



December Market Update: Stocks Bounce Back After Volatile Month as Attention Shifts to Trade

Wall Street and global stocks extended their bearish streak in November, as plunging oil prices, trade-war risks and global growth downgrades weighed on investors' sentiment. November price action was so severe that the Dow Jones Industrial Average and S&P 500 Index briefly entered into negative territory for the year – something that would have seemed inconceivable just two months earlier when the benchmarks were trading in record territory. The global growth outlook hasn't improved very much, but details around free trade have given investors room for optimism.

Volatile November

The month of November highlighted the increasingly hostile nature of equity trading since the third quarter. Huge gains were followed by even bigger losses, with the outlook shifting on an almost daily basis. Case in point: the large-cap S&P 500 Index jumped 6.5% between Oct. 29 and Nov. 7 only to fall by a similar amount over the next two weeks. On Nov. 23, the index closed at its lowest level in over six months, and in doing so, wiped out its gains for the year.

Stocks managed a large comeback in the final week of November, catalyzed by rebounding tech shares and optimism that global powers were working toward resolving long-standing trade disputes.

In Canada, the benchmark TSX Composite Index followed a similar, albeit less pronounced, trajectory as Wall Street. The index finished the month unscathed, returning a net 1.1%.



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Corporate Earnings: Hit and Miss

U.S. President Donald Trump and Chinese counterpart Xi Jinping have agreed to de-escalate their bitter trade war following weekend negotiations on the sidelines of the G20 summit in Buenos Aires, Argentina Nov. 30-Dec. 1. The truce amounted to a 90-day ceasefire, with both sides vowing to continue negotiations in pursuit of a new free trade deal.

China has agreed not to tax American automobiles in exchange for guarantees that Washington won't move ahead with a planned increase on existing duties. In January, the Trump administration was planning to boost tariffs to 25% from 10% on \$200 billion worth of Chinese goods.¹

"My meeting in Argentina with President Xi of China was an extraordinary one," President Trump tweeted Dec. 3. "Relations with China have taken a BIG leap forward! Very good things will happen. We are dealing from great strength, but China likewise has much to gain if and when a deal is completed. Level the field!"

A timetable for forthcoming talks has yet to be announced.

Oil Enters Bear Market

Crude prices extended their slide during the month of November, as traders continued to doubt OPEC's ability to re-balance an oversupplied market. Sharp downward revisions to global consumption and economic growth also undermined prices, which officially entered into bear market territory on Nov. 8.²

The West Texas Intermediate (WTI) benchmark for U.S. crude futures briefly traded below \$50 a barrel on two occasions last month, setting new lows for the year. The contract settled at \$50.93 a barrel on Nov. 30, having declined a whopping 33% from its multi-year peak in early October. Brent crude, the international futures benchmark, followed a similar trajectory. The London-traded contract closed the month at \$58.71 a barrel, down 32% during the two-month downtrend.

Pressure on prices is expected to continue for the foreseeable future with the International Energy Administration (IEA) forecasting supply to outpace demand through 2019.³ This comes despite renewed sanctions on Iran limiting exports from the Persian Gulf.

The Month Ahead

Seasonality has yet to work in favor of the bulls this fall, but a change in fortunes is probable over the next four weeks. Equity markets tend to outperform during the holiday stretch – a phenomenon known as the “Santa Claus rally.” The de-escalation of trade tensions and actions to rein in crude supplies by OPEC could generate more favorable conditions for stocks during the holiday season. Market participants can expect trade volumes to decline steadily as the month progresses.

Sincerely,

[Ferrie Petruccelli Wealth Management Group](#)

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

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

Ma.Katrina Umali, Administrative Assistant
T: 416-590-7637 makatrina.umali@nbpcd.com

Our Partners

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

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¹ Kevin Breuninger and Javier E. David (Dec. 1, 2018). "[US will hold off on raising China tariffs to 25% as Trump and Xi agree to a 90-day trade truce.](#)" CNBC.

² Dan Molinski (Nov. 8, 2018). "[U.S. Oil Enters Bear Market on Rising Inventories, Worries of Oversupply.](#)" The Wall Street Journal.

³ Oil & Gas Journal (Nov. 14, 2018). "[IEA: Global oil supply will outpace demand throughout 2019.](#)"