3 Reasons November Could Be Spooky for the Stock Market

Description

The S&P/TSX Index closed above 16,000 points for the first time in its history on October 30. It marks a dramatic surge that has seen the index climb over 6% since dropping below the 15,000 mark in early September.

The index has been powered by the performance of cannabis stocks, Canadian banks, and even resurgent energy stocks, as oil has also rallied in recent months. But amid the rocking stock market, the Bank of Canada elected to hold the benchmark interest rate at 1% in its October 25th meeting. It cited a number of concerns for the broader Canadian economy that could affect the stock market.

As we head into November, let's look at three reasons for investors to be cautious.

Economy retreating from its first-half pace

As of this writing, August GDP data has not yet been released by Statistics Canada, though it is expected to be released today. A Statistics Canada report in late September showed flat GDP in July, breaking a streak of eight consecutive months of growth.

An October 20th report also showed retail sales decline in August. Retail sales were down 0.3% to $48.9 billion with sales dropping 2.8% at supermarkets and grocery stores. There were also declines in garden equipment and supplies dealers (1.9%) and furniture and home furnishings stores (2.4%).

In its announcement, the Bank of Canada also raised alarms about the fate of NAFTA as meetings have taken a decidedly negative turn. A recent case study from CMHC tested the possible impacts that rising protectionism could have on the broader economy. In the worst-case scenario, unemployment levels could rise up to 15%.

Canada housing a cause for anxiety

In the CMHC test, it also raised the possibility of a severe correction in housing. The report projected that external factors could coincide to push housing prices down as much as 31%.

In a report last week, the CMHC put several key markets, including Toronto, Vancouver, and Hamilton in a "red zone," indicating a high degree of market vulnerability. The Greater Toronto Area has already experienced a sizable correction since reaching a peak in April, with results in September putting the correction in the 15-20% range depending on the specific location.

Now, with new OSFI regulations set to impose a stress test, even on uninsured home buyers, beginning in January 2018, there are fears that the housing market could decline further. Lenders **Equitable Group Inc.** (TSX:EQB) and **Home Capital Group Inc.** (TSX:HCG) have said the new regulations will have a detrimental effect on new loan growth. Analysts at **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) stated that a correction between 5% and 10% is likely in 2018.

Stock market overheating?

The S&P/TSX Index has risen 4.6% in 2017 and 8.2% year over year. Now at record highs, news about a slowing Canadian economy could take the wind out of this rally. The Bank of Canada has also warned that U.S. tax reform could result in lower investment in Canada. After this run, now may be an opportune time for investors to take profits.

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Author
aocallaghan