Canaccord Genuity Wealth Management

The LeBlanc Report

LEBLANC GROUP

Week of October 21st, 2019

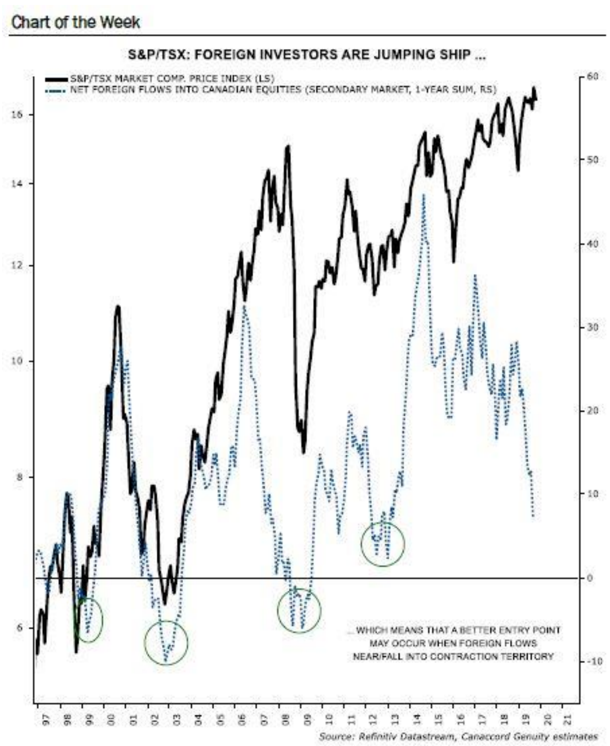
Market Overview: October 14th – October 18th, 2019

Overview

Stocks have been range-bound this week. The S&P 500 has been unable to clear the 3,000 psychological resistance level despite a good start to the Q3 earnings season, with more than 80% of companies beating estimates. Undoubtedly, a nagging sense of uncertainty surrounds US-China trade matters and the US economy, where momentum appears to be downshifting again (more below). In Canada, the S&P/TSX seems stuck in the glue. The Federal election will be held next Monday and a minority government appears to be a forgone conclusion. Indeed, the latest polls are showing the Liberals and Conservatives neck-and-neck, with an equal number of seats at around 132. Elsewhere, we note the relative resilience of global equities. This relative strength could be arising from a positive (i.e., negotiated) Brexit outcome. We will know Saturday whether UK PM Boris Johnson's deal passes the Parliament test. The strong showing of the British pound over the past three weeks (up ~5%) could indicate that this will be a go.

Foreign Flows into Canadian Equities

Our focus this week is on foreign flows into Canadian equities, where we are seeing a net waning in appetite. Indeed, we learned Wednesday that secondary market flows came in at $409M. Since this number can be volatile on a month-to-month basis, we focus on the one-year sum, which comes to $7.23B. Shockingly, this number is down ~74% from the $27.85B seen a year ago. Undoubtedly, global growth concerns have reduced investors' appetite for the S&P/TSX, a resource-centric index. Otherwise, as our *Chart of the Week* shows, foreign flows have correlated well with the S&P/TSX. In fact, the correlation coefficient is at 0.66. But as of late, the S&P/TSX has been holding quite firm despite the plunge in foreign purchases of Canadian stocks. We saw a similar divergence in 2007, a year that preceded the 2008 global financial crisis. While global economic conditions do not look as dire, growth is weak and our momentum indicators are still declining. As such, we reiterate our UW stance on Canadian equities and if our chart is any guide, a better entry point may occur when foreign flows near/fall into contraction territory.



Economic Data

Regarding economic data, in Canada headline and core inflation came in unchanged in September, both up 1.9% from last year. The key takeaway here is that the Bank of Canada (BoC) should remain in a wait-and-see mode a while longer, a positive for the CDN$. In the US, hard economic statistics seem to be recoupling to the downside with sentiment surveys. Indeed, retail sales fell 0.3% Month-over-Month (MoM) in September. On a Year-over-Year (YoY) basis, sales growth remains healthy at 4.1% but is decelerating from August (4.4%). Also, housing starts and building permits declined 9.4% and 2.7% MoM, respectively, in September. Otherwise, for the first time since 2016, industrial production declined YoY in September (-0.1%, from +0.4%). Elsewhere, in Europe industrial production declined 2.8% YoY in August (from 2.1%) and a recovery doesn't seem in the cards if the Center for European Economic Research (ZEW) economic sentiment index is any guide (-23.5 in October, from -22.4). In China, inflation came in hot at 3% in September (from 2.8%) owing to surging pork prices. Meanwhile, deflationary pressures remain for producers, with the PPI falling 1.2% over the same period. This seems consistent with the economic backdrop whereby exports and imports declined 3.2% and 8.5% YoY respectively. That said, retail sales (7.8% YoY, from 7.5%) and industrial production (5.8% YoY, from 4.4%) both suggest some improvements at the margin. Finally, in India, inflation bounced to 4% (from 3.3%) in September, also the result of higher food prices. That said, the Reserve Bank of India (RBI) is still expected to cut rates at the next meeting in December.

Next Week's Forecast

Next week, we will keep an eye on the Brexit deal vote in the UK and the results of the Federal election in Canada. Also, the European Central Bank (ECB) is on deck but is not expected to cut rates further. In all, currency markets could be volatile next week. On economic data, we await retail sales in Canada. In the US, new and existing home sales should help gauge the housing market. Otherwise, further weakness in core durable goods orders could spell trouble for the US economy. Finally, flash Purchasing Managers' Index (PMIs) in Japan and in Europe are on our radar screen[1].

Please contact LeBlanc Group at leblanc.group@cgf.com or by phone at 604.661.7839 to learn more. You can visit our website by following the link http://www.leblancgroup.ca/.

[1] October 2019. Source: Portfolio Strategy Incubator | Weekly Market Wrap-Up: Waning Appetite for Canada