

December in Review

Volatility continued in December, and equity markets performed poorly as a result. More cautious central banks, weaker economic data, apprehension about the continued U.S.-China trade dispute, and a U.S. government shutdown all contributed negatively to investor sentiment. U.S. equities were down 9.03%, led lower by the Energy, Financials, and Industrials sectors. Canadian equities declined 5.41%, led by the Health Care, Industrials and Consumer Discretionary sectors. Canadian bonds ended the month 1.35% higher. Commodities were mixed in December, with large losses from Natural Gas, WTI Crude, and Copper, which declined 33.47%, 11.12%, and 5.61%, respectively. Gold finished 4.51% higher, as investors looked for a safe haven among declining assets.

Investors endured violent swings both higher and lower throughout the month. While valuations have pulled back, uncertainty continues, with the US-China trade dispute still unresolved, and a partial shutdown of the U.S. government that continues into 2019. Here are some of December's most notable headlines:

Weak economic data roils world stocks. Stocks worldwide tumbled after weak economic data from Europe and China fanned concerns of a global economic slowdown. The IHS Markit Flash Eurozone PMI index indicated that eurozone business expanded at the slowest pace in over four years. The data out of Europe added to weak readings from China, where November retail sales grew at the weakest pace since 2003 and industrial output rose the least in nearly three years. This is in addition to Chinese customs data released earlier in the week that reported notably weaker-than-expected November exports and imports, which pointed to slower global and domestic demand.

Partial shutdown of U.S. government. After Congress and the White House failed to reach a spending deal, there was a partial shutdown of the U.S. government. This affected roughly a quarter of the federal government, including appropriations for the Departments of Homeland Security, Justice, Housing and Urban Development, and other parts of the government. President Donald Trump suggested the shutdown could last a long time, and insisted he wouldn't end the shutdown without funding for his promised Mexico-U.S. border wall.

Markets React to Evolving Central Bank Message. The U.S. Federal Reserve (Fed) raised interest rates by a quarter point on Dec. 19 to 2.50 percent. The central bank also revised lower its interest rate forecast to two hikes in 2019, one fewer than it had previously forecast in September. Fed Chairman Jerome Powell later said that the Fed's balance sheet reduction program would proceed as planned. Investors reacted with concern, questioning the implications of these comments for economic growth.

Did you know?

The Tax-Free Savings Account (TFSA) turns 10 years old this year, and with this milestone comes an increase to contribution limits. Starting in 2019, the annual maximum contribution amount increases to \$6,000, giving Canadian residents over the age of 18 more room to contribute to this popular savings vehicle. Any contribution amounts from previous years that haven't been used can continue to be carried forward to future years. For more information on the TFSA and to see how it can fit into your financial plan, contact your Scotiabank advisor today.

INDEX [†]	1 Mth	Change (%) YTD	1 Yr	Index Level
Treasury Bill (FTSE Canada 60 Day T-Bill)	0.14	1.35	1.35	162
Bonds (FTSE Canada Universe Bond)	1.35	1.41	1.41	1051
Canadian Equities (S&P/TSX Composite)	-5.41	-8.88	-8.88	14,323
U.S. Equities (S&P 500, US\$)	-9.03	-4.39	-4.39	2,507
Global Equities (MSCI World, US\$)	-7.57	-8.19	-8.19	1,884
Emerging Markets (MSCI Emerging Markets, US\$)	-2.81	-14.49	-14.49	966

CURRENCIES [†]	1 Mth	Change (%) YTD	1 Yr	Exchange Rate
C\$/US\$	-2.54	-7.83	-7.83	0.73
C\$/Euro	-3.78	-3.50	-3.50	0.64
C\$/Pound	-2.63	-2.40	-2.40	0.57
C\$/Yen	-5.89	-10.31	-10.31	80.41

COMMODITIES (US\$) [†]	1 Mth	Change (%) YTD	1 Yr	Price
Gold Spot (\$/oz)	4.51	-4.22	-4.22	1,281.30
Oil WTI (\$/barrel)	-11.12	-20.89	-20.89	45.41
Natural Gas (\$/MMBtu)	-33.47	-3.95	-3.95	2.94

[†]Total Return, as at December 31, 2018. Indices are quoted in their local currency. Source: Bloomberg

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