Market Matters

NOVEMBER 2016 HIGHLIGHTS

- The November 8th US Election sparked a 'risk-on' pivot in market sentiment as Donald Trump's victory and associated prospects for stronger economic growth (owing to a policy mix of tax cuts, more infrastructure spending and less regulation) incented investors to move money off the side-lines and out of bonds and into equity markets.
- Bond yields rose and bond prices dropped – sharply! Canadian bonds market returns halved their year-to-date gains in the month of November.
- Equity markets rallied, and all four major US indices hit new record highs.
- Oil prices rose significantly on the news that the Organization of Petroleum Exporting Countries (OPEC) reached an agreement to cut its oil output levels effective January 2017. Significantly, the cartel managed to gain agreement from non-OPEC members like Russia to also cut their oil production.
- The US dollar rose strongly on the prospect of stronger US economic growth and the anticipation of the US Federal Reserve raising rates.

DAWN OF A NEW DAY

The surprise Trump win sent shock waves around the world and ultimately sparked a global rally in equities and dramatic rotation out of fixed income.

That Donald Trump would become the 45th US President became apparent in the wee hours of the morning of November 9th. The sun had already risen in the east and Asian markets were the first to react and drop significantly. Then European markets opened lower and North American futures markets pointed to a sharp sell-off. It wasn't looking good for markets, but by the time dawn broke in the west, investors began to re-frame the picture – seeing the positives for the economy and companies. The decline in Europe eased and futures markets improved. North American markets opened up with trepidation, but not for long before investors moved in and markets moved up – and they haven't stopped since! Bloomberg reported an increase in value of USD $2 trillion dollars for global equities, while global bond markets have seen a similar sized exodus of wealth.

Highlighting this seminal shift in market sentiment, all four major US stock markets (Dow Jones Industrial Average, S&P 500, Nasdaq Composite Index and Russell 2000) hit record highs. Meanwhile, yields on 10 year US treasury notes rose 56 basis points in November, the biggest jump since 2009, and leading to the worst broad bond market monthly decline in over a decade.

Table 1
Summary of major market developments

Market returns*	November	YTD
S&P/TSX Composite	2.0%	15.9%
S&P 500	3.4%	7.6%
- in Canadian dollars	***3.4%***	***4.3%***
MSCI EAFE	1.1%	-2.0%
- in Canadian dollars	***-2.1%***	***-7.9%***
MSCI Emerging Markets	-2.2%	7.3%
FTSE TMX Canada Universe Bond Index**	-2.1%	2.2%
FTSE TMX Canada all corporate bond index **	-1.3%	3.9%

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

Table 2
Other price levels/change

	Level	November	YTD
CAD per USD exchange rate	$0.744	-0.2%	3.0%
Oil (West Texas)*	$49.44	5.5%	33.5%
Gold*	$1,175	-7.8%	10.6%
Reuters/Jefferies CRB Index*	$189.31	1.6%	7.5%

*U.S. dollars

Table 3
Sector level results for the Canadian market

S&P/TSX Composite sector returns*	November	YTD
S&P/TSX Composite	2.0%	15.9%
Energy	4.3%	29.8%
Materials	-4.8%	40.1%
Industrials	6.2%	21.9%
Consumer discretionary	1.8%	6.4%
Consumer staples	-3.2%	6.6%
Health care	-8.6%	-77.5%
Financials	4.9%	15.6%
Information technology	1.8%	5.6%
Telecommunication services	-4.2%	9.2%
Utilities	-5.3%	9.7%
Real Estate	-1.1%	0.9%

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

WINNERS AND LOSERS

As our Tables 1-3 highlight, specific asset classes, commodities, sectors and subsectors responded differently according to shifting sentiment and the differences in Trump's stated policies.

Winners

- Financial and biotechnology companies fared well based on the expectation of less regulation.
- Industrial companies moved higher on expected higher domestic spending.
- Oil* and coal related companies moved up with Trump's support for domestic and traditional energy sources.

  * Oil company stocks were fuelled further by rising oil prices after the Organization of Petroleum Exporting Countries (OPEC) announced it reached an agreement among its members and non-OPEC producers (most notably the Russian Federation) to cut output levels effective January 2017. As of the agreement struck on November 30th, the individual member countries agree to cut their production by roughly 4.5%, for a total combined cut of 1.2 million barrels/day. While this will basically amount to a near-term freeze rather than an actual cut, it will hasten the pace at which the inventory overhang dissipates. Reaching a more comfortable global supply-demand balance should create a foundation to support higher oil prices. Adherence to the agreement is not a given. There is a long history of various members 'cheating' in order to grab up market share, but the announcement shows key quantifiable measures of accountability, the likes of which haven't been seen from the group in recent years.

Big winner

- The US greenback strengthened sharply, especially against emerging market currencies. A combination of factors have contributed to US dollar strength, including the prospects for improving US economic growth and a widening of yield spreads between the US and the rest-of-the-world as investors anticipate rate hikes from the US Federal Reserve.

Losers

- Most of the health care sector suffered (e.g. managed care companies) based on expected changes to Obamacare.
- Alternative energy companies drifted lower with Trump's cool response to global warming and climate change initiatives.
- International equity markets rose, but lagged their North American counterparts.
- Gold prices dropped in response to the strong US dollar overshadowing the rise in inflation expectations, that would normally be a tailwind to the price of gold bullion.

Big loser

- The FTSE TMX Canada Universe Bond index saw more red than the US electoral map! All segments of the benchmark index were down in November.
- Corporate bonds provided small comfort to fixed income investors. The risk-on sentiment saw credit product perform better relative to government counterparts.

  This post-election period has accelerated a transformation in bond market sentiment that began in earnest in September. Donald Trump's victory and the associated prospects for stronger economic growth (i.e. promised tax cuts, more infrastructure spending and less regulation) pushed yields further upward. Inflation expectations also rose with the prospect for stronger growth and were accentuated by the potential for protectionist, anti-trade policies.

A DICKENS OF A LESSON

(Setting the stage) Jacob Marley is a fictional character (the ghost of Scrooge's deceased business partner) who appears in Charles Dickens' *'A Christmas Carol'*. The ghost is tormented and despairs over 'life's opportunities misused'. The scene shows Scrooge trying to comfort him by declaring: *"But you were always a good man of business, Jacob."* To which the ghost cries out in anguish:

"Business! Mankind was my business. The common welfare was my business; charity, mercy, forbearance, and benevolence, were all my business. The dealings of my trade were but a drop of water in the comprehensive ocean of my business!"

Now that's a Dickens of a good lesson! As we pause over the holiday season, we thank you – our investors, our business partners, our friends. You are the meaning in our business which drives us to do our very best every day! Thank you for your support and loyalty. May your holiday memories be filled with happiness, good cheer, and those who mean the most to you. From all of us at GLC, happy holidays and all the best in 2017!