December Market Update: Wall Street's Record Rally Continues on Tax Reform Optimism; TSX Ends on a High Note

After a rocky first half, North American stocks ended the month of November on solid footing. On Wall Street, the Dow Jones Industrial Average closed above 24,000 for the first time in its history, as investors cheered the prospect of imminent tax reform. North of the border, Canadian stocks recovered thanks to a sharp rebound in energy stocks.

Dow Jones Hits 24,000

The remarkable streak in U.S. stocks continued in November, a sign that the Trump rally was still fueling gains one year after the election. The Dow was the most notable story on Wall Street after the blue-chip index crossed 24,000 for the first time. U.S. stocks as a whole added 3.1% for November for their eighth consecutive monthly gain and 12th in the last 13 months.[1]

Solid momentum was accompanied by another sharp drop in implied volatility. The Chicago Board Options Exchange (CBOE) Volatility Index climbed to multi-month highs through Nov. 15 only to fall back down into single digits toward the end of the month. In general, a low VIX is bullish for U.S. stocks.

TSX Shows Signs of Life

The Toronto Stock Exchange overcame volatility and on Nov. 30 posted its strongest advance in two months. The gains were largely attributed to rising energy stocks following the latest upsurge in oil prices. A better than expected earnings call from the Canadian Imperial Bank of Commerce (CIBC) also bolstered investor sentiment.[2]

To be sure, the S&P/TSX finished the month well off record highs. The index returned just 5% in the year to November, which is a fraction of the double-digit percentage gains enjoyed by the major U.S. indices over the same period. All this despite Canada's faster than expected growth through much of 2017.

Canada's Economy Shows Signs of Slowing

After an improbable run through the first six months, the Canadian economy slammed on the breaks in the third quarter as weaker exports weighed on growth. Statistics Canada reported Dec. 1 that the economy grew just 1.7% annually in the third quarter. Meanwhile, government economists downgraded their estimate of second-quarter growth from a sizzling 4.5% to a still-strong 4.3%.[3]

Canada's GDP has expanded for five straight quarters, a sign that the economy has rebounded from the bottoming of the oil-price collapse. Crude prices surged to two-year highs in November[4] amid signs of improving global demand and plans for continued cuts for the Organization of the Petroleum Exporting Countries (OPEC). However, it remains to be seen whether the gains are sustainable or whether higher price points will lure U.S. shale producers back into the fold.

Against this backdrop, the Bank of Canada (BOC) made no changes to monetary policy during last month's meeting, opting instead to stay the course. The BOC raised interest rates on multiple occasions this year, but has since taken a more cautious approach.

Trump Tax Reform Gains Steam

Donald Trump's administration made significant headway on tax reform last month after House Republicans united to back a complete overhaul of the tax bill. In November, the House of Representatives passed the framework that many believe will lead to a more comprehensive agreement on tax reform. On Nov. 29, the Senate passed a procedural vote on a tax overhaul, putting the Trump administration one step closer to delivering on one of its major campaign promises.

In order to pass a new tax bill before Christmas, the Trump administration must reconcile two versions of the bill. Doing so would ensure that the new law goes into effect Jan. 1, 2018.[5] Under the new law, the corporate tax rate would be reduced to 20% from 35% while personal tax rates would be reduced temporarily.

The Month Ahead

The final month of the year is commonly associated with a seasonal bounce for North American stocks. The so-called Santa Claus rally usually comes into effect after Christmas. Theories about why stocks rise during this period vary, but generally boil down to improved investor sentiment, tax considerations and the bears being away on vacation.

Investors can expect trade volumes to weaken significantly around the holidays before picking up again in the new year. In the meantime, economic data and monetary policy considerations will continue to provide investors with the talking points they need to trade for the duration of the month.

Sincerely,

Ferrie Petruccelli Wealth Management Group

David Ferrie, Portfolio Manager, Managing Director
T: 416-590-7667 david.ferrie@nbpcd.com

BMO Wealth Management
BMO Nesbitt Burns

FP Ferrie Petruccelli Wealth Management Group

Anthony Petruccelli, Portfolio Manager, Financial Planner
T: 416-590-7675 anthony.petruccelli@nbpcd.com

Gabriela Boada, Investment Representative
T: 416-590-7637 gabriela.boada@nbpcd.com

Our Partners

Tim Simpson, Estate & Insurance Advisor
T: 416-359-7798 timothy.simpson@nbpcd.com

Tracy McClure, Director, Wealth Planning
T: 905-404-8929 tracy.mcclure@bmonb.com

Sources

1 Tiho Brkan (Dec 3, 2017). “November Summary: US Stocks Outperforming.” The Atlas Investor.

2 Reuters (November 30, 2017). “The close: TSX rises most in 2 months as energy stocks rally.” The Globe and Mail.

3 The Canadian Press (Dec 1, 2017). “Canadian economy expands at 1.7% annual pace in third quarter.” CBC News.

4 Rebecca Ungarino (Nov 6, 2017). “Oil hits two-year high and the path of ‘least resistance is higher’.” CNBC.

5 Ella Nilson (Nov 29, 2017). “Tax reform 2017: here’s when the proposed Republican plan would take effect if it passes.” Vox.