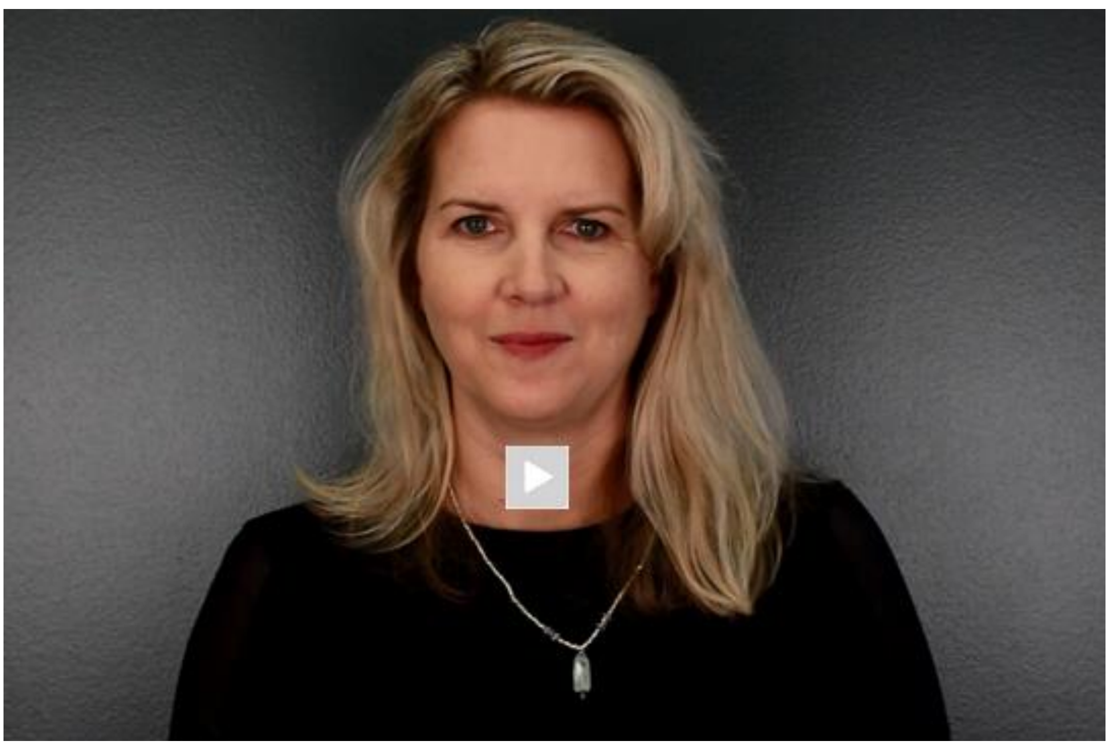
2 Bloor Street West, Suite 1802
Toronto, Ontario M4W 3E2
Phone: 416-479-0645

Weekly Market Recap for November 27, 2015

Looking closer at the US market it is apparent the S&P 500 is being held up by a narrow selection of stocks. The ten largest stocks now account for almost 14% of the advance and when you take out these top ten stocks the S&P 500 is actually down year to date. Also high yields and leveraged loans are giving an ominous warning and as I've said repeatedly credit leads the market. For more details click here or on the image below for my latest video.

As for this week it was very quiet for stocks due to the Thanksgiving holiday in the US and trading really slowed down by Wednesday afternoon. Most of the major indices finished the week flat but notably the US dollar index (the DXY) managed to close above the 100 level. The US dollar currently sits at major resistance and if it breaks through there will be renewed pressure on commodities and US dollar denominated debt abroad. Next week both the Bank of Canada and the European Central Bank have interest rate announcements and we will get additional clues on where they think the global economy stands.



info@otterwoodcapital.com
Follow us on OtterWoodCapM

2 Bloor Street West, Suite 1802
Toronto, Ontario M4W 3E2
Phone: 416-479-0645

Weekly Market RunDown

Stocks	Price (today's close)	Weekly % chg	YTD %chg
S&P/TSX	13368.24	-0.49%	-8.64%
S&P500	2090.11	0.43%	1.52%
Nikkei	19883.94	0.12%	13.94%
FTSE100	6375.15	0.64%	-2.91%
Euro Stoxx50	3488.99	1.06%	10.89%
Shanghai Composite Index	3436.30	-5.35%	6.23%
Emerging markets ETF	33.94	-3.36%	-13.62%
Nasdaq	5127.52	1.06%	8.27%

Bonds	Yield	Weekly Net chg	YTD Net chg
Canada 10 year bond	1.57%	-0.05%	-0.22%
US 10 year bond	2.22%	-0.05%	0.05%
Avg. cdn 5 yr mortgage rate	4.64%		-0.15%
US 30 year mortgage rate	3.92%	0.00%	-0.07%

Commodities & FX	Price (today's close)	Weekly % chg	YTD %chg
Gold	1056.200	-1.87%	-11.11%
Silver	14.048	-0.55%	-10.98%
Oil	41.770	-0.31%	-30.35%
USD/CAD	1.337	0.19%	15.06%
EUR/CAD	1.416	-0.31%	0.74%
USD/YEN	122.850	0.03%	2.56%
EUR/USD	1.059	-0.49%	-12.43%

Gas	Price	Yest. Avg	Year ago avg.
US gas price at pump	2.05	2.05	2.80
Canada gas price at pump	1.04		1.24

2 Bloor Street West, Suite 1802
Toronto, Ontario M4W 3E2
Phone: 416-479-0645

Reads of the Week

[Masters of the finance universe are worried about China]

[Calpers reports it paid $3.4 billion to private-equity firms]

[If China killed commodity super cycle, Fed is about to bury it]

This Week's Macro Thoughts

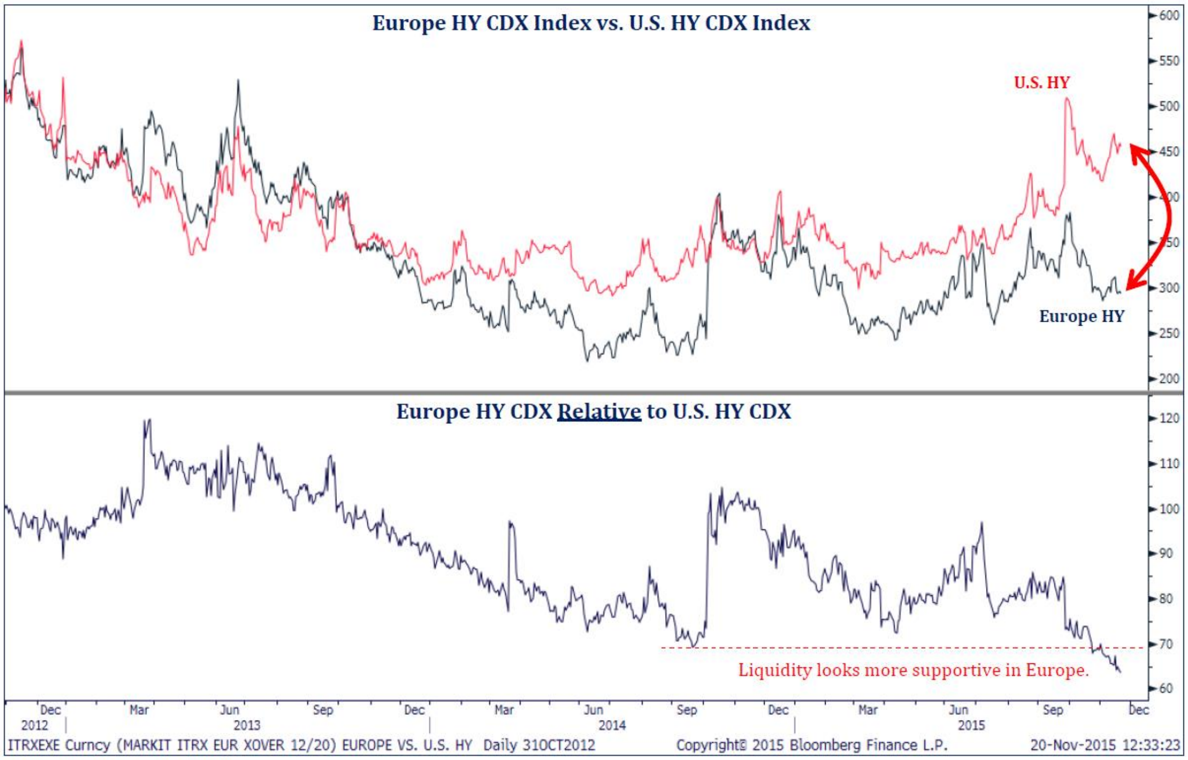
US high yield spreads still elevated while European spreads have come in

As I covered in last week's newsletter (see here) investment grade bond spreads have been flat since the August lows not confirming the recent market rally. The action in high yield credit default swap spreads (CDS) has been the same with the US high yield CDX index still elevated. Bond spreads and CDS spreads are an indicator of credit stress in the lending markets and when spreads increase investors are worried about getting their money back from borrowers.

In Europe however high yield spreads have come in possibly signaling credit conditions are supportive of a rally. This makes sense because the European Central Bank has been talking up monetary stimulus for December while the Fed is expected to begin its long awaited interest rate hiking cycle.

Although one thing to consider is the smaller weight of energy companies in the European index (European index has 6% energy weight while the US index has 16%).

2 Bloor Street West, Suite 1802
Toronto, Ontario M4W 3E2
Phone: 416-479-0645



Source: Strategas Research Partners

Here we go…

Alberta's housing market has been hit by the fall in oil prices and home prices in Alberta's major cities are barely holding up, see my past newsletter here. It looks like the situation is getting worse with the first major cracks showing up in the smaller oil-driven cities. As reported by the Financial Post, the average house price in Fort McMurray has fallen 20% since last year from $585,438 in October 2014 to $468,199 in October 2015.

Although Calgary and Edmonton haven't cracked yet they are beginning to turn and these smaller cities serve as a warning. The longer oil prices stay low or fail to rally in a material way, the more of a disaster Alberta's housing market will be.

2 Bloor Street West, Suite 1802
Toronto, Ontario M4W 3E2
Phone: 416-479-0645

Perspective on house price changes

	Price change since peak	Month of peak	Months since peak
Victoria	0.0%	2015-10	0
Vancouver	0.0%	2015-10	0
Calgary	-1.0%	2014-10	12
Edmonton	-3.0%	2007-09	97
Winnipeg	-0.4%	2014-09	13
Hamilton	-0.3%	2015-09	1
Toronto	0.0%	2015-10	0
Ottawa-Gatineau	-1.5%	2014-08	14
Montreal	-1.8%	2014-07	15
Quebec City	-4.4%	2015-05	5
Halifax	-2.5%	2013-06	28
Composite Index	**0.0%**	**2015-10**	**0**

NBF Economics and Strategy, Teranet-National Bank House Price Index

Investors shunning the riskiest companies

With uncertainty about the global economy increasing and a Fed interest rate hike expected in December investors are much less willing to take on the debt from the riskiest borrowers. As reported by Bloomberg (see the full article here) the debt of the riskiest companies is selling off at four times the rate of the least risky borrowers.

Investors have been selling junk bonds at the slightest hint of bad news and buyers are only willing to come in at significant price discounts. The chart below shows how the average price of these companies has fallen to levels not seen since the financial crisis.

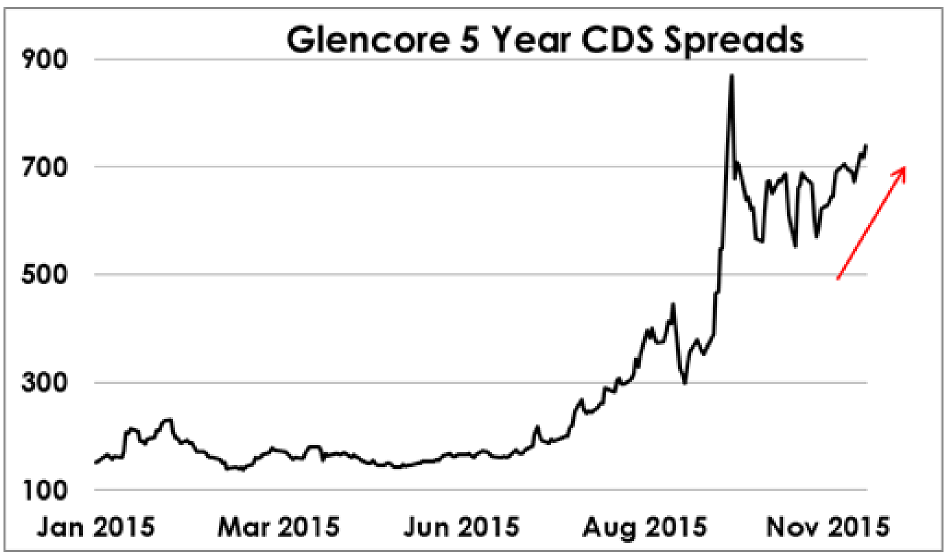
2 Bloor Street West, Suite 1802
Toronto, Ontario M4W 3E2
Phone: 416-479-0645

One reason for large price moves in bonds is bank regulations have reduced the amount of bonds banks are willing to hold on to, removing an important source of liquidity. As the role of banks has been reduced the concentration of mutual funds, insurance companies and foreign investors in the corporate bond market has increased from 52 percent in 2007 to 68 percent now. So when one mutual fund wants to sell other funds with similar investment objectives are not there to step in and buy, unless the price falls substantially.

This may currently be contained to just the riskiest part of the market but it could be the early stages of a turn in the credit cycle.

Glencore CDS breaking out…again

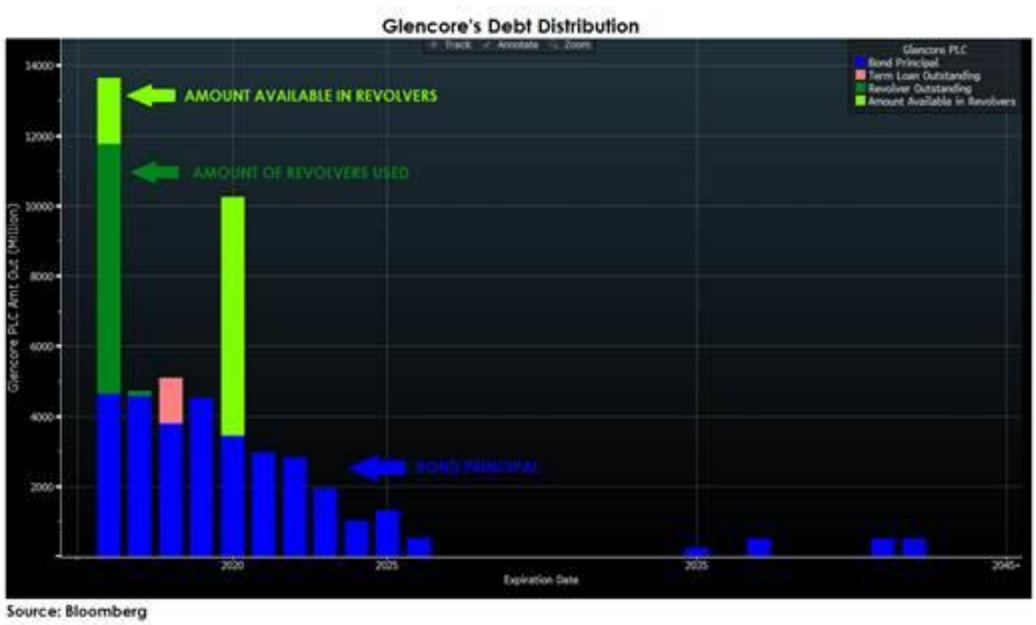
I've previously covered how Glencore, one of the world's biggest commodities traders, could be a canary in the coalmine for commodities (see here). Recently the credit default swap spread on Glencore's debt has broken out of its trading range (see the chart below).



The cost of buying protection on Glencore's debt is rising, signaling investors are worried about the company's ability to repay it all. This isn't surprising when you look at a chart of Glencore's debt distributed by maturity. They have

2 Bloor Street West, Suite 1802
Toronto, Ontario M4W 3E2
Phone: 416-479-0645

plenty of debt coming due in the next few years but what is really interesting is how much of their credit lines are already used up.



Given how commodities continue to drop, it doesn't look like this giant has much time left.

Shipping Index at lowest level since 1985

The Baltic Dry Index measures the real time shipping rates over major shipping routes around the world and it provides a good assessment of the price of moving commodities by sea. Last Friday the index marked a reading below 500 or the lowest level on the index since it started in 1985. The Baltic dry index is down 35% this year and it indicates how much global trade is slowing.

There are several reasons why the index has fallen and why shipping is currently so cheap, most of which have to do with China. The slowdown in the Chinese economy has been larger than expected and China's weaker demand for commodities has hurt both commodity prices and international trade.

2 Bloor Street West, Suite 1802
Toronto, Ontario M4W 3E2
Phone: 416-479-0645