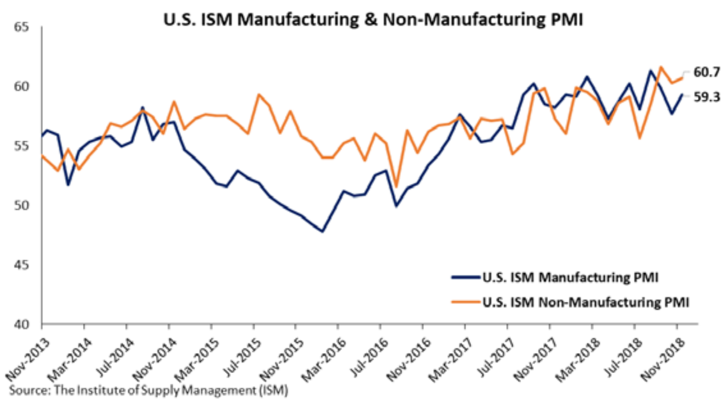
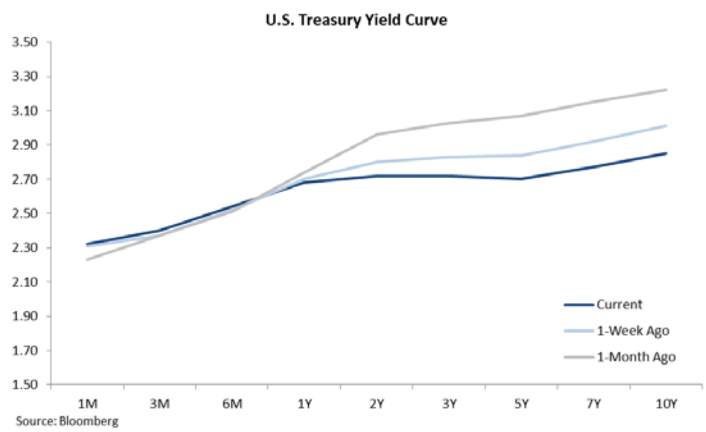
Weekly Market Commentary

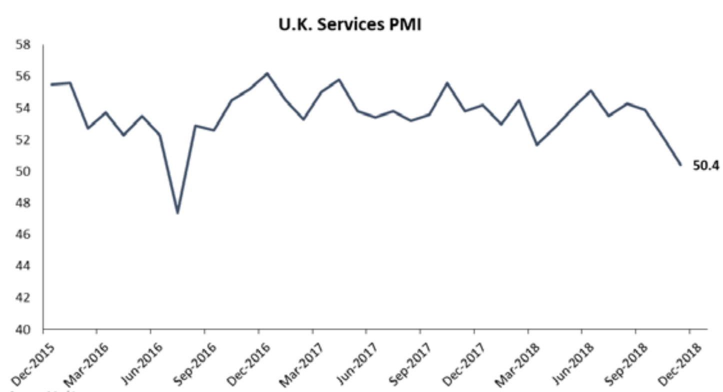
December 7, 2018

World Equities

Equity Market	Current	T-1	T-1, Δ %	T-5, Δ %
DOW	24,388.95	24,947.67	-2.24%	-3.75%
S&P 500	2,633.08	2,695.95	-2.33%	-3.82%
Nasdaq	6,969.25	7,188.26	-3.05%	-4.18%
S&P/TSX	14,815.30	14,937.00	-0.81%	-2.52%
FTSE 100	6,778.11	6,704.05	1.10%	-2.90%
DAX	10,788.09	10,810.98	-0.21%	-4.17%
Hang Seng	26,063.76	26,156.38	-0.35%	-1.67%
Shanghai Index	2,605.89	2,605.18	0.03%	0.68%
Nikkei 225	21,678.68	21,501.62	0.82%	-3.01%







U.S. stock market plummeted after the release of a weaker-than-expect November job report and the ongoing trade tensions between the U.S. and China remained front and center.

The Dow Jones industrial average fell 558.72 points (-2.24%) to close at 24,388.95, dragged down by Intel, Cisco, and Microsoft stocks. The S&P 500 dropped 62.87 points (-2.33%) to settle at 2,633.08, largely pulled back by Industrials, Consumer Discretionary, and Technology sectors. Utilities was the only sector to finish in the green. The Nasdaq composite slashed 219.01 points (-3.05%) to finish at 6,969.25. Both the Dow and S&P 500 have turned negative year to date. For the week as a whole, major U.S. indexes recorded an average loss of 3.9% with Nasdaq underperforming the others.

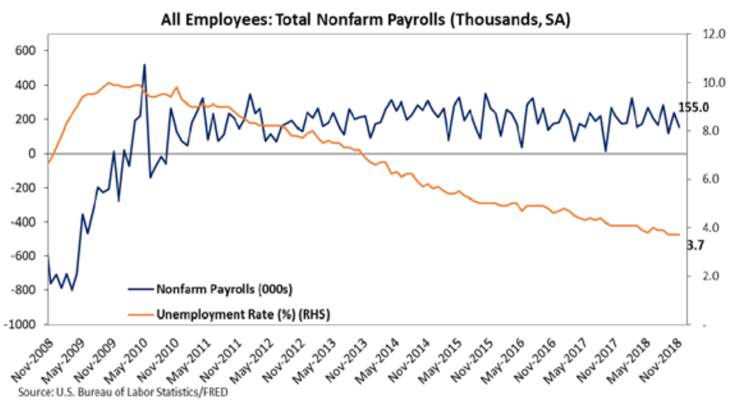
On Monday, despite a worrisome official manufacturing PMI seen from the prior week in China, Caixin manufacturing PMI reading inched up 50.2 in November (vs. 50.1 in October), ahead of the street expectation of 50.0, the boundary between the expansion and contraction state.

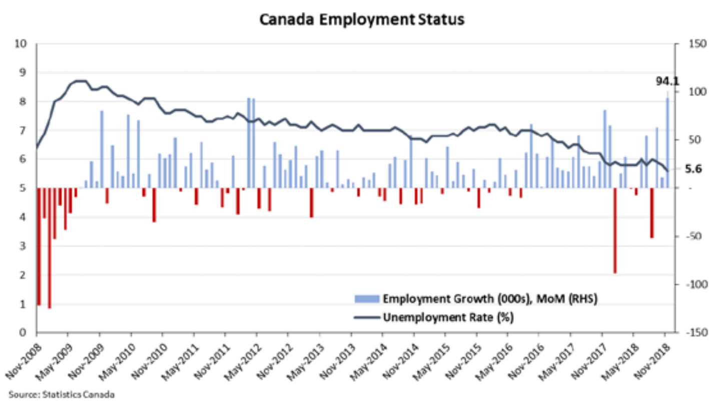
On the other hand, U.S. ISM Manufacturing PMI surprised to the upside and expanded to 59.3 in November (vs. 57.7 in October), driven by higher new orders and employment sub-indexes, partially offset by lower prices paid category.

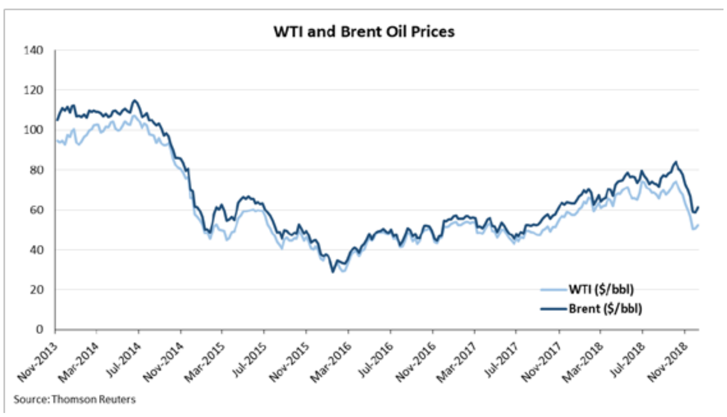
In addition, U.S. equities rallied following the announcement of a temporary ceasefire between the U.S. and China coming out of the G-20 summit. The U.S. agreed to postpone its decision of raising its tariff from 10% to 25% on $200 billion of Chinese imports in January 2019, while the Chinese will increase imports of agricultural, energy, and industrial related products from the U.S.

On Tuesday, U.S. stock market reversed all of its gains from the prior day as investors became skeptical towards the verbal trade agreement between the U.S. and China and continued to expect the trade tensions will persist going into 2019 and possibly beyond. Renewed market volatilities have narrowed the 2-10 spread of U.S. treasury bonds and Government of Canada bonds to as narrow as 10 bps and 5 bps. Meanwhile, the 2-5 spread of the treasuries has inverted for the first time in years, pointing to a broad and elevated concern that an economic slowdown could be around the corner. The CBOE VIX index jumped 26% to settle at 20.8.

On Wednesday, the U.K. services sector continued to drift lower amid political turmoil over Brexit negotiation. The nation's services PMI dropped to 50.4 in November (vs. 52.2 in October), lower than the street consensus of 52.5. Brexit uncertainty continued to weigh on business investment decisions alongside subdued consumer spending. Note that the services sector accounts for over 75% of U.K. GDP.







In addition, U.S. Non-Manufacturing PMI edged up to 60.7 in November (vs. 60.3 in October), lifted by stronger business activity/production, prices, and imports sub-indexes, reflecting continued confidence in the domestic economy. However, some survey respondents took notes that rising input costs and tariffs could adversely impact business conditions going forward.

In addition, U.S. private sector payrolls remained strong, adding 179,000 jobs in November, according to the ADP report. The service sector accounts for the majority of the job gains, which are concentrated in the professional & business and education & health industries.

Further, Bank of Canada (BoC) held its overnight rate at 1.75%, consistent with market expectation. The rate pause could last longer than expected against the backdrop of the prolonged weakness seen in the Canadian oil prices, which could hinder near-term economic growth.

On Thursday, BoC governor, Stephen Poloz spoke after the central bank's interest rate decision on Wednesday, citing concerns over lower oil prices while acknowledging the improvement witnessed in the housing market thanks to the combination of macro prudential policies and higher interest rates. Overall, Poloz adjusted his message to tilt towards the dovish end and investors believe that a January rate hike is likely off the table with odds of such a scenario falling from 60% to 40%.

On Friday, U.S. nonfarm payrolls added 155,000 jobs in November (vs. 237,000 in October) against the backdrop of the volatile financial markets and slowing business investments. Nonetheless, unemployment rate remained steady at 3.7% in November, matching the lowest rate since December 1969. Wage growth expanded 3.1% YoY (vs. 2.8% in October), staying above the 2.5% inflation rate. Considering the strong economic indicators seen over the past few weeks in the U.S., case for a December rate increase by the Federal Reserve strengthened.

On the north side of the border, Canada added a record number of 94,100 jobs to the economy, pushing the unemployment rate lower to 5.6% in November (vs. 5.8% in October). The stronger-than-expect job results should provide some relief to central bank officials, who have expressed concerns over disappointing economic data. In addition, the resilience seen in the job market should warrant continued monetary tightening; however, it is likely BoC will wait for further visibility from December economic indicators.

Lastly, after weeks of declines, oil prices rallied on Friday as OPEC and Russia agreed to cut production by 1.2 million barrels per day (bpd) to alleviate the oversupply issue. However, the near-term outlook remains clouded as the U.S. shows no sign of decelerating its oil production, currently at 11.7 million bpd (~12% of world production), while the market continues to monitor the level of oil cut compliance among the OPEC members.

Source: Thomson Reuters, Bloomberg

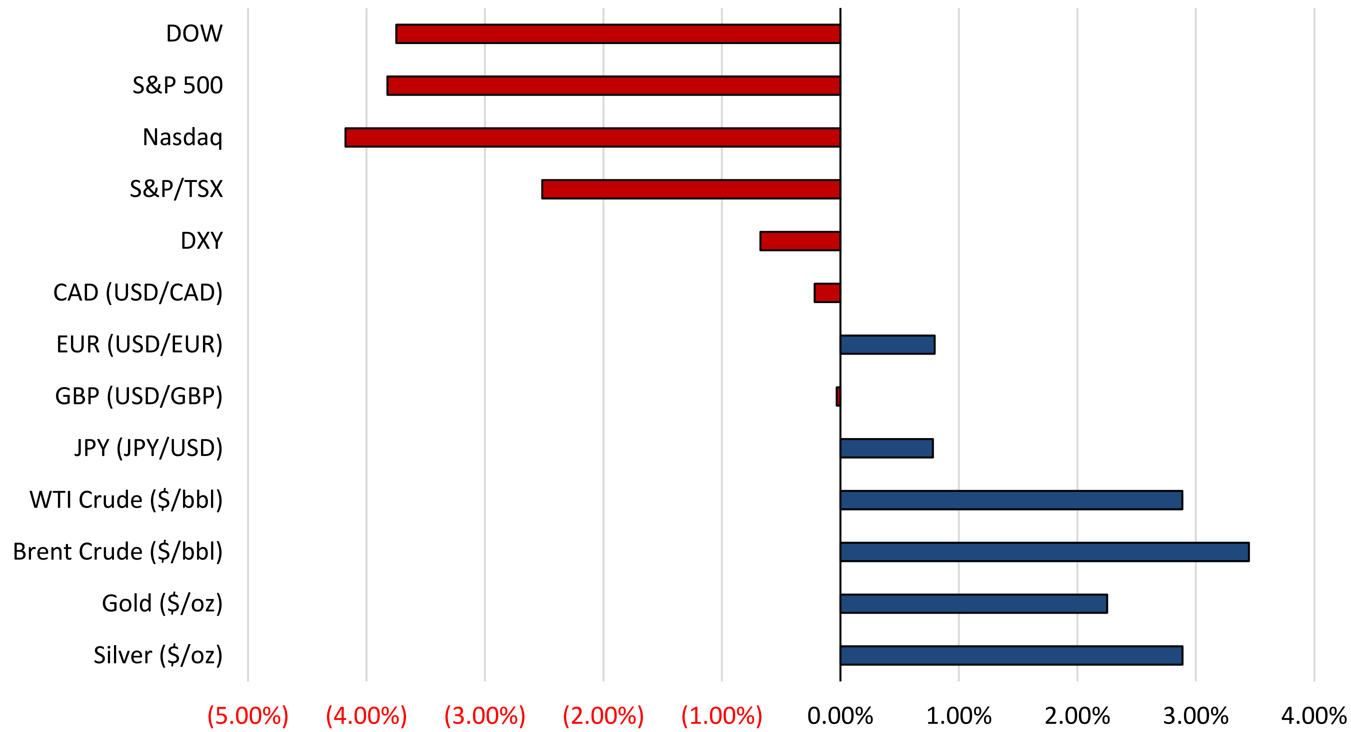
Commodities & FX

Commodities	Current	T-5	T-30	T-365
WTI Crude ($/bbl)	52.4	50.9	61.8	54.8
Brent Crude ($/bbl)	61.5	59.5	72.1	59.8
Natural Gas ($/MMBtu)	4.52	4.61	3.57	3.10
Gold ($/oz)	1,248.0	1,220.5	1,226.5	1,247.2
Silver ($/oz)	14.6	14.2	14.6	15.7
Copper ($/oz)	6,070.0	6,212.0	6,158.0	6,550.0
FX	**Current**	**T-5**	**T-30**	**T-365**
CAD (USD/CAD)	1.33	1.33	1.31	1.29
EUR (USD/EUR)	1.14	1.13	1.14	1.18
GBP (USD/GBP)	1.27	1.27	1.31	1.35
JPY (JPY/USD)	112.7	113.6	113.5	113.1

Fixed Income

Gov't Bonds	2-Year (%)				5-Year (%)				10-Year (%)			
	Current	T-1	T-5	T-30	Current	T-1	T-5	T-30	Current	T-1	T-5	T-30
U.S.	2.71	2.76	2.79	2.96	2.70	2.75	2.81	3.08	2.85	2.90	2.99	3.24
Canada	2.00	1.99	2.16	2.35	2.01	2.01	2.20	2.45	2.07	2.09	2.27	2.54
Eurozone	-0.60	-0.63	-0.60	-0.59	-0.31	-0.32	-0.27	-0.15	0.25	0.24	0.31	0.45
Japan	-0.15	-0.14	-0.13	-0.13	-0.13	-0.12	-0.11	-0.09	0.05	0.06	0.09	0.12
U.K.	0.73	0.73	0.76	0.81	0.87	0.87	0.94	1.11	1.26	1.24	1.36	1.53

Weekly Performance



Upcoming Events

Date	Events
Mon, Dec 10, 2018	Japan and U.K. Q3 GDP
Tue, Dec 11, 2018	U.K. Employment Report (Nov); U.S. PPI (Nov)
Wed, Dec 12, 2018	U.S. CPI (Nov); Fed Chair Jerome Powell Testifies
Thu, Dec 13, 2018	ECB Interest Rate Decision; China Retail Sales & Industrial Production (Nov)
Fri, Dec 14, 2018	U.S. Retail Sales & Industrial Production (Nov)

Source: Thomson Reuters, Bloomberg