Economic Commentary

Fourth Quarter 2019

U.S. Fed cuts, now on pause

The U.S. Federal Reserve cut interest rates in October, the third decrease in four months. Economic data remains mixed. The consumer sector is buoyed by a strong labour market and lower interest rates, while the manufacturing and investment sectors are feeling the negative impact of the lingering trade war with China. Although economic growth has slowed, it has performed better than expected. Despite rising recently, inflation remains in line with the Fed's 2% target. Expectations are for the Fed to hold off on further rate cuts as we enter 2020. Following their last meeting, Fed Chairman Powell indicated that monetary policy is well-positioned and that economic conditions would need to worsen unexpectedly before they would lower interest rates again.

Canadian Economy headwinds building

The Bank of Canada remained on the sidelines during the fourth quarter and ended the year with no change in its monetary policy. It was the only major central bank to not cut interest rates during 2019. Retail sales were surprisingly weak to finish the year. Another major concern is the massive debt levels of the Canadian consumer and the potentially negative impact that it could have on related sectors of the market, particularly the housing market. The high consumer debt levels were the major reason why the Bank of Canada did not cut interest rates in 2019. The Policy Committee stated that they contemplated lowering interest rates but felt that doing so would further compound the consumer debt problem. As a result, expectations are for the Bank of Canada to remain on hold in 2020.

Progress Between U.S. and China

The ongoing trade war between the U.S. and China has been overhanging markets for over a year. Progress was finally made later in the year as the two sides decided to break negotiations into different phases. Phase 1 was resolved in December, with official signing occurring early in 2020. The trade war has had a significant impact on the Chinese economy. China's GDP growth slowed to an annual rate of 6% in the third quarter, the lowest level in over 27 years. The long-awaited USMCA trade deal between Canada, the Unites States and Mexico was signed in November when the countries met at the G20 Summit.

Equity Markets setting records as bond yields rise

Lower interest rates for the better part of 2019 provided a strong stimulus for global stock markets as many indices approached record levels. Stock markets were coming off a lower base due to the significant sell-off that occurred during the fourth quarter of 2018. Progress on the trade front between the U.S. and China contributed to the rally in stocks going into year end. There were concerns that the U.S. economy would enter a recession, however, when those fears subsided equity markets rallied. After falling for much of the year, due to rate cuts by the U.S. Federal Reserve, interest rates increased during the fourth quarter as U.S./China trade talks improved. As we enter 2020 geopolitical risks will continue to garner global headlines. Ongoing trade tensions, President Trump's impeachment proceedings, Brexit, as well as the upcoming presidential and congressional elections in the U.S. will no doubt contribute to continued volatility in global markets.

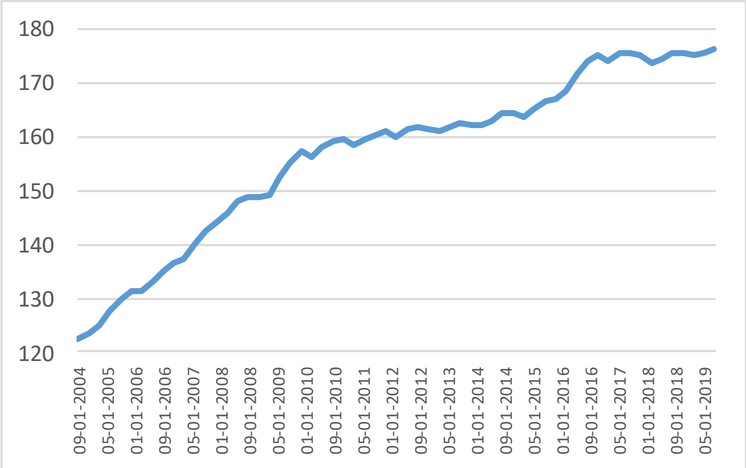
Key Metrics

Indicator	Value	Chg Q4	Chg 1Y
S&P/TSX Composite	17,063.43	3.2%	22.8%
S&P 500 (USD)	3,230.78	9.1%	31.5%
MSCI EAFE (USD)	2,036.94	8.2%	22.8%
USD/CAD	$ 0.77	1.9%	5.0%
WTI Crude ($/bl))	$ 61.06	12.9%	34.5%
GoC 10Y Bond	1.70%	34 bps	-27 bps
GoC Deposit Rate	1.75%	0	0
Cdn CPI YoY	2.2%	0.3%	0.2%
US 10Y Treasury	1.92%	25 bps	-77 bps
Fed Funds Rate	1.75%	-25 bps	-75 bps
USD CPI YoY	2.1%	0.4%	0.2%

Top Themes

- Central Banks across the globe cut interest rates
- U.S. and China agree to Phase 1 of trade deal
- Equity markets end the year near record highs

Top Chart: Canada Consumer Debt to Disposable Income (%)



Source: Bloomberg, Lincluden