ECONOMIC and FINANCIAL REVIEW

Office of the Vice-President
Strategy, Risks and Performance

January 17, 2020

AUTORITÉ DES MARCHÉS FINANCIERS

TABLE OF CONTENTS

Mario Houle, Chief Economist
Philippe Bergevin, Senior Economist
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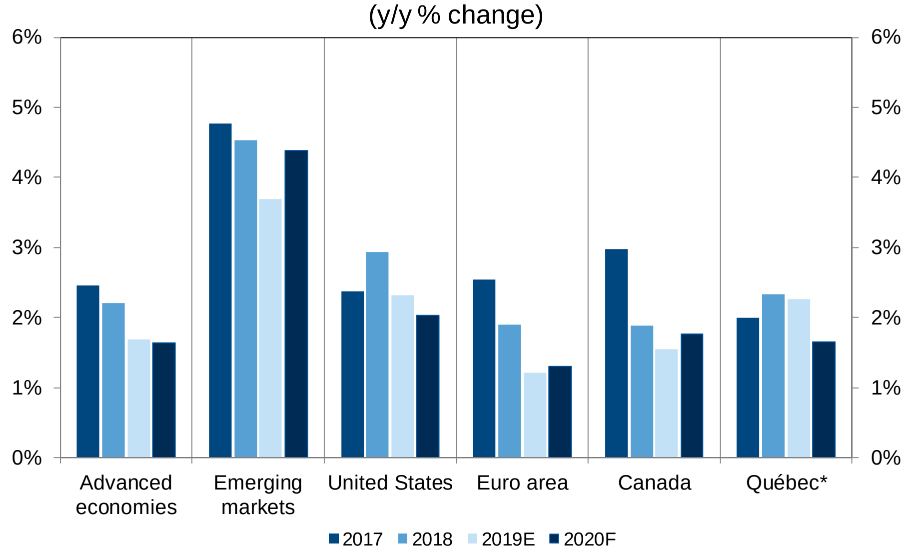
Alain Miot, Intern

Legal deposit – Bibliothèque et Archives nationales du Québec, 2020
ISSN 2561-7109

HIGHLIGHTS

- After peaking in 2017, global economic growth declined again in 2019. This synchronized slowdown, both in advanced economies and in emerging markets, resulted in global growth hitting its lowest level since the 2009 financial crisis.
- The U.S. entered its 11th year of economic growth in 2019, making the current period of economic expansion the longest in U.S. history. Household consumption held firm, despite the impact of escalating trade tensions with China on the manufacturing sector.
- The Canadian economy posted more moderate growth in 2019 owing, in particular, to the global economic slowdown and low prices for raw materials. Domestic demand picked up over the course of the year, while exports delivered a disappointing performance.
- Québec continued to outpace the rest of Canada in economic growth in 2019. Job creation was sustained and the unemployment rate declined to an all-time low in the summer.
- The stock markets broke record after record in 2019—particularly the U.S. markets, which hit all-time highs in December. However, this surge, driven by falling interest rates, was marked by large fluctuations related to China-U.S. trade tensions.
- The economic slowdown and monetary easing dragged down bond yields in 2019. This decline was accompanied by an inversion of the yield curve and increased fears of a recession during part of the year.

Real GDP – World
(y/y % change)



** For 2020, average of forecasts by major Canadian financial institutions*
Sources: International Monetary Fund, Institut de la statistique du Québec and AMF

Review of 2019

January

- The U.S. stock market got off to its best start to a year in more than 30 years, quickly offsetting the losses sustained at the end of 2018.

February

- The OECD, like many international financial institutions, sounded the alarm over rising corporate debt and the risk it poses to the global economy.

March

- Brexit was postponed until October 31, 2019, then January 31, 2020. British MPs refused to ratify the various versions of the agreement on the United Kingdom's withdrawal from the European Union.
- The Desjardins Group bail-in regime came into effect, satisfying international requirements imposed on domestic systemically important financial institutions.
- In the United States, the yield curve inverted, raising fears among some that a recession would occur in the following 12 to 18 months. The situation returned to normal in October.

May

- Washington announced that it was lifting tariffs on Canadian and Mexican steel and aluminum imports.

June

- Upon completing its five-year assessment, the IMF concluded that financial sector oversight in Canada is generally high-quality and largely in line with international principles. The IMF pointed out some emerging vulnerabilities and made a number of recommendations.
- The Desjardins Group announced that it had experienced a personal data leak, which ultimately affected all 4.4 million members.

July

- In the United States, the economic expansion following the great financial crisis notched 121 months, becoming the longest such streak in U.S. history.

August

- With trade negotiations between the United States and China at a standstill, Washington announced new tariffs on US$300 billion of Chinese imports and designated China as a currency manipulator.
- The unemployment rate fell to an all-time low of 4.7% in Québec.

September

- Regulators from around the world met in Basel to assess the potential risk that LIBRA posed to financial system stability. Facebook's cryptocurrency then suffered major setbacks as on-line payment giants backed out.

October

- ESG UQAM, the AMF and Finance Montréal announced the creation of the AMF-Finance Montréal Research Chair, an interuniversity research unit aimed at developing foundational and practical knowledge about the issues and impacts of fintech.

November

- The European Central Bank restarted its asset purchase program at a monthly pace of €20 billion.

December

- Ottawa, Washington and Mexico City agreed on an amended version of the Canada-United States-Mexico Agreement signed in 2018.
- A partial trade deal was reached between the United States and China under which the United States agreed to reduce existing U.S. tariffs and cancel announced tariffs in exchange for purchases of U.S. agricultural products and concessions on intellectual property protections.
- In the United Kingdom, the election of a Conservative majority government cleared the way for ratification of the agreement on the U.K.'s withdrawal from the European Union.

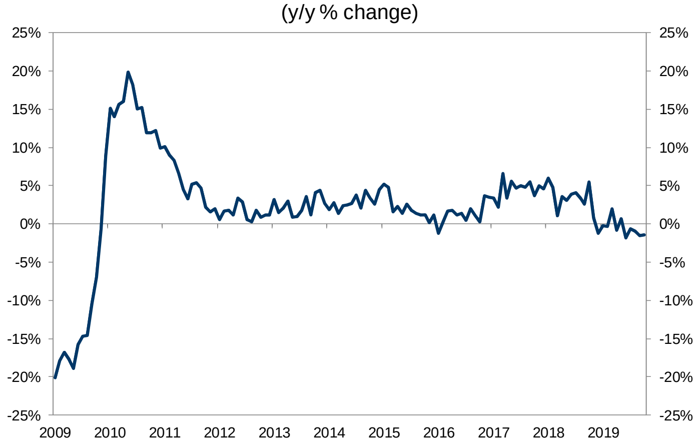
ECONOMIC CONTEXT

WORLD

After peaking in 2017, global economic growth declined again in 2019. While this decline was mainly due to escalating U.S.-China trade tensions, it was also driven by Brexit-related uncertainty and instability observed in almost every corner of the world, from Chile to Hong Kong to the Middle East.

This synchronized slowdown, both in advanced economies and in emerging markets, resulted in global economic growth hitting its lowest level since the 2009 financial crisis. Investment and confidence trended downward in 2019 and international trade lost momentum. In several major economies, manufacturing purchasing managers indexes ended the year in contraction territory, including in the euro area, the United Kingdom and Japan.

Exports Volume – World
(y/y % change)



Sources : CPB and AMF

To dampen the slowdown, the central banks reviewed their monetary policies. After a brief period of tightening, most had once again adopted an accommodative or neutral stance at the end of 2019, with inflation generally remaining subdued. The U.S. Federal Reserve cut its key policy rate three times last year, while the Bank of Canada kept its rate at the same level.

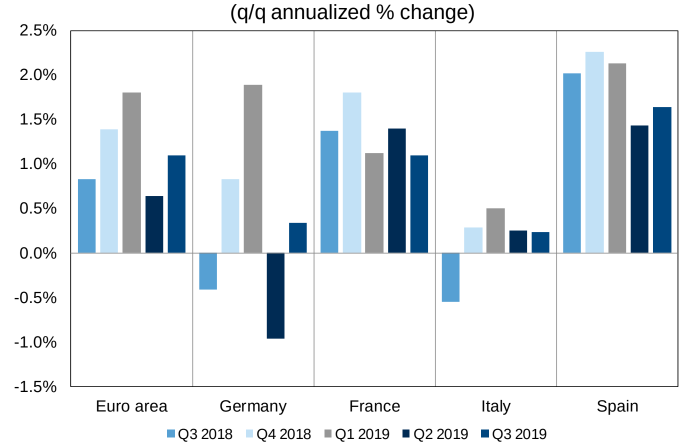
Despite slowing somewhat, the U.S. economy remained solid and, in July, the current period of expansion became the longest in the country's history.

The U.S.-China trade war continued throughout the year, however, with U.S. tariffs being imposed on most Chinese imports and China retaliating in kind.

Late in the year, the two countries announced that they had reached a preliminary deal under which Washington committed to reducing existing tariffs and cancelling announced tariffs and Beijing pledged to purchase U.S. agricultural products and make concessions on intellectual property protections. Negotiations will now move on to more contentious issues. Specifically, the United States is demanding a reduction in its large trade deficit with China, an end to forced technology transfers and the termination of government subsidies to Chinese state-owned companies.

Meanwhile, Europe has been idling, while Germany, its main economic engine, narrowly avoided a recession in the third quarter. Germany, which is highly dependent on exports, has been directly affected by the U.S.-China trade war, Brexit-related uncertainty and structural changes that have caused severe disruptions in its automotive sector. Germany's industrial production has been on a downtrend for more than a year. In the fall, the European Central Bank had to intervene to stimulate the euro area economy by, among other things, resuming its asset purchase program.

Real GDP – Euro Area
(q/q annualized % change)



Sources: Eurostat and AMF

In the United Kingdom, the early elections in December gave the Conservative government a parliamentary majority, which cleared the way for ratification of the agreement on the U.K.'s withdrawal from the European Union. However, negotiating a new trade agreement with Brussels may prove to be as, if not more, difficult. There will be continued uncertainty until everyone knows the contours of a new agreement or, if the parties fail to reach an agreement before the end of the transition period on December 31, 2020, whether there will a no-deal Brexit.

In China, economic growth continued to decline over the year, dropping to close to 6%, its lowest rate in 30 years. Growth in industrial production and investment slowed considerably under the weight of U.S. tariffs, which had been in place for 18 months. The confidence indexes are in contraction territory as global supply chains are gradually shifting away from China—a situation compounded by softening domestic demand and rising inflation.

As an indirect consequence, emerging markets had a tough year owing mainly to trade tensions and declining global demand but also to factors specific to each market.

The stock markets broke record after record in 2019, particularly the U.S. markets, which reached new highs in December. This surge, driven by declining interest rates, was, however, marked by large fluctuations throughout the year that were related to the U.S.-China trade war.

UNITED STATES

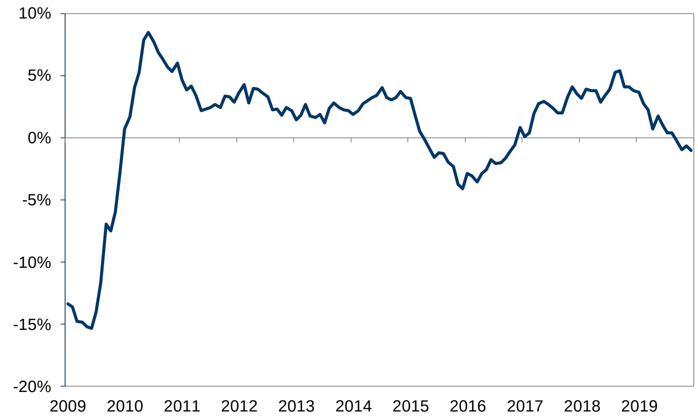
The U.S. economy entered an 11th year of economic growth in 2019, making this current period of uninterrupted expansion the longest on record. However, the yield curve inverted in 2019 and escalating trade tensions with China raised fears of a recession.

Despite these headwinds, the U.S. economy posted GDP growth of 2.3%, which was enough to keep the jobless rate under 4%, its lowest level in over 50 years.

Strong consumer spending and the recovery in residential construction more than offset weak business investment and exports.

The U.S. manufacturing sector, however, was not only hit hard by the global economic slowdown and rising tariffs but also had to contend with occasional disruptions in the aviation and automotive sectors.

Manufacturing Production – United States
(y/y % change)



Sources: U.S. Federal Reserve and AMF

In response to the growing risk of a severe slowdown, the U.S. Federal Reserve lowered its key policy rate three times, from 2.50% to 1.75%. This monetary easing and the resulting reduction in financing costs helped keep the U.S. economy on track. The more than 100-basis-point cut in mortgage rates boosted the residential real estate sector after several difficult years.

The pace of job creation has definitely slowed over the past 12 months, but it still remained strong enough to lower the jobless rate to 3.5% by the end of the year. Labour shortages are growing and full employment is favouring an acceleration in wages.

As a result, more than 10 years after the financial crisis, U.S. households are now in a very enviable position: the debt ratio has decreased considerably, the savings rate is up, net equity is reaching record highs, wage growth is accelerating and the labour market is struggling to fill all the vacancies.

Given these conditions, it is no surprise that consumer confidence is high. In short, U.S. consumers are providing a solid foundation for the continued expansion of the U.S. economy in 2020.

U.S. household balance sheet		
	2007-2009	2019
Debt ratio (as a % of disposable income)	134%	97%
Household net worth (x disposable income)	5.6x	6.9x
Saving rate (as a % of disposable income)	3.4%	7.9%
Mortgage payments (as a % of family income)	23%	16%

Despite a rebound in wages and unit labour costs, inflation remains subdued and below the 2% target. Businesses have chosen to squeeze their profit margins rather than pass higher wage costs and tariffs on to consumers.

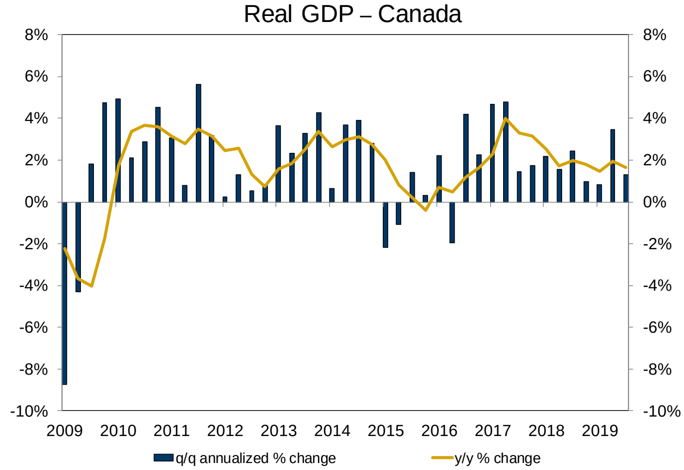
Everything suggests that the Federal Reserve will remain on the sidelines in 2020 and will want to fully assess the impact of the monetary easing of recent months before continuing to normalize monetary policy.

GDP growth will no doubt be slightly more modest in 2020, but looser financial conditions and full employment will continue to bolster the economy.

A resolution to the U.S.-China trade war could lead to a recovery in investment and exports and help prolong the current expansionary period. The preliminary deal reached between the two countries at the end of the year is a step in that direction.

CANADA

The Canadian economy posted more moderate growth in 2019, with GDP expected to end the year up 1.5%. Domestic demand picked up during the year, with average quarterly growth increasing from 0.4% in 2018 to 2.2% in 2019.



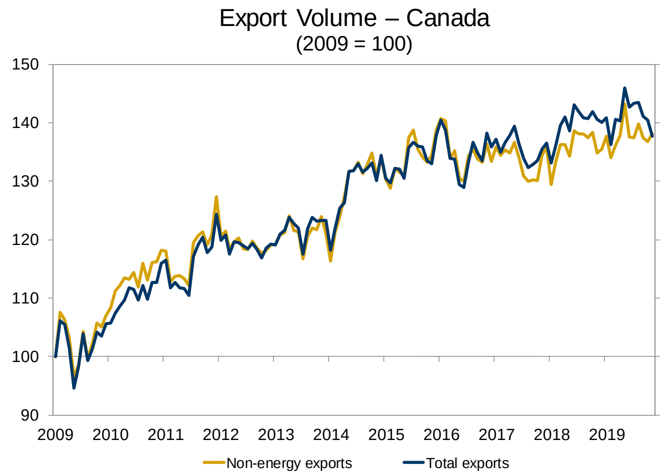
Sources: Statistics Canada and AMF

Consumer spending, despite growing at a slower pace than the highs reached in 2017, continues to bolster the Canadian economy. A strong labour market and accelerated wage growth should continue to fuel consumption, which will, however, remain subdued due to rising debt service costs.

Business investment fluctuated during the year, mainly owing to lingering uncertainty related to trade tensions and the global economic slowdown. However, the upcoming ratification of the revised Canada-United States-Mexico Agreement should help to dissipate the uncertainty faced by businesses.

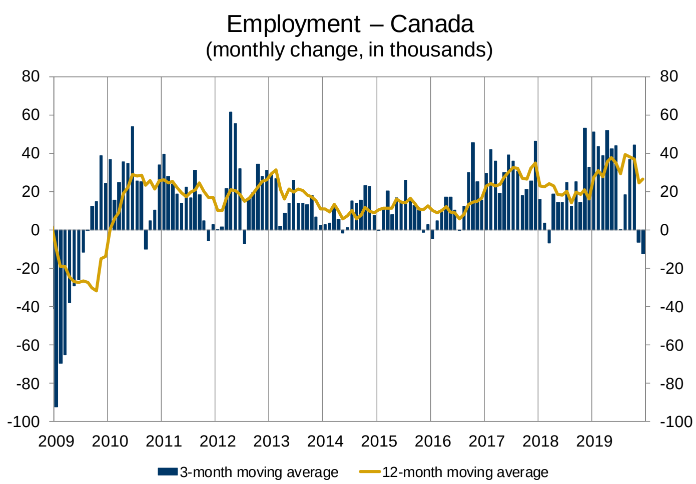
Non-commodity exports continue to deliver a disappointing performance. Like global trade, Canadian exports see-sawed over the year.

After several quarters of declines, residential investment bounced back. The real estate market is picking up after several quarters of adjustment following the implementation of macroprudential policies between 2016 and 2018. Wage growth and low borrowing costs should continue to buoy the real estate market in the coming quarters.



Sources: Statistics Canada and AMF

Although the job market started the year on a very strong note, job creation slowed considerably at the end of the year. Nonetheless, 320,000 jobs were created in 2019, most of them full-time positions (283,000), and wage growth continued to accelerate.



Sources: Statistics Canada and AMF

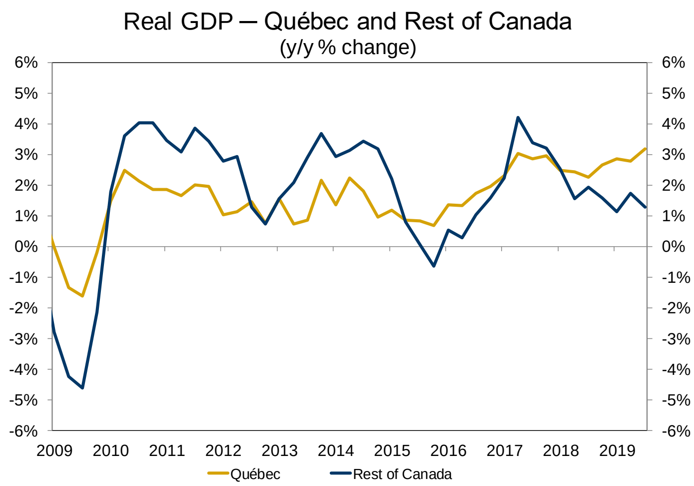
Contrary to the U.S. Federal Reserve, the Bank of Canada maintained the status quo throughout the year owing to the Canadian economy's resilience and close-to-target inflation.

Moreover, a further increase in real estate sector activity, caused by declining mortgage rates, may push up the already high level of household debt and further build up vulnerabilities related to the real estate market.

In short, the Canadian economy is holding up and, barring a significant deterioration in economic conditions, the Bank of Canada is expected to leave the key policy rate unchanged in early 2020.

QUÉBEC

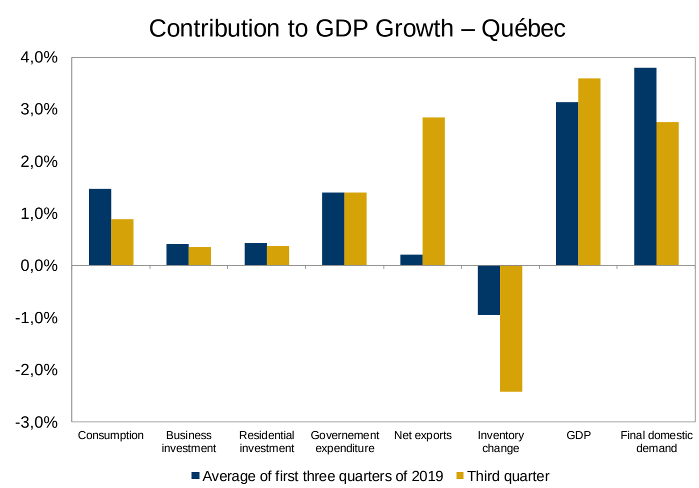
Despite the global economic slowdown and the climate of uncertainty generated by trade tensions, Québec maintained a strong rate of growth in 2019. Year-over-year GDP growth is therefore expected to be roughly 2.5%, outpacing the rest of Canada.



Sources: Institut de la statistique du Québec, Statistics Canada and AMF

Québec's economy was able to rely on strong domestic demand at a time when the global context was less favourable to exports.

In fact, GDP growth in 2019 was due, in particular, to household consumption and the recovery in residential investment, which were bolstered by the strong labour market, wage acceleration and declining interest rates.



Sources: Institut de la statistique du Québec and AMF

The rebound in private investment and the fiscal easing introduced by the different levels of government also supported domestic demand. Loose financial conditions, labour scarcity and the economy's enviable performance created a climate conducive to business investment growth, despite the global climate of uncertainty.

The labour market had a very strong first half of the year, despite difficulty in filling job vacancies. However, employment declined late in the year, with the unemployment rate climbing from last summer's low of 4.7% to end the year at 5.3%.

Despite this, close to 63,000 jobs were created in 2019, nearly all of them full-time positions. Job vacancies reached a record high in the second quarter. In this context, wage growth continued to pick up steam and the annual hourly wage change averaged nearly 6% in the last six months of 2019.

Job Vacancy Rate – Québec

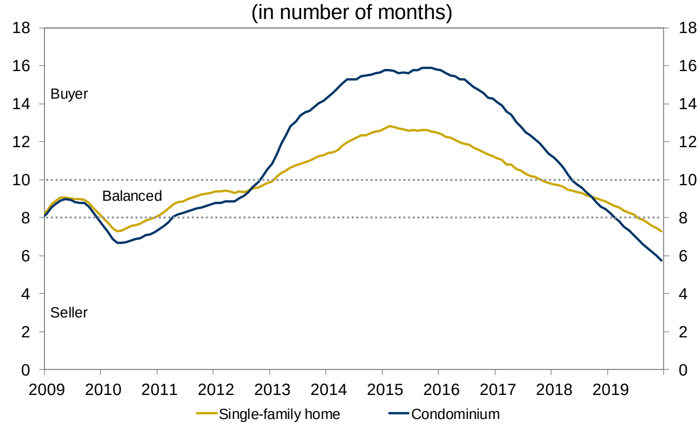
Sources: Statistics Canada and AMF

The strong labour market and low interest rates also resulted in a vibrant real estate sector. Housing starts and home sales were up, while housing supply tightened. It is therefore still a seller's market.

In fact, for the past few years, price increases have been accelerating. The year-over-year increase in the median home price was 6.2% in Québec in September.

This increase, while not as large as gains previously seen in Ontario and British Columbia, nonetheless reflects the strength of the real estate market in Québec, particularly in Montréal.

Ratio of Inventory of Unsold Properties
to Sales Level – Québec
(in number of months)



Sources: FCIQ Centris and AMF

The slowing global and Canadian economies, the continuing climate of uncertainty and more moderate U.S. economic growth will temper the pace at which Québec's economy will grow in 2020.

Labour shortages are only getting worse, which, in a context of full employment, can only limit the economy's growth potential. To address this situation, Québec must improve productivity and boost labour force growth, including through immigration.

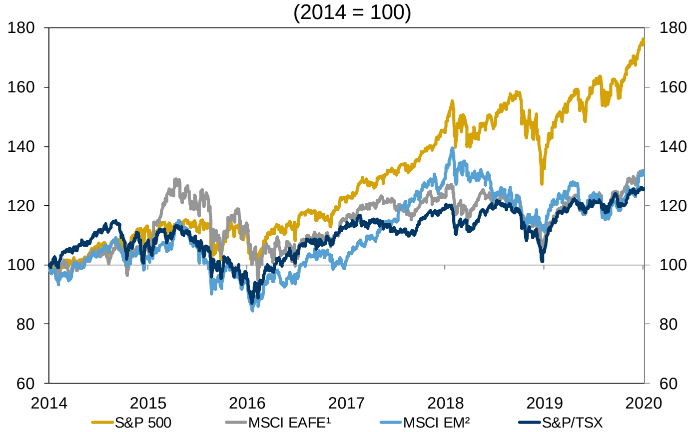
FINANCIAL MARKETS

STOCK MARKETS

After a rough end to 2018, the stock markets generated exceptional returns in 2019. The MSCI All Country World Index posted a gain of 23.7% in 2019 after dropping 9.5% the previous year.

Some of the factors that caused the markets to tumble near the end of 2018, including the global economic slowdown and trade tensions, were mitigated somewhat during 2019. In addition, monetary easing by several central banks reassured investors and made stock markets more attractive.

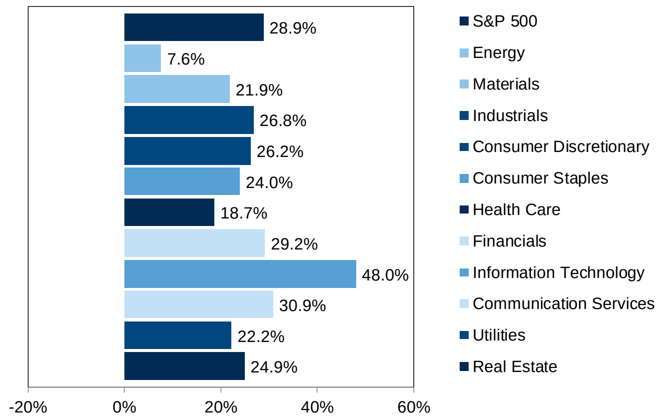
Major Stock Market Indexes
(2014 = 100)



[1] Europe, Australasia and Far East [2] Emerging Markets
Sources: Datastream and AMF

In the United States, the S&P 500 reached new heights, with a gain of 28.9% for the year, driven by Information Technology. The NASDAQ Composite Index, which has a heavy concentration of IT companies, posted an impressive return of 35.2% for the year.

Performance of the Main S&P 500 Subindexes in 2019



Sources : Datastream et l'Autorité

However, growth in U.S. corporate earnings slowed significantly in 2019 and was even slightly negative in the second half of the year. Slowing growth was widely expected because earnings had jumped in 2018, boosted by the temporary effect of tax cuts.

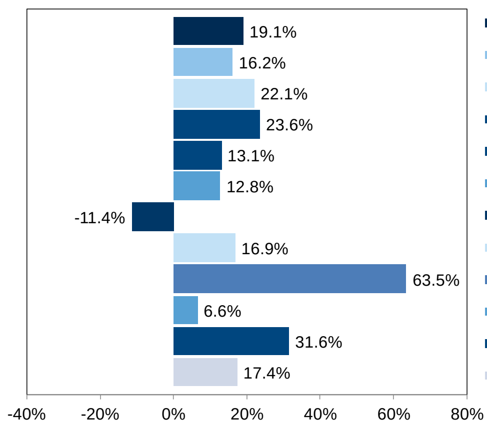
According to data compiled by Refinitiv, the earnings of S&P 500-listed companies are expected to start climbing again in the first quarter of 2020. However, a more pronounced economic slowdown or a ratcheting-up of trade tensions could change this outlook.

The stock markets' strong performance is also due to the U.S. Federal Reserve's about-face in 2019, when the Fed not only ended its campaign of monetary tightening but also lowered its key policy rate by 75 basis points. The easing of financial conditions, including the widespread decline in bond yields, soothed fears of a recession and boosted U.S. stock market valuations.

European markets also fared well, with the MSCI Europe Index posting a 20% gain. The economic slowdown, which was deeper in Europe than elsewhere, and Brexit-related uncertainty were taken in stride by investors.

In Canada, the S&P/TSX underperformed the S&P 500 but still returned a very respectable 19.1%. Energy posted a strong performance, but once again fared less well than the index, gaining 16.2%. Oil prices strengthened somewhat over the year owing, in particular, to the efforts of OPEC and its allies to reduce production. However, Western Canadian Select continued to be priced at a deep discount to West Texas Intermediate ($22 at year end), despite the production curtailments imposed by the Alberta government. Health Care ended the year in sharp decline, dragged down by companies in the cannabis industry.

Performance of the Main S&P/TSX Subindexes in 2019



Sources: Bloomberg and AMF

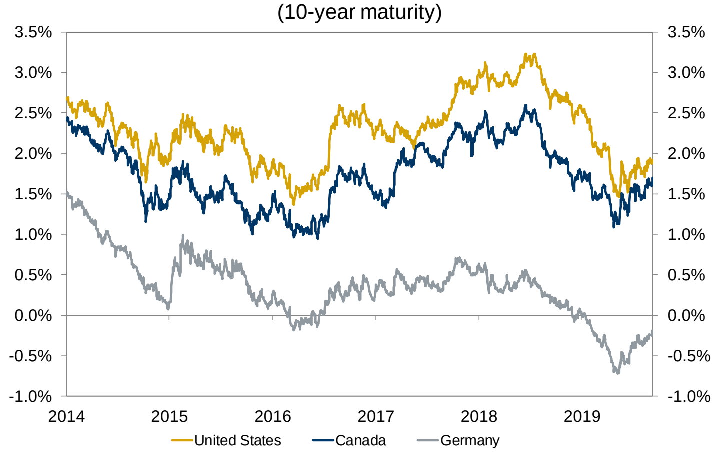
Other S&P/TSX sectors generally performed well. Utilities and Real Estate, where dividends are typically higher, benefited from declining bond yields. Information Technology also performed well, as did Materials, which was buoyed by rising gold prices. Financials underperformed the index but still posted a gain of 16.9%. The banking sector faced some headwinds, including high Canadian household debt and a slight uptrend in loan loss provisions.

TSX-listed Québec companies outperformed S&P/TSX companies as a whole. According to the Morningstar National Bank Québec Index, Québec companies returned 24.5% in 2019. Most sectors, excluding Materials, posted very solid gains for the year. Financials returned more than 40% owing to the strong performance of financial institutions domiciled in Québec, which benefited from the vitality of the province’s strong economy. The Québec index also owed its strong performance to the absence of energy sector companies.

BOND MARKETS

For the year as a whole, bond yields decreased in almost all major markets. This decline started at the end of 2018 and resulted from the global slowdown, escalating trade tensions and monetary easing.

Government Bond Yields
(10-year maturity)



Sources: Datastream and AMF

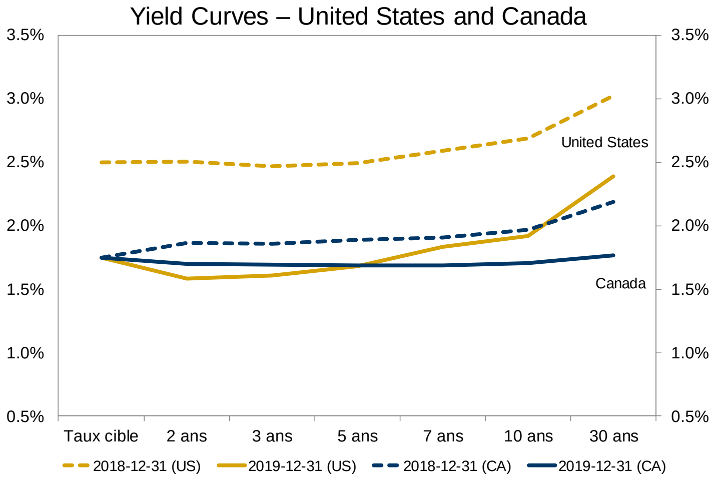
In the United States, 10-year U.S. government yields ended the year at 1.9%, down roughly 80 basis points from the start of 2019 and 130 basis points from their November 2018 peak. This decline in bond yields almost completely erased the increase observed since 2016.

For much of the year, this decline was accompanied by an inversion of the yield curve, resulting in heightened fears of a recession. In the fall, however, the slope of the yield curve became positive again, indicating that investors were regaining some confidence in the health of the global economy.

In fact, long-term yields have risen slightly since October. The global economy is beginning to show signs of stabilizing, while the U.S. economy is continuing to expand at a moderate but steady pace.

After cutting its rate three times this year, the Fed is expected to maintain the status quo in the months ahead, especially given that inflation remains subdued. The futures market has priced in the probability of the Fed cutting its rate by the end of 2020 at approximately 50%.

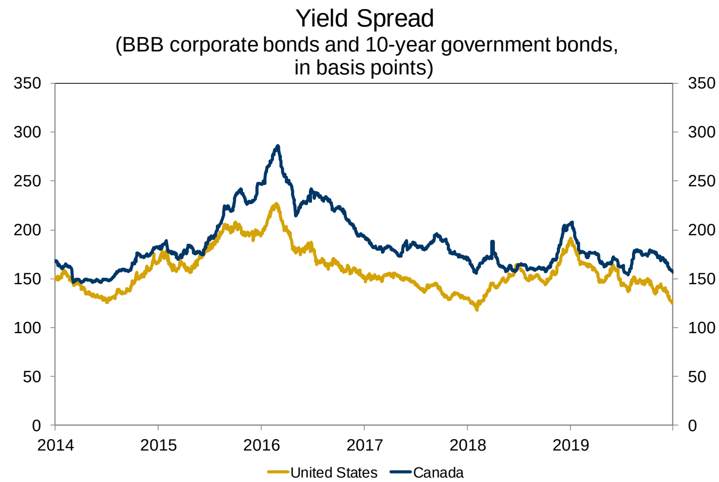
In Europe, bond yields of the main euro area countries slid deeper into negative territory in 2019. Weak economic growth and inflation led the European Central Bank to further lower its deposit facility rate and restart its asset purchase program. Despite a slight rebound late in the year, 10-year German government bond yields closed the year at -0.2%, down 40 basis points for the year.



Sources: Datastream and AMF

Canada was not immune to the widespread decline in bond yields. Ten-year Canadian government bond yields ended the year at 1.7%, down 30 basis points. The spread between Canadian yields and U.S. yields narrowed, partly reflecting the fact that, unlike many of its counterparts, the Bank of Canada maintained the status quo this year. The Canadian economy is actually showing some resilience, despite slowing in the second half of the year.

In addition, inflation measures have been close to the Bank's target for several months, suggesting that the economy is evolving in line with its potential. The real estate market has regained some strength, and financial vulnerabilities in the household sector remain present. In this context, the Bank of Canada is expected to adopt a neutral stance for several more months, unless the global economic outlook deteriorates. The futures market is pricing in the probability of a rate cut in the next 12 months at just 37%.



Sources: Datastream, Bloomberg and AMF

Spreads between corporate bonds and government bonds widened slightly early in the year when fears of a global economic slowdown were at their height. These spreads subsequently narrowed and are still relatively tight from a historical perspective.

However, high corporate debt is raising some concerns. The stock of corporate bonds—particularly bonds issued by corporations with a higher credit risk—has increased substantially over the past decade. In its most recent Financial System Review, the Bank of Canada highlighted the vulnerabilities associated with corporate debt. A deterioration in corporate credit quality could lead to a sudden and sharp rise in risk premiums, as well as substantial sales of securities that could create market stress.

Market Performance

Stock Markets		Level	% change							Last 12 months	
		2019-12-31	1 month	3 months	6 months	9 months	1 year	3 years[2]	5 years[2]	Min.	Max.
MSCI All Country World Index		658	2.6	7.3	7.1	9.5	23.7	9.6	6.9	523	662
MSCI EAFE[1]		1,190	1.3	4.8	4.9	6.5	18.1	4.7	3.8	1,002	1,202
MSCI Emerging Markets		61,467	5.5	9.1	5.0	4.2	15.1	8.9	4.9	52,516	61,816
S&P 500		3,231	2.9	8.5	9.0	12.7	28.9	13.0	9.4	2,448	3,240
S&P/TSX		17,063	0.1	2.4	4.2	5.1	19.1	3.7	3.1	14,213	17,180
Morningstar National Bank Québec Index		325	-0.3	5.2	6.4	8.4	24.5	9.5	8.2	260	328

Bond Markets		Level								Last 12 months	
		2019-12-31	-1 month	-3 months	-6 months	-9 months	-1 year	-3 years	-5 years	Min.	Max.
Québec	10-year	2.3	2.1	2.0	2.1	2.4	2.8	2.5	2.8	1.8	2.8
Ontario	10-year	2.3	2.1	2.0	2.1	2.4	2.8	2.5	2.7	1.8	2.8
Canada	10-year	1.7	1.5	1.4	1.5	1.7	2.0	1.7	1.8	1.1	2.0
United States	10-year	1.9	1.8	1.7	2.0	2.5	2.7	2.4	2.2	1.5	2.8
United Kingdom	10-year	0.8	0.7	0.5	0.8	1.0	1.3	1.2	1.8	0.4	1.4
Germany	10-year	-0.2	-0.4	-0.6	-0.4	0.0	0.2	0.2	0.5	-0.7	0.3
	AA Corp. (10-year)	2.6	2.4	2.4	2.4	2.8	3.2	2.9	2.9	2.1	3.2
Canada	BBB Corp. (10-year)	3.3	3.2	3.1	3.1	3.5	4.0	3.6	3.6	2.9	4.0
	BBB - 10-year Gov. spread	1.6	1.7	1.8	1.6	1.8	2.1	1.9	1.8	1.5	2.1
	AA Corp. (10-year)	2.5	2.4	2.4	2.7	3.2	3.7	3.3	2.9	2.2	3.7
United States	BBB Corp. (10-year)	3.2	3.2	3.1	3.5	4.1	4.6	3.9	3.8	2.9	4.6
	BBB - 10-year Gov. spread	1.3	1.4	1.5	1.4	1.6	1.9	1.5	1.7	1.3	1.9

[1]Europe, Australasia and Far East [2]Annualized returns

Sources: Datastream, Bloomberg and AMF

Risks and issues to be monitored in 2020

- In the midst of, among other things, a synchronized slowdown in both advanced economies and emerging markets, mounting protectionism and Middle East tensions, the global economy is moving into troubled waters. Economic activity is showing signs of stabilizing, but not all downside risks have been addressed.
- The United States will soon enter the 12th year of a long expansionary cycle. The risk of a recession in 2020 has been largely offset by monetary easing in the United States and around the world. Nonetheless, periods of expansion cannot last forever and a recession cannot be ruled out in the medium term.
- Most recessions in the West during the post-war era have been triggered by a severe economic slowdown in the United States. However, China has become the second largest global economic power and is number one in the world in manufacturing output and the consumption of many commodities. High indebtedness, the economic slowdown and trade tensions with the United States are substantial cause for concern. A quicker-than-expected slowdown of China's economy would have serious repercussions for global economic growth.
- Mounting protectionism will continue to disrupt global trade, supply chains and investment, negatively affecting global economic growth. U.S.-China tensions could lead to the decoupling of China and the West in not only trade but also technology. Meanwhile, Washington is not hesitating to slap tariffs on its allies and is undermining the World Trade Organization by blocking new appointments to the Appellate Body.
- The stock markets, fueled by the widespread decline in interest rates and increasing valuations, made excellent gains in 2019, reaching record highs. Can such glowing returns be expected in the year ahead? The markets are still vulnerable to risks related to the global economic slowdown and trade tensions.
- Private sector companies took advantage of low interest rates to increase leverage and boost return on equity. The corporate debt ratio is relatively high from a historical perspective. This situation is worrisome, especially as debt in the highest-risk tranches has increased significantly.
- Risk premiums, particularly yield spreads between corporate and government bonds, compressed in the past year. An economic shock and a risk repricing could lead to a sudden marked increase in these risk premiums and cause market stress.
- The resilience of the Canadian economy depends largely on household spending. Canadian households, which are benefiting from low unemployment and accelerated wage growth, are among the most heavily indebted in the world, which also makes them a key vulnerability for the economy. An abrupt rise in interest rates, while unlikely in the short term, would have a major impact on both households and the economy as a whole.
- Since the end of the 2009 financial crisis, forecasters have been expecting a cyclical upturn in interest rates. However, the low interest rate environment has persisted and is even becoming more entrenched. Such an environment tends to make investors more prone to take risks, possibly without properly assessing those risks, and creates pressures on financial institution profitability and solvency. Lower-than-expected interest rates are also exerting pressure on insurers' bottom lines. A substantial interest rate hike is unlikely, but it cannot be ruled out given changes in the economic cycle. Such an increase would have a destabilizing effect on the markets and the economy.

- Financial regulators will continue to focus on the rapid growth in technological innovations in 2020. Since Facebook unveiled its project to launch LIBRA, a cryptocurrency pegged to a basket of currencies, various central banks are now paying particular attention to the advantages of blockchain and digital assets. At the same time, open banking, a model that relies on third parties being provided access to consumer bank data, is being scrutinized by Canadian regulators. These are just two transformative changes in the financial ecosystem that are forcing regulators to ensure the existing regulatory framework is adequate for new business models and to develop new technological expertise.
- Several recent events have confirmed the importance of cybersecurity and the protection of personal data. Businesses in the financial services sector are particularly affected, because they hold large volumes of personal data in their databases. Also, some malicious parties are attempting to take advantage of technological tools made available to financial institution clients. Now more than ever before, financial institutions need to put substantial money and effort into addressing these rapidly evolving threats. The Québec government has made protecting personal information one of its priorities for 2020.
- Further to the clearly expressed desire of the United States to deregulate the financial markets, identifying ways to minimize regulatory burden is a focus of various projects of the Canadian Securities Administrators. Reforms could include reviewing certain prospectus requirements, revising certain continuous disclosure requirements and improving the electronic delivery of documents.

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