# Weekly Trends

PRIVATE CLIENT SOLUTIONS

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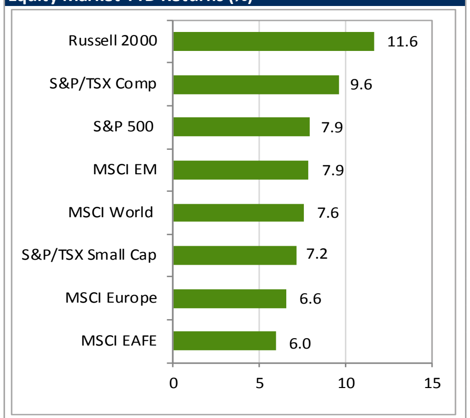
## A Pause…Now What?

The Bank of Canada (BoC) has telegraphed a more cautious rate trajectory over the past couple weeks. In fact, the implied probability for a rate hike this year has slipped to just under 30% and the chance of no hike jumped to 76%. This dovish shift coincides with the Fed lowering its expectations for rate hikes in 2019 and trimming the neutral rate by 25 bps to 2.75%.

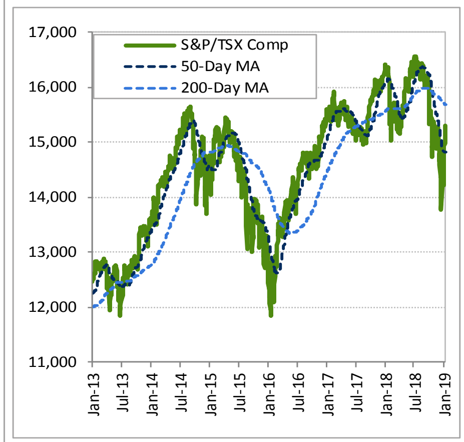
- Economic data in Canada, and globally for that matter, has been mixed with some signals pointing to continued moderate growth, while others pointing to a pause or contraction in growth.
- Average hourly wage gains in 2019 may face headwinds as the one-time benefit from the minimum wage bump in Ontario and Alberta fade. However, a more troubling structural issue, which Senior Deputy Governor Carolyn Wilkins outlined in a recent speech, is that wage growth may be negatively impacted by advances in technology.
- Increasingly the data is pointing to the BoC taking an extended rate hike break. As such, we consider which sectors have historically performed well during periods when the BoC has paused. Since the 1990s, there were 10 observations we can consider. While there are additional short periods when the BoC paused during a hiking or cutting cycle, we exclude them for this exercise.
- As one might have imagined, the more defensive pockets of the market have shown a tendency to perform well when the BoC pauses. In fact, consumer staples and communication services appears to be the clear winners across both scenarios when the BoC has paused following a hiking and cutting cycle.

**Equity Market YTD Returns (%)**



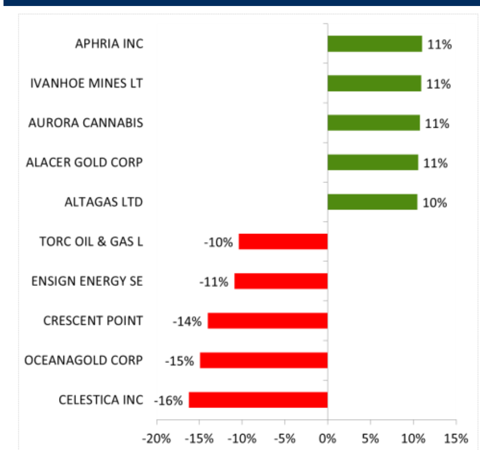

| Canadian Sectors | Weight | Recommendation |
|---|---|---|
| Consumer Discretionary | 4.3 | Underweight |
| Consumer Staples | 3.9 | Overweight |
| Energy | 17.9 | Underweight |
| Financials | 32.7 | Market weight |
| Health Care | 2.1 | Underweight |
| Industrials | 10.6 | Market weight |
| Technology | 4.1 | Market weight |
| Materials | 11.4 | Market weight |
| Communications | 5.7 | Overweight |
| Utilities | 4.0 | Market weight |
| Real Estate | 3.2 | Overweight |

| Technical Considerations | Level | Target |
|---|---|---|
| S&P/TSX Composite | 15,703 | 15,600 |




Source: Bloomberg, Raymond James Ltd.
Sectors are based on Bloomberg classifications

**S&P/TSX Top 5 Gainers/Laggards***




**S&P/TSX Market Internals**

| | | |
|---|---|---|
| Weekly Advance | 152 | 61% |
| Weekly Decline | 84 | 33% |
| Advance-Decline | 68 | |
| New 52 wk high | 17 | 7% |
| New 52 wk low | 2 | 1% |
| No. Stocks Above 50-d | 195 | 78% |
| No. Stocks Above 200-d | 118 | 47% |
| Arms Weekly Index | 0.72 | Neutral |
| RSI (14-day) | 74.2 | Overbought |
| 50-DMA | 14,916 | Uptrend |
| 200-DMA | 15,697 | Uptrend |

*Source: Bloomberg, Raymond James Ltd; * 5-day price return*



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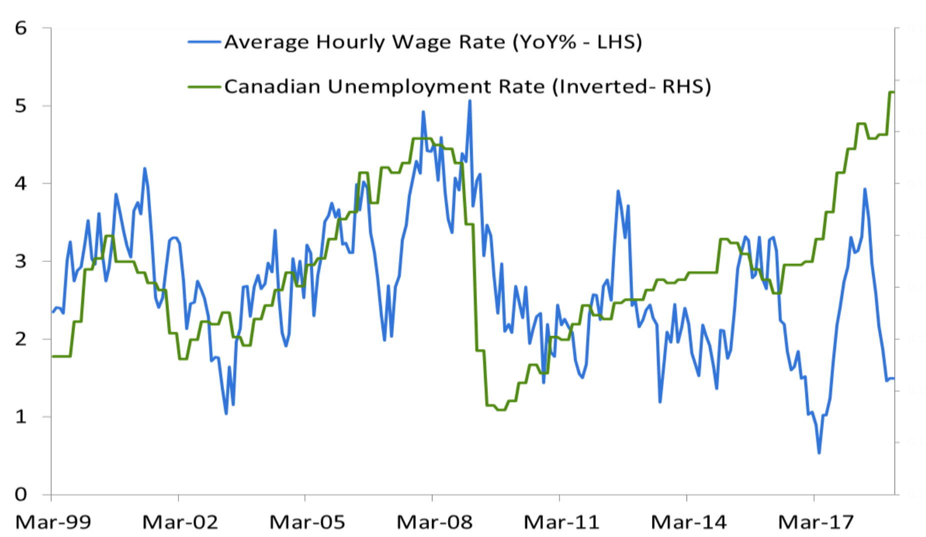
The Bank of Canada (BoC) has telegraphed a more cautious rate trajectory over the past couple weeks. In fact, the implied probability for a rate hike this year has slipped to just under 30% and the chance of no hike jumped to 76%. This dovish shift coincides with the Fed lowering its expectations for rate hikes in 2019 and trimming the neutral rate by 25 bps to 2.75%. This means one more hike and the Fed will achieve a rate where it believes real GDP is growing at its trend and inflation is stable. One of the more interesting shifts in stance came from the Fed's most hawkish voting member, Kansas City Fed president Ester George. She said during a speech that "it might be a good time to pause our interest rate normalization, study the incoming evidence and data, and verify our current location."

Economic data in Canada, and globally for that matter, has been mixed with some signals pointing to continued moderate growth, while others pointing to a pause or contraction in growth. Similar to the US, Canada has posted impressive job numbers over the past 12 months, the unemployment rate is at a 40-year low and inflation is close to target. However, it's not all clear sailing for the Canadian economy. One of the more perplexing issues facing our economy is the lack of wage growth experienced as the unemployment rate sits at a decades low.

Average hourly wage gains in 2019 may face headwinds as the one-time benefit from the minimum wage bump in Ontario and Alberta fade. However, a more troubling structural issue, which Senior Deputy Governor Carolyn Wilkins outlined in a recent speech, is that wage growth may be negatively impacted by advances in technology. The dramatic minimum wage jumps likely helped push employers to explore/accelerate the adoption of technology to maintain future profit margins. For example, Loblaw accelerated the rollout of self-checkout kiosks; at the end of Q3/18, the company had installed kiosks at over 400 Shoppers and began testing a new “shop and scan" technology within its grocery business.

## Canadian Unemployment Rate (inverted) & Average Wage Gains




Source: Bloomberg, Raymond James Ltd.

As an export economy, Canada's fortunes are closely tied to global economic conditions. As we've been highlighting in our *Outlook, Asset Allocation* and *Weekly Trends* reports, the global economy is experiencing a slowdown, which will create additional headwinds for Canada. Weaker aggregate demand has negatively impacted commodities, which have been trending lower and was highlighted in the BoC's January *Monetary Policy Report*:

*"Oil prices have fallen since the October Monetary Policy Report, driven by stronger supply and concerns about weaker global demand. Lower oil prices are expected to provide a modest boost to growth in oil-importing countries while dampening growth for oil exporters… The Bank's non-energy commodity price index is modestly weaker than in October. The market reassessment of global growth prospects has been reflected in further declines in prices for base metals and agricultural products."*

### Global PMI Hovers Just Above 50

| Global PMIs | Current | 1 Month Ago | 3 Months Ago | 6 Months Ago | 1 Year Ago |
|---|---|---|---|---|---|
| ***Global*** | ***50.7*** | ***51.4*** | ***52.0*** | ***52.7*** | ***54.3*** |
| U.S. | 56.6 | 54.3 | 57.5 | 58.4 | 59.6 |
| Canada | 53.0 | 53.6 | 53.9 | 56.9 | 55.9 |
| Japan | 50.3 | 52.6 | 52.9 | 52.3 | 54.8 |
| U.K. | 52.8 | 54.2 | 51.1 | 53.9 | 55.2 |
| Euro zone | 50.5 | 51.4 | 52.0 | 55.1 | 59.6 |
| Germany | 49.7 | 51.5 | 52.2 | 56.9 | 61.1 |
| France | 51.2 | 49.7 | 51.2 | 53.3 | 58.4 |
| Italy | 47.8 | 49.2 | 49.2 | 51.5 | 59.0 |
| Brazil | 52.7 | 52.6 | 51.1 | 50.5 | 51.2 |
| China | 48.3 | 49.7 | 50.1 | 50.8 | 51.5 |

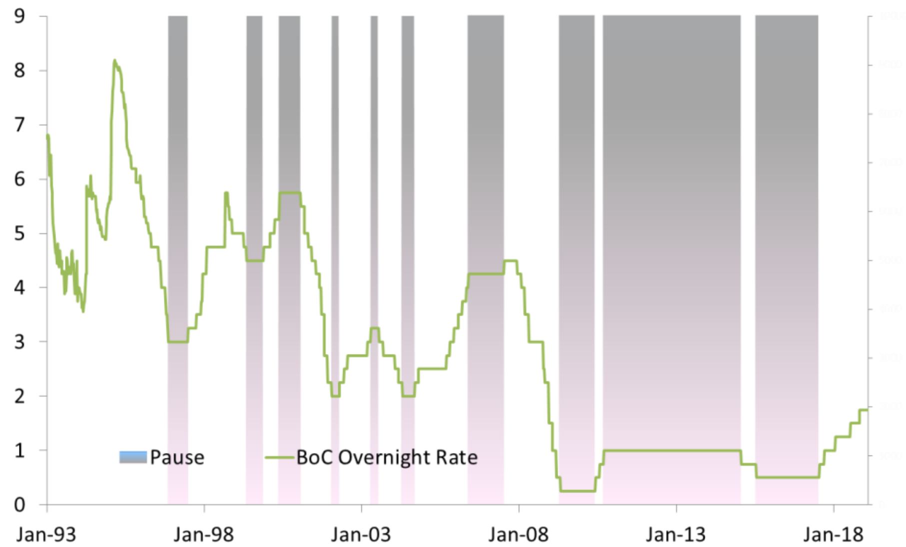
Source: Bloomberg, Raymond James Ltd.

The BoC is watching business investment closely, *"Business investment and exports outside the energy sector are projected to grow steadily and will benefit from favourable arrangements with many trading partners and recently announced federal tax measures targeting investment."* However, the BoC's Q4 *Business Outlook Survey* confirms that investment intentions have decreased slightly, while also revealing deterioration in firms' expectations for future sales. The silver lining in the report is that investment intentions remain at levels that are still consistent with positive growth. Finally, housing is a top concern for the BoC and it has conceded that *"housing activity has recently been weaker than anticipated and is expected to remain soft over the projection horizon."*

## BoC Pause & Sector Performance

Increasingly the data is pointing to the BoC taking an extended rate hike break. As such, we consider which sectors have historically performed well during periods when the BoC has paused. Since the 1990s, there were 10 observations we can consider. While there are additional short periods when the BoC paused during a hiking or cutting cycle, we exclude them for this exercise. Our assumption for this analysis is that the BoC holds rates at 1.75% for an extended period and the next move may be to ease monetary conditions.

## Bank of Canada Historical Pauses



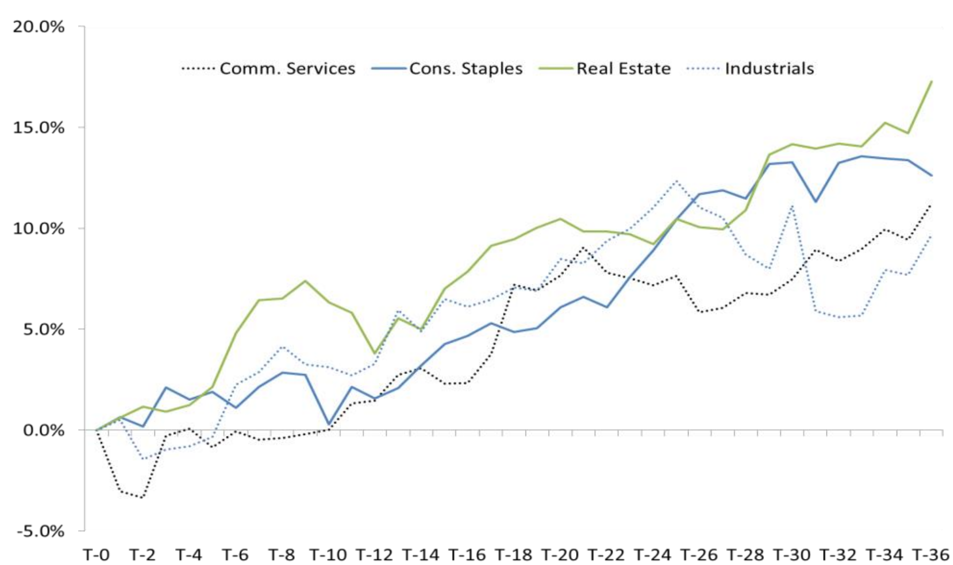

Source: Bloomberg, Raymond James Ltd.

As one might have imagined, the more defensive pockets of the market have shown a tendency to perform well when the BoC pauses. In fact, consumer staples and communication services appears to be the clear winners across both scenarios when the BoC has paused following a hiking and cutting cycle. Looking at each of these sector performances from the last rate hike in October, staples and communication services have gained 15.5% and 6.8%, respectively. At 15.5%, staples is the best performing sector while communications currently ranks 5th.

### Sector Performance During Pause*

| | | BoC Pause After | |
|---|---|---|---|
| GICS Sector | Average | Hiking | Cutting |
| Comm. Services | 14.9% | 22.1% | 6.2% |
| Cons. Disc. | 8.9% | 15.5% | 0.9% |
| Cons. Staples | 20.6% | 29.5% | 10.1% |
| Energy | 4.5% | 4.9% | 4.2% |
| Financials | 11.7% | 15.3% | 7.6% |
| Industrials | 17.8% | 26.1% | 7.9% |
| Info. Tech | -2.4% | -9.1% | 5.9% |
| Materials | -1.4% | -10.2% | 9.6% |
| Real Estate | 15.0% | 20.4% | 8.7% |
| Utilities | 7.0% | 7.4% | 6.8% |

### Top Sector Performance 36-weeks After BoC Pause




Source: Bloomberg, Raymond James Ltd. * Sector performance during a pause; outlier health care excluded from table

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