



November Market Update: U.S. Stocks Round Out Worst Month in Seven Years; China Turmoil Intensifies

After a record-setting September, Wall Street and global stocks experienced a dramatic retreat in October as the escalation of trade-war threats and emerging-market weakness rattled investors' sentiment. When the dust settled, U.S. equity markets had recorded their worst monthly performance since 2011 while Chinese stocks sunk deeper into bear-market territory. Although the worst of the selloff appears to have passed, underlying risks continue to threaten the short-term outlook.

Equity Markets Crumble

Wall Street's major indexes briefly entered correction territory last month in a selloff that extended across all major sectors. The large-cap S&P 500 Index shed 6.9% during the month and was down 7.5% from its most recent peak set on September 20th. The technology-driven Nasdaq Composite Index finished with a monthly loss of 9.2%.¹

The rout in Chinese equities intensified in October as the threat of an all-encompassing trade war stoked fears of a broader slowdown in domestic growth. China's economy expanded 6.5% annually in the third quarter, the slowest since 2009. Calls for more stimulus by the People's Bank of China (PBOC) weren't enough to offset investors' fears of a slower-growth paradigm.² By the end of October, China's benchmark Shanghai Composite Index was down more than 21% for the year.

Canadian companies were also affected by the selloff in global equity markets. Toronto's benchmark S&P/TSX Composite Index fell 6.5% in October en route to fresh two-year lows.

Corporate Earnings: Hit and Miss

On the whole, third-quarter earnings are coming in better than expected for U.S. firms. As of November 2nd, nearly three-quarters (74%) of S&P 500 companies had reported actual results for the quarter. Among them, nearly four-fifths (78%) had reported better than expected earnings and 61% said quarterly revenues outpaced expectations.³



BMO Wealth Management is the brand name for a business group consisting of Bank of Montreal and certain of its affiliates, including BMO Nesbitt Burns Inc., in providing wealth management products and services. © "BMO (M-bar Roundel symbol)" is a registered trade-mark of Bank of Montreal, used under licence. © "Nesbitt Burns" is a registered trade-mark of BMO Nesbitt Burns Inc. BMO Nesbitt Burns Inc. is a wholly-owned subsidiary of Bank of Montreal. BMO Nesbitt Burns Inc. is a Member - Canadian Investor Protection Fund. Member of the Investment Industry Regulatory Organization of Canada.

While corporate earnings remain largely positive, concerns over peak profitability continue to stoke fears of a pending slowdown for American corporations. Third-quarter results have seen many notable companies miss the mark on profit and revenue. Apple Inc., a major bellwether for Corporate America and the technology sector, announced last week it will no longer be reporting on unit sales of its flagship iPhone or other hardware products.

Oil Prices Plunge

Crude oil in October suffered its worst monthly drop in over two years, as Saudi Arabia and Russia offered to ramp up production to offset the loss of Iranian exports following the re-imposition of U.S. sanctions in early November.

After starting the month at four-year highs, oil prices would later plunge double digits. Brent crude, the international futures benchmark, fell 14% between October 3rd and November 1st to reach its lowest level in over two months. U.S. West Texas Intermediate (WTI) futures are down nearly 18% from their peak on October 3rd.

A multitude of forces weakened crude prices last month, including a stronger dollar, a downward revision on global growth and rising commercial inventories. What's more, bearish positions on crude futures surged to the highest level in over one year. According to Reuters, fund managers have reduced their bullish positions on oil futures and options for four consecutive weeks.⁴

The Month Ahead

News and speculation concerning the upcoming Trump-Xi summit will dominate headlines this month, as investors look for signs of easing trade tensions between the world's two largest superpowers. President Trump struck an optimistic tone last week following a "very good" phone call with Chinese president Xi Jinping. According to Trump, the leaders had a lively discussion on everything from free trade to North Korea, setting the stage for fruitful dialogue at the forthcoming G20 Summit in Buenos Aires, Argentina.⁵ China later referred to the phone call as "extremely positive."⁶

The U.S. midterm elections will also be front and center this month. A political shakeup in Congress could have direct impact on the financial markets.

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

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

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

The comments included in this publication are not intended to be a definitive analysis of tax applicability or trust and estates law. The comments contained herein are general in nature and professional advice regarding an individual's particular tax position should be obtained in respect of any person's specific circumstances. BMO Wealth Management is the brand name for a business group consisting of Bank of Montreal and certain of its affiliates, including BMO Nesbitt Burns Inc., in providing wealth management products and services. ®"BMO (M-bar roundel symbol)" is a registered trade-mark of Bank of Montreal, used under licence. ® "Nesbitt Burns" is a registered trade-mark of BMO Nesbitt Burns Inc. BMO Nesbitt Burns Inc. is a wholly-owned subsidiary of Bank of Montreal. If you are already a client of BMO Nesbitt Burns, please contact your Investment Advisor for more information. BMO Nesbitt Burns Inc. is a Member-Canadian Investor Protection Fund. Member of the Investment Industry Regulatory Organization of Canada.

¹ The Associated Press (Nov. 1, 2018). "October Marks Worst Month for US Stocks in 7 Years." New York Times.

² Sam Bourgi (Oct. 9, 2018). "Chinese Stocks are Getting Pummeled as Central Bank Stimulus Fails to Provide Reassurance." Hacked.com

³ FactSet (November 2, 2018). Earnings Insight.

⁴ Sam Bourgi (Oct. 29, 2018). "Oil Prices Fall on Strong Dollar, Global Growth Concerns." Hacked.com

⁵ Channel News China (Nov. 1, 2018). "Trump reports 'very good' phone call on trade with China's Xi."

⁶ CBC News (Nov. 2, 2018). "China says Xi-Trump phone call on trade extremely positive'."