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Market Watch Weekly

CANACCORD Genuity
Wealth Management

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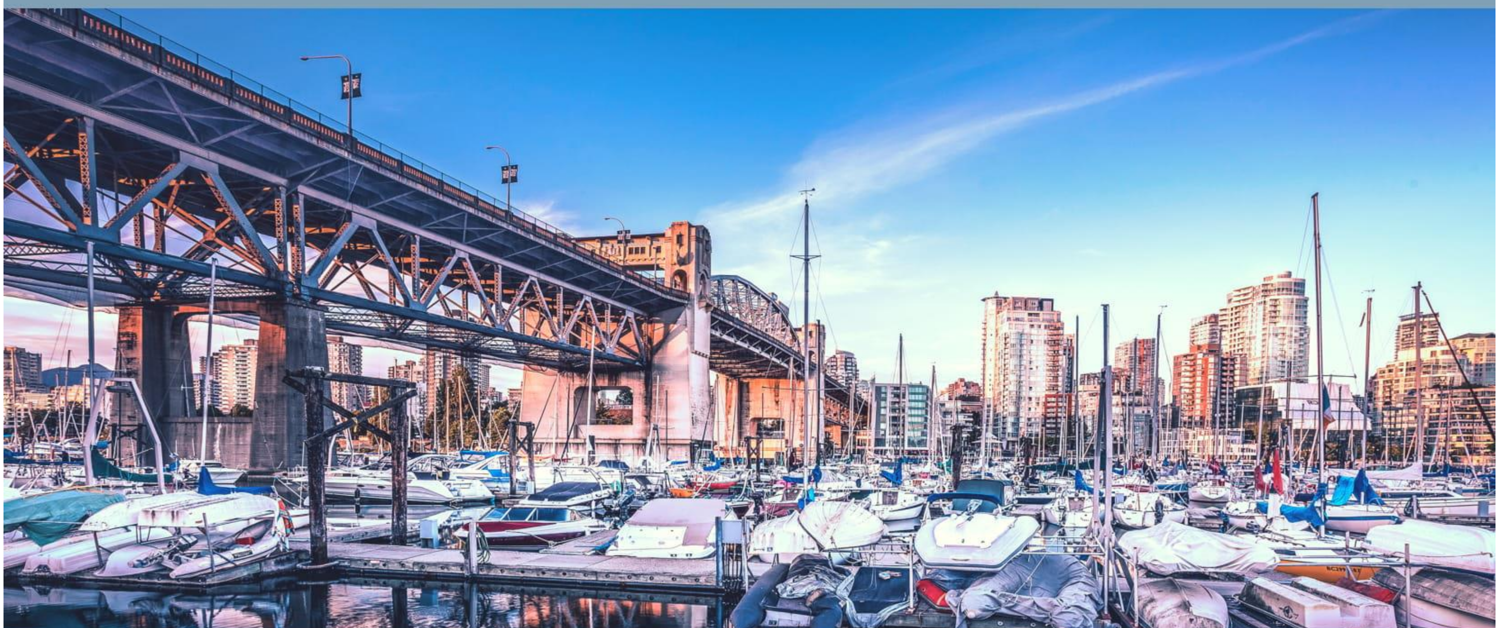

BLACK FRIDAY, INDEED.
November 23rd, 2018

The shortened week of trading south of the border did not bring any relief to global equity markets which a saw a pullback in stocks to their October lows. However, this is how the painful retesting process works. Strategists refer to this as the "slop, pop, and drop," where the market: (1) makes an initial low highlighted by an extreme oversold condition with a peak in volatility, (2) then experiences a sharp oversold bounce that recoups a significant part of the decline, and (3) ends with a retest of the low that brings demoralization and apathy. Sure, there are fundamental excuses for intermediate-term bottoms, but these types of declines are more about human nature following periods of rampant optimism, historically low volatility, and an extreme overbought condition.

Year	Spent per Shopper	Total Spent	Percent Increase
2002	N.A.	$416.4 billion	2.1%
2003	N.A.	$437.6 billion	5.1%
2004	N.A.	$467.2 billion	6.8%
2005	$734.69	$496.2 billion	6.2%
2006	$750.70	$512.6 billion	3.2%
2007	$755.13	$525.9 billion	2.7%
2008	$694.19	$501.7 billion	-4.6%
2009	$681.83	$503.2 billion	0.2%
2010	$718.98	$529.4 billion	5.2%
2011	$740.57	$553.8 billion	4.6%
2012	$752.24	$568.7 billion	2.6%
2013	$767.24	$584.1 billion	2.9%
2014	$802.45	$608.0 billion	5.0%
2015	$805.65	$626.1 billion	3.2%
2016	$935.58	$655.8 billion	3.6%
2017	$967.13	$682.0 billion	4.0%
2018	$1,007.24	$717.5 billion	4.3%

Source: National Retail Foundation

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Since October lows, however, one could argue that bears have the upper hand given this week's blow out in credit spreads, the rout in oil prices and the breakdown in FAANGs. Bulls may argue, however, that the ongoing tightening in financial conditions and weak global economic data are bringing the Fed closer to a pause after a December hike. Also, bond yields have stabilized and the bearish narrative is well discounted into stocks. As we have said before, market corrections only seem "natural, normal, and healthy" until you are in one.

In every market correction, there is a notion of price and time. While the price-correction criterion was met at the low of the market on October 26, the time-correction condition was not. However, the pullback in November has taken us closer to this point with the 13-week moving average on market breadth nearing the BUY territory. Moreover, the percentage of stocks in a bear market have pushed above 40% again, meaning sizeable technical damage, hence more fearful investors. Overall, while there could be more air coming out of FAANGs and US software, strategists believe the damage in aggregate market breadth so far implies that the price and time corrections have mostly run their course.

The other elephant with its foot in the door is oil. The drop in prices on Friday marked their lowest level in more than a year, deepening a rapid seven-week sell-off that has plunged crude futures deep into a bear market. Friday's declines further ramp up the pressure on OPEC ahead of a much-anticipated meeting between the influential oil cartel and its allies in Vienna on December 6, when they are expected to announce that output will be curtailed. The situation is being felt particularly hard in Alberta where Prime Minister Justin Trudeau conceded on Thursday that the low price of Canadian oil is a "crisis" for Alberta, but brought nothing in the way of new help for the industry.

TODAY'S STOCK WATCH

INDEXES	
S&P/ TSX Composite	15,010
Dow Jones Indus. Avg.	24,285
S&P 500	2,632
CURRENCIES	
Canadian/US Dollar	$0.7553
US/Canadian Dollar	$1.3237
Euro / Canadian	$1.4998
METALS	
Gold	$1223.20
Silver	$14.36
Copper	$2.78
ENERGY	
Brent Crude Oil	$59.19
WTI Crude Oil	$50.36
Natural Gas	$4.35

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Trudeau ventured into the heart of Canada's oil and gas industry just a day after his government's fiscal update, which had drawn fire from the provincial government and others who felt it did not do enough to help the ailing energy sector. Thousands of pro-pipeline demonstrators shut down part of Calgary's downtown core outside one of Trudeau's speaking events, where the prime minister reaffirmed his government's commitment to listen to energy industry leaders. He also touted tax changes introduced in the fiscal update that were largely dismissed by oil and gas executives, along with Alberta Premier Rachel Notley.

Speaking of the fiscal update, our government is now following the US experiment of providing fiscal reflation ($17 billion) despite good economic conditions and tight labour markets. The fall economic statement reinforces the case for the Bank of Canada to pursue gradual rate hikes. In fact, the BoC could outpace the Fed in 2019 and this could go a long way in re-rating the CDN$. Which strategists say could end the lengthy bear market in the S&P/TSX relative to world equities.

Looking to next week, we await Q3/18 GDP growth statistics in Canada. A strong number (i.e. ~3% QoQ, annualized) would help justify rate hikes from the BoC and support the Loonie. In the US, our focus will be on the FOMC Minutes to assess if the Fed could eventually call for a pause as the economy loses momentum.

And today is of course Black Friday… The annual tradition and spectacle of people rushing doors to be the first to… enter a store. While most of the attention and energy surrounding Black Friday still centers on the hunt for great deals, monitoring the instances of shopping-related violence and misbehaviour, the day is also a good barometer for the state of the economy.

According to the National Retail Federation, sales are expected to increase by 4.1% in 2018. The Federation does not expect the recent market pull-back or trade war to cut back on sales, pointing to retailers stocking up on inventory this holiday season. On average, shoppers expect to spend an all-time-high of $1,007.24. Below are the past 15 years of retail sales data. The average annual increase is 2.5%, thanks to the steep 4.6% decline in 2008. Before the 2008 financial crisis, the 10-year average annual increase was 3.5%.

Have a great weekend!

Sincerely,
Dekker Hewett Group

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