November 2017: Wall Street Notches Seventh Consecutive Monthly Gain as TSX Plays Catch Up

The global uptrend in equities continued last month, with Canadian stocks participating in the rally as upbeat earnings and a synchronized global recovery fueled investor optimism. For the first time this year, Canadian markets are getting a vote of confidence from investors thanks to prudent guidelines from federal and provincial governments to help stabilize the housing market.

On Wall Street, it was business as usual for the major indexes, which posted multiple record highs throughout the month. The Dow Jones Industrial Average has been especially bullish, as evidenced by 70 record highs since the 2016 presidential election.[1]

All of Europe's major indexes finished in positive territory for the month. In Asia, Japanese stocks rose to 21-year highs following the re-election of Prime Minister Shinzo Abe.

TSX Hits Record Territory

Canada's benchmark stock index hit record highs in October, as oil prices advanced and financials returned to form. The S&P/TSX Composite Index closed at all-time highs on Halloween with a reading of 16,025.59. For the month, the index returned 2.5%.

Financials, which account for roughly one-third of the index, rose 4.3% for October. Energy stocks gained 1.8% as investors cheered rebounding oil prices. North American crude barrels approached $56 in the final week of October amid signs that Saudi Arabia and its fellow OPEC producers are planning to extend their output cuts beyond March 2018. Analysts say the oil rally could run into 2018 should the OPEC kingpin broaden its effort to rebalance the market.

That being said, the TSX has returned a modest 4.8% this year. In the process, it has underperformed virtually every major index in the world, including the United States, which has returned more than three times as much.[2]

U.S. Stocks Extend Bull Run

Wall Street picked up in October where it left off the month before, with the S&P 500, Dow Jones and Nasdaq Composite setting multiple record highs. The indexes gained between 2.2% and 4.3% during the month, as volatility remained low.

A mostly positive earnings season has underpinned the latest rally, with technology companies leading the charge. Amazon, Microsoft, Intel and Google-parent Alphabet all reported earnings last week that were well above forecasts.

As of Friday, October 27, 55% of S&P 500 companies had reported third-quarter earnings. More than three-quarters (76%) reported higher than expected profits and two-thirds (67%) said sales outpaced forecasts. As a result, the S&P 500 Index is on track for a blended earnings growth rate of 4.7% for the quarter.[3]

Trump Tax Optimism

President Donald Trump scored a major victory last month after the House of Representatives passed a budget blueprint that many believe will pave the way for comprehensive tax reform. The Trump administration believes it can hammer out a new tax bill by the end of the year, something most pundits say is highly unlikely.[4]

Of course, introducing tax reform will be easier said than done. The president faces internal dissent tied to the planned elimination of the State and Local Tax (SALT) deduction, as well as other provisions.

Bank of Canada Stands Down

The BOC left policy unchanged last month in a move that was widely expected by the markets. However, what wasn't priced in was the ultra-dovish tone the Bank took in signaling future rate hikes. The official rate statement and press conference largely accomplished the task of weakening the Canadian dollar, which quickly fell to three-month lows against the greenback. Although the BOC does not directly interfere in the currency markets, policymakers would much rather see a competitive loonie at this point.

A string of disappointing data releases has clouded the BOC's policy outlook. The latest reports on retail sales, consumer inflation and GDP came in weaker than expected, with the Canadian economy contracting unexpectedly in August.

The Month Ahead

November is considered the start of the best six months of the year for stocks, according to the 'Halloween Indicator', a popular investment strategy that advises traders to exit the market from May 1 through Oct. 31. The theory is based on tangible evidence spanning several decades, including in a 2001 study by Sven Bourman and Ben Jacobsen. The researchers evaluated stock market returns in 37 developed and emerging markets between 1973 and 1998. They concluded that 36 of those markets exhibited significantly higher returns in the November through April period than those markets exhibited significantly higher returns in the November through April period than those between May and October.[5]

Canadian stocks can certainly benefit from the Halloween Indicator after a mostly lackluster year of returns. Wall Street, on the other hand, has been doing just fine since President Trump was elected. This is unlikely to change as we head into the holiday season.

Sincerely,

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