off is the fact that US investors (reflected in market action) appear to be gaining more comfort with the notion of a December hike, as they expect the pace of interest hikes to be slow and gradual.

Meanwhile in Europe, easing policy is welcomed as a needed boost to economic growth and the outlook for corporate earnings. Throughout November, the expectations for a significant stimulus announcement and an expanded quantitative easing program grew. Early in December the ECB announced further policy easing including cutting its deposit rate deeper into negative territory and extending its asset purchasing plan by six months to March 2017 to support the fragile economic recovery and fight stubbornly low inflation. Unfortunately the ECB appeared to keep much of its powder dry, disappointing high market expectations for even greater stimulus.

The diverging monetary policies are playing out in significant currency moves. The trade-weighted US dollar index, which measures the value of the dollar vs. other developed economy currencies, has rallied nearly 10% so far this year. The other side of the strong greenback is a weakening Euro and Canadian dollar. Of course, commodities (largely priced in US dollars) have the rising strength of the US dollar as additional downward pressure on already depressed prices.

POLITICAL AND IDEOLOGICAL STRIFE

Peace on earth remains a much desired wish, but November's terrorist attacks in Paris and Lebanon reminded the world that we aren't there yet. While France and Lebanon mourned, Belgians sheltered under high-alert attack warnings, thousands of Syrians sought refuge from their country under siege, and a Russian plane was shot down by Turkey followed by uncomfortably high tensions between the two countries. Ultimately, Russia chose to avoid a military response for now, which was cited as one factor for the drop in oil prices toward the end of November. A bigger factor is Iran and Libya announcing intentions to increase production by nearly 1 million barrels per day combined. The price of oil hovered in the low $40 dollar range during the month of November.

HAPPY HOLIDAYS!

From all of us at GLC Asset Management Group, to all of you – thank you for your support throughout the year and may good cheer, good health and good fortune be plentiful throughout the holiday season and in the new year!