# Month in review

November 2018

Global equities regained some ground in November after experiencing steep sell-offs in October. Dovish comments from U.S. Federal Reserve (Fed) Chair Jerome Powell, implying that the Fed's three-year tightening cycle is drawing to a close, supported markets. U.S. mid-term elections were also consistent with market expectations.

Investors remained cautiously optimistic about the outcome of trade talks between the U.S. and China ahead of the G20 summit later in the month.

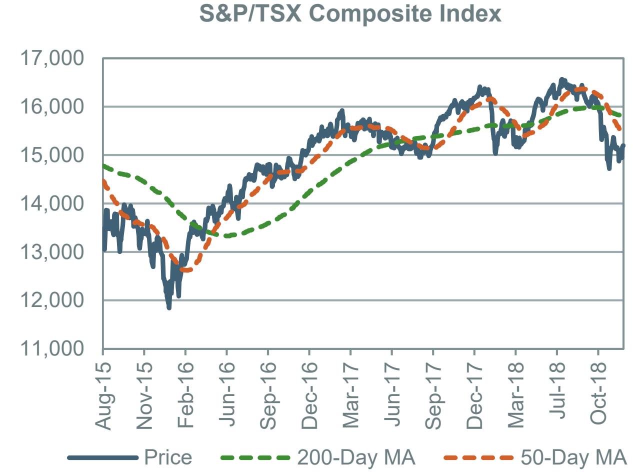
In contrast, worries about rising oil production and weakening demand hurt crude oil prices, which dropped to a one-year low, sending energy stocks sharply lower. Information technology stocks also came under pressure on concerns about increased regulatory risk and a weakening outlook. The potential adverse impact of rising interest rates and tariffs on global economic growth continued to weigh on investor sentiment.

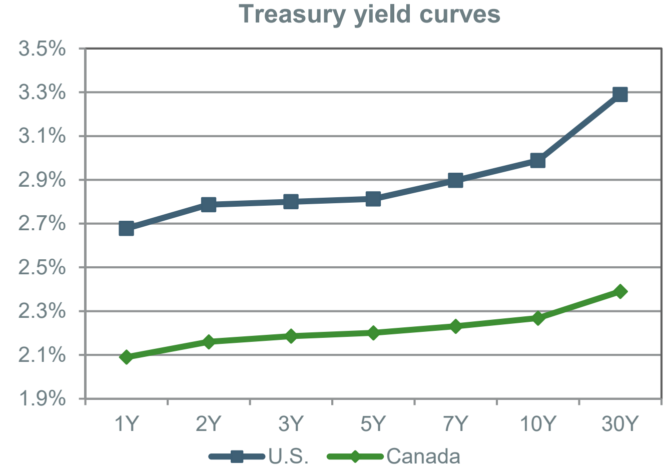
Concerns related to global growth and geopolitical risk prompted a rise in demand for safe-haven assets such as U.S. Treasury bonds. The U.S. ten-year Treasury yield fell back to 2.99%. The fall in yields indicates a rise in bond prices.

The fall in U.S. Treasury yields, particularly for longer-dated bonds, indicates that investors anticipate growth and inflation to moderate in the longer term.

| Indexes | Close | MTD | YTD |
|---|---|---|---|
| S&P/TSX | 15,197.82 | 1.13% | -6.24% |
| S&P500 | 2,760.17 | 1.79% | 3.24% |
| NASDAQ | 7,330.54 | 0.34% | 6.19% |
| DJIA | 25,538.46 | 1.68% | 3.31% |
| Russell 2000 | 1,533.27 | 1.45% | -0.15% |
| FTSE 100 | 6,980.24 | -2.07% | -9.20% |
| Euro Stoxx 50 | 3,173.13 | -0.76% | -9.44% |
| Nikkei 225 | 22,351.06 | 1.96% | -1.82% |
| Hang Seng | 26,506.75 | 6.11% | -11.41% |
| Shanghai Comp. | 2,588.19 | -0.56% | -21.74% |
| MSCI ACWI | 490.86 | 1.30% | -4.32% |
| MSCI EM | 994.72 | 4.06% | -14.13% |
| **Fixed income** | **Close** | **MTD** | **YTD** |
| FTSE TMX Uni. | 1,037.38 | 1.02% | 0.05% |
| BBG Global Agg. | 469.42 | 0.31% | -3.16% |
| TSX Pref | 1,510.01 | -5.99% | -6.45% |
| **Bond yields** | **Close** | **bps chg MTD** | **bps chg YTD** |
| 10 yr Canada Govt. | 2.27% | -22.6 | 22.3 |
| 10 yr U.S. Govt. | 2.99% | -15.6 | 58.3 |
| 30 yr Canada Govt. | 2.39% | -14.3 | 12.4 |
| 30 yr U.S. Govt. | 3.29% | -10.1 | 55.0 |
| **Commodities** | **Close** | **MTD** | **YTD** |
| Oil | 50.93 | -22.17% | -11.81% |
| Natural gas | 4.61 | 39.67% | 49.69% |
| Gold | 1,220.52 | 0.47% | -6.32% |
| Silver | 14.20 | -0.31% | -16.13% |
| Copper | 278.75 | 4.09% | -17.03% |
| **Currencies** | **Close** | **MTD** | **YTD** |
| CAD/USD | 0.7523 | -1.01% | -5.43% |
| USD/EUR | 0.8835 | -0.06% | 6.06% |
| CAD EUR | 0.6646 | -1.09% | 0.29% |
| USD/JPY | 113.5700 | 0.56% | 0.78% |
| USD/CNY | 6.9605 | -0.22% | 6.97% |
| USD/MXN | 20.3668 | 0.14% | 3.60% |
| GBP/CAD | 1.6940 | 0.86% | -0.26% |
| GBP/USD | 1.2749 | -0.13% | -5.65% |

** Please refer to Appendix for the above table in Canadian dollar terms.*




Source: Bloomberg, DataStream.
Index returns are in local currency. All equity indexes are price returns and do not include dividends.

# Month in review

November 2018

| Economic indicators | Period | Survey | Actual | Prior period |
|---|---|---|---|---|
| Canada Q3 GDP (YoY) | Q3 | 2.0% | 2.0% | 2.9% |
| Canada unemployment rate | October | 5.9% | 5.8% | 5.9% |
| Canada CPI (YoY) | October | 2.2% | 2.4% | 2.2% |
| Canada housing starts | October | 198.0k | 205.9k | 188.7k |
| U.S. CPI (YoY) | October | 2.5% | 2.5% | 2.3% |
| U.S. Q3 GDP (QoQ) | Q3 | 3.5% | 3.5% | 3.5% |
| University of Michigan sentiment | November | 98.3 | 97.5 | 98.3 |

## Canada

After a sharp correction in October, Canadian equities advanced during the month. In a positive development, the leaders of U.S., Mexico and Canada formally signed a North American trade pact at the G20 summit. The signing of the agreement could reduce uncertainty for Canada's economy, but that prospect has been offset by a sharp drop in the price of oil, one of Canada's major exports. Although the Organization of the Petroleum Exporting Countries (OPEC) is expected to curb output, waivers granted by the White House to major buyers of Iranian oil, a slowdown in growth in China and rising U.S. oil supply have all contributed to the downside pressure in crude oil prices. At a sector level, consumer staples and communications services made the leading gains, while health care and energy led the declines.

On the economic front, Canada's GDP growth slowed to an annualized rate of 2% in the third quarter, with slowing household consumption growth and business investment likely a reflection of higher interest rates, trade uncertainty and lower oil prices.

## U.S.

Dovish comments from Fed Chair Jerome Powell were among the prominent factors contributing to gains in U.S. equities over the month. The market sees an approximately 80% probability of a rate hike in December, but expectations of further hikes next year diminished after Powell suggested that interest rates are close to neutral, the level at which they neither hold back economic growth nor aid it. At the same time, long-term inflation expectations dropped below the Fed's target of 2% for the first time in 11 months, prompting investors to scale back expectations of an extended Fed tightening cycle.

The U.S. mid-term elections, another event that dominated investor sentiment during the month, came in as expected. Democrats won control of the House of Representatives, while Republicans retained their hold on the Senate. In contrast, ongoing trade tensions, weak oil prices and a sell-off in technology stocks contributed to increased volatility in the markets. The FAANG stocks (Facebook, Amazon.com, Apple, Netflix, and Google parent Alphabet) entered a bear market, off more than 20% from their highs, as investors reassessed their growth outlooks and lofty valuations.

In economic developments, core inflation (excluding food and energy) edged lower, to 2.1% in October, from 2.2% in the previous month. Optimism among small business owners remained near record levels, according to the NFIB Small Business Optimism Index. Conversely, softness in housing data suggested that higher interest rates are starting to hinder demand.

## Rest of the world

Concerns about U.S.-China trade tensions, ongoing Brexit negotiations and Italy's budget proposal weighed on European equities. The E.U. has approved an agreement on the U.K.'s withdrawal, but its approval by the U.K. parliament remains highly uncertain. Meanwhile, concerns about the budget stalemate between Italy and the E.U. eased somewhat toward the end of the month, after the Italian government agreed to revise its budget deficit target for 2019.

Asian equities were volatile over the month, due to lingering uncertainty about U.S.-China trade disputes ahead of the G20 meeting.

Fidelity INVESTMENTS

# Month in review

November 2018

## Looking ahead

| Economic indicators | Date | Survey | Prior period |
|---|---|---|---|
| Canada unemployment rate | 7-Dec | 5.8% | 5.8% |
| U.S. unemployment rate | 7-Dec | 3.7% | 3.7% |
| Canada housing starts | 10-Dec | - | 205.9k |
| U.S. CPI (YoY) | 12-Dec | 2.2% | 2.5% |
| U.S. industrial production (MoM) | 14-Dec | 0.3% | 0.1% |
| Canada CPI (YoY) | 19-Dec | - | 2.4% |
| Canada GDP (YoY) | 21-Dec | - | 2.1% |
| U.S. GDP (QoQ) | 21-Dec | 3.5% | 3.5% |

**Central bank meetings**

| Central banks | Date | Probability of increase | Current rate |
|---|---|---|---|
| European Central Bank | 13-Dec | 7.0% | 0.00% |
| Federal Open Market Committee | 19-Dec | 78.8% | 2.25% |
| Bank of England | 20-Dec | 1.0% | 0.75% |
| Bank of Japan | 20-Dec | 2.6% | -0.10% |

Source: Bloomberg, December 4, 2018.

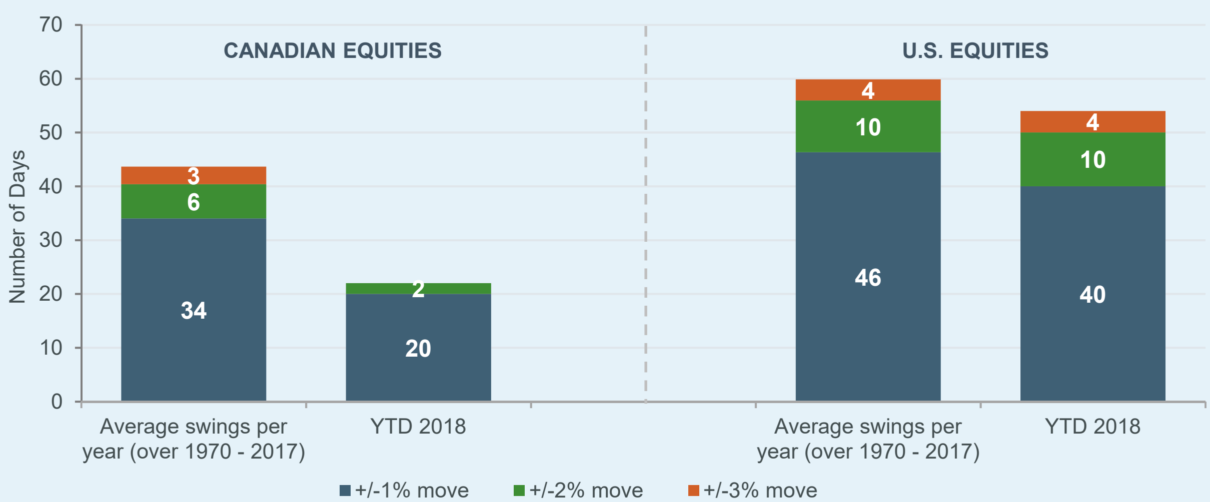
## Spotlight

**2018 volatility not abnormal**

Market volatility can be upsetting, but it is advisable for investors to keep daily price movements in perspective. In 2018 year-to-date, the number of sizable moves has not been abnormal. Since 1970, every year on average, Canadian equities have had roughly 43 days when the market moved up or down by more than 1%. In comparison, the number of market swings observed so far in 2018 appears to be much lower.

Instead of being worried by volatility, it is important to be prepared. A well-defined investment plan tailored to your goals and financial situation can help you be ready for the normal ups and downs of the market, and to take advantage of opportunities as they arise.

**Number of +/-1%,+/-2% and +/-3% daily moves YTD in 2018, compared with historical averages**




Sources: Thomson Reuters DataStream, as of November 30, 2018. Indexes used: Canadian equities – S&P/TSX Composite Index; U.S. Equities – S&P500 Composite Index. Based on daily price returns (CDN$). +/-1% move would mean the number of days the stock market closed between +/-1% and +/-2%. Past performance is no guarantee of future results.

## Appendix

### Global markets (Returns in Canadian dollar terms)

| Indexes | Close | MTD | YTD |
|---|---|---|---|
| S&P/TSX | 15,197.82 | 1.13% | -6.24% |
| S&P500 | 2,760.17 | 2.92% | 9.64% |
| NASDAQ | 7,330.54 | 1.45% | 12.77% |
| DJIA | 25,538.46 | 2.81% | 9.72% |
| Russell 2000 | 1,533.27 | 2.57% | 6.05% |
| FTSE 100 | 6,980.24 | -0.99% | -9.06% |
| Euro Stoxx 50 | 3,173.13 | 0.42% | -9.48% |
| Nikkei 225 | 22,351.06 | 2.56% | 3.30% |
| Hang Seng | 26,506.75 | 7.53% | -6.06% |
| Shanghai Comp. | 2,588.19 | 0.78% | -22.29% |
| MSCI ACWI | 490.86 | 2.42% | 1.61% |
| MSCI EM | 994.72 | 5.21% | -8.81% |
| **Fixed income** | **Close** | **MTD** | **YTD** |
| FTSE TMX Uni. | 1,037.38 | 1.02% | 0.05% |
| BBG Global Agg. | 469.42 | 1.34% | 2.40% |
| TSX Pref | 1,510.01 | -5.99% | -6.45% |
| **Bond yields** | **Close** | **bps chg MTD** | **bps chg YTD** |
| 10 yr Canada Govt. | 2.27% | -22.6 | 22.3 |
| 10 yr U.S. Govt. | 2.99% | -15.6 | 58.3 |
| 30 yr Canada Govt. | 2.39% | -14.3 | 12.4 |
| 30 yr U.S. Govt. | 3.29% | -10.1 | 55.0 |
| **Commodities** | **Close** | **MTD** | **YTD** |
| Oil | 67.70 | -21.38% | -6.75% |
| Natural gas | 6.13 | 41.10% | 58.29% |
| Gold | 1,622.31 | 1.50% | -1.33% |
| Silver | 18.85 | 0.55% | -11.47% |
| Copper | 370.53 | 5.15% | -12.26% |
| **Currencies** | **Close** | **MTD** | **YTD** |
| CAD/USD | 0.7523 | -1.01% | -5.43% |
| USD/EUR | 0.8835 | -0.06% | 6.06% |
| CAD EUR | 0.6646 | -1.09% | 0.29% |
| USD/JPY | 113.5700 | 0.56% | 0.78% |
| USD/CNY | 6.9605 | -0.22% | 6.97% |
| USD/MXN | 20.3668 | 0.14% | 3.60% |
| GBP/CAD | 1.6940 | 0.86% | -0.26% |
| GBP/USD | 1.2749 | -0.13% | -5.65% |

Source : Bloomberg, DataStream.
All equity indexes returns are price returns and do not include dividends.

# Month in review

November 2018



Fidelity INVESTMENTS