

Hopes that the U.S. and China may finally be making progress in resolving their trade dispute supported global equities during the week, soothing fears of an all-out trade war and its possible effect on global growth.

Investor appetite for equities was further boosted by U.S. Federal Reserve Chair Jerome Powell's comments during the week that low inflation had allowed the Federal Reserve (the Fed) to be more patient on rates. Those statements were further reinforced by the minutes of the Fed's December meeting released mid-week, which revealed that many policy makers were of the opinion that, in light of tame inflation and recent financial market volatility, the "timing of future policy firming was less clear than earlier."

Meanwhile, hopes of easing trade tensions between China and the U.S., along with crude oil output cuts led by the Organization of the Petroleum Exporting Countries (OPEC), supported a rise in oil prices. Investors also looked ahead to the upcoming earnings season, while an ongoing U.S. government shutdown and worries about an economic slowdown in China curbed gains.

In fixed income, U.S. government bond prices fell (and yields rose) as investors reduced safe-haven bids due to optimism about U.S.-China trade talks. The yield on the ten-year Treasury note ended the week at 2.701%.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	14,939.18	3.55%	4.30%	4.30%
S&P500	2,596.26	2.54%	3.57%	3.57%
NASDAQ	6,971.48	3.45%	5.07%	5.07%
DJIA	23,995.95	2.40%	2.87%	2.87%
Russell 2000	1,447.39	4.83%	7.33%	7.33%
FTSE 100	6,918.18	1.18%	2.82%	2.82%
Euro Stoxx 50	3,070.04	0.93%	2.29%	2.29%
Nikkei 225	20,359.70	4.08%	1.72%	1.72%
Hang Seng	26,667.27	4.06%	3.18%	3.18%
Shanghai Comp.	2,553.83	1.55%	2.40%	2.40%
MSCI ACWI	473.26	2.90%	3.86%	3.86%
MSCI EM	1,001.11	3.75%	3.67%	3.67%

Fixed income	Close	Weekly	MTD	YTD
FTSE TMX Uni.	1,055.07	-0.04%	0.35%	0.35%
BBG Global Agg.	481.72	0.17%	0.59%	0.59%
TSX Pref	1,530.82	3.33%	3.01%	3.01%

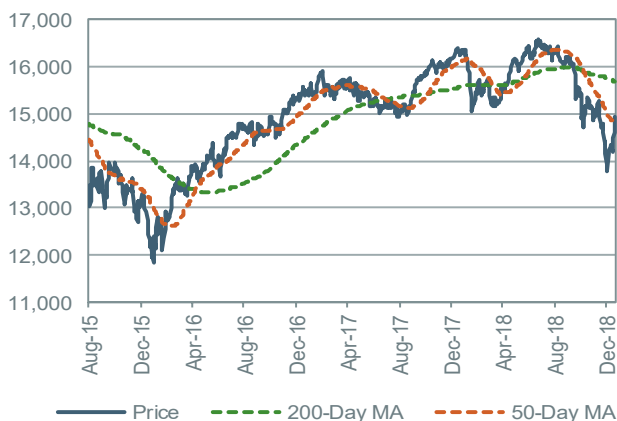
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	1.96%	2.7	-1.0	-1.0
10 yr U.S. Govt.	2.70%	3.3	1.6	1.6
30 yr Canada Govt.	2.16%	2.6	-2.2	-2.2
30 yr U.S. Govt.	3.03%	5.2	1.9	1.9

Commodities	Close	Weekly	MTD	YTD
Oil	51.59	7.57%	13.61%	13.61%
Natural gas	3.10	1.81%	5.41%	5.41%
Gold	1,290.25	0.33%	0.61%	0.61%
Silver	15.60	-0.65%	0.66%	0.66%
Copper	266.20	0.55%	1.18%	1.18%

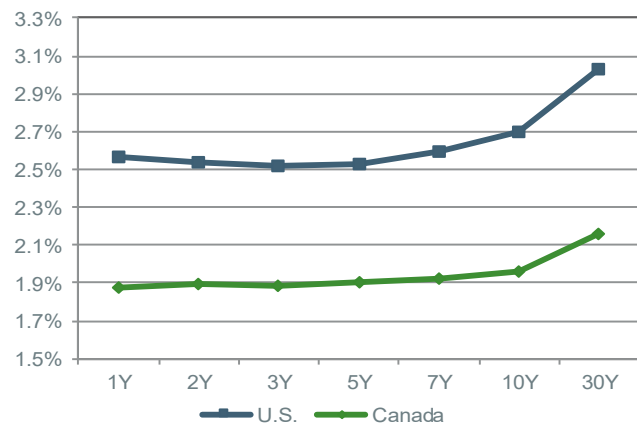
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7538	0.82%	2.81%	2.81%
USD/EUR	0.8719	-0.64%	-0.03%	-0.03%
CAD EUR	0.6572	0.17%	2.77%	2.77%
USD/JPY	108.4800	-0.03%	-1.10%	-1.10%
USD/CNY	6.7630	-1.55%	-1.68%	-1.68%
USD/MXN	19.1443	-1.41%	-2.58%	-2.58%
GBP/CAD	1.7034	0.11%	-2.12%	-2.12%
GBP/USD	1.2844	0.95%	0.71%	0.71%

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

S&P/TSX Composite Index



Treasury yield curves



Source: Bloomberg, DataStream.

Index returns are in local currency. All equity indexes are price returns and do not include dividends.

Economic indicators	Period	Survey	Actual	Prior period
U.S. CPI (YoY)	December	1.9%	1.9%	2.2%
NFIB Small Business Optimism	December	103.0	104.4	104.8
U.S. JOLTS jobs openings	November	7.050m	6.888m	7.131m
U.S. ISM non-manufacturing index	December	58.5	57.6	60.7
Canada housing starts	December	205.5k	213.4k	224.3k
Canada building permits (MoM)	November	-0.5%	2.6%	-0.4%
Eurozone unemployment rate	November	8.1%	7.9%	8.0%

Canada

Canadian equities tracked gains in global equity markets, driven by optimism that the U.S. and China could be nearing a trade deal.

All sectors ended the week posting positive returns, with health care, consumer discretionary and energy stocks making the top gains.

At its January meeting, the Bank of Canada (BoC) kept its benchmark interest rate unchanged, at 1.75%, in a widely anticipated move. As economic headwinds gather, the central bank has shifted its message from one stressing the need for further rate increases to one signalling a more cautious wait-and-see approach. While the BoC reiterated that more interest rate hikes will be needed to keep inflation in line with its 2% target, it added that the pace of future increases “will depend on how the outlook evolves, with a particular focus on developments in oil markets, the Canadian housing market and global trade policy.”

U.S.

Despite the partial federal government shutdown entering its third week, U.S. equities finished higher on optimism that the U.S. and China might be inching toward a trade deal. Delegations from China and the U.S. ended three days of trade talks amid signs of progress on issues including purchases of U.S. farm and energy commodities and increased access to China’s markets.

U.S. stock markets also rose after minutes from the Fed’s December meeting reiterated Chair Jerome Powell’s comments on patience regarding monetary policy.

The minutes from the meeting showed that the Fed has revised its assessments of the appropriate path for monetary policy, given growing concerns about volatility in financial markets, trade tensions and uncertain global growth. The minutes also noted that the Fed could afford to be patient about further policy firming, because inflation remains muted.

In economic developments, the annual inflation rate in the U.S. fell to 1.9% in December, from 2.2% in November, matching market expectations. The lowest inflation rate since August 2017, it is mainly due to a decline in gasoline costs. Meanwhile, a measure of small business optimism fell less than expected in December, after views on employment and inventories brightened.

Rest of the world

Major European and Asian indexes ended the week higher, after the U.S.-China trade talks that finished on Wednesday appeared to have delivered some progress toward reaching a deal that could avert tariff increases.

Prospects of more Chinese stimulus to arrest the slowdown in growth, as well as growing expectations that the Fed will pause its rate tightening cycle this year, also underpinned sentiment.

Looking ahead

Economic indicators	Date	Survey	Prior period
U.S. factory orders (MoM)	15-Jan	0.3%	-2.1%
U.S. trade balance	15-Jan	-\$54.0 bn	-\$55.5 bn
U.S. housing starts (MoM)	17-Jan	-0.2%	3.2%
U.S. building permits (MoM)	17-Jan	-2.9%	5.0%
U.S. initial jobless claims	17-Jan	220k	216k
Canada existing home sales (MoM)	15-Jan	-1.0%	-2.3%
Canada CPI (YoY)	18-Jan	1.7%	1.7%
Eurozone CPI (YoY)	17-Jan	1.6%	1.9%

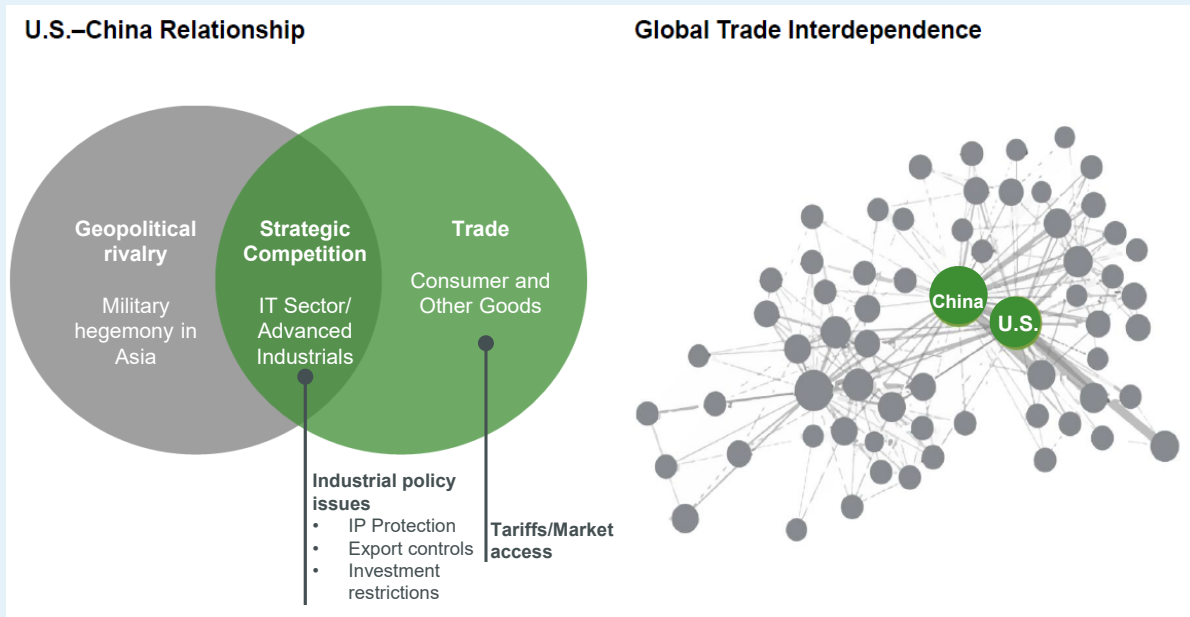
Central bank meetings			
Central banks	Date	Probability of increase	Current rate
Bank of Japan	23-Jan-19	-4.4%	-0.10%
European Central Bank	24-Jan-19	0.6%	0.00%
Federal Open Market Committee	30-Jan-19	0.5%	2.50%
Bank of England	7-Feb-19	3.1%	0.75%
Bank of Canada	6-Mar-19	7.7%	1.75%

Source: Bloomberg, January 14, 2019.

Spotlight

U.S.-China: Strategic competition intertwined with trade

A budding U.S.-China geopolitical rivalry may make it more difficult to resolve bilateral commercial issues, representing a critical risk for the highly integrated global economy in which the U.S. and China are the most central countries. Investors have focused near-term attention on tariffs and trade deals, but the durable strategic competition is likely to continue to breed political uncertainty and conflict in the technology sector.



RIGHT: The size of the circles represents total trade. The thickness of lines represents the volume of trade flows. The size of the circle and proximity to other countries represents importance and interconnectedness. Gray circles represent other countries. Source: International Monetary Fund, Haver Analytics, Fidelity Investments (AART)

Appendix

Global markets (Returns in Canadian dollar terms)

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S&P/TSX	14,939.18	3.55%	4.30%	4.30%
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30 yr U.S. Govt.	3.03%	5.2	1.9	1.9
Commodities	Close	Weekly	MTD	YTD
Oil	68.44	6.70%	10.50%	10.50%
Natural gas	4.11	0.98%	2.53%	2.53%
Gold	1,711.68	-0.47%	-2.14%	-2.14%
Silver	20.69	-1.44%	-1.97%	-1.97%
Copper	353.14	-0.27%	-1.59%	-1.59%
Currencies	Close	Weekly	MTD	YTD
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