

Month in Review

For the month ended October 31st, 2017

Overall Highlights

- **TSX climbs.** For the first time ever, the S&P/TSX Composite surpassed the 16,000 level near month's end on the backs of a rally in the Energy and Financial sectors. Although the milestone marked an almost 5% return for the TSX in 2017, it still lags most other global markets for the same period. The Composite closed October at 16,026, a 2.5% monthly gain.
- **Dollar plummets.** The Loonie fell to a three-month low as surprise GDP numbers followed weakening economic data, all which supported the Bank of Canada's hold on interest rate action at their most recent meeting. Also sending our currency lower was the U.S. greenback showing renewed strength. At month's end, our Dollar ended at US77.56 cents for one Canadian dollar, a decline of 3.2%.
- **Gold loses luster.** Increased pressure from a rising U.S. dollar and investor confidence sent the yellow metal lower in October. In addition, anticipation of Trump's much-delayed tax reform and forecasts of the next Federal Reserve Chairperson may prolong the record bull market at the expense of gold. The precious metal closed the month at US\$1,271.80, a loss of 0.9%.
- **Oil surges.** Crude had another strong month as the commodity rose ahead of an OPEC meeting in late November where expectations are for continued output cuts. In addition, higher demand in hurricane hit regions of the lower U.S. states helped lower U.S. crude stockpiles and distillates. The December contract for a barrel of WTI crude ended trading at US\$54.63, a 5.9% gain for the month.
- **GDP falls.** Economic growth in the country fell unexpectedly in August as declines in manufacturing and energy sectors overtook gains in other industries.
- **Hold on interest rates.** The Bank of Canada (BoC) held off on any rate movements at their latest monetary policy meeting as signs of the economy cooling off after a tremendous growth run.
- **Inflation gains.** With soft inflation numbers since May, the economy saw a bump in consumer prices led by higher prices at the gas pumps.
- **Unemployment rate holds.** Full-time hirings was the key to September's jobs report as the economy's labour market grew for a 10th straight month, adding 10,000 jobs.
- **Retail sales decline.** Shoppers were less inclined to spend as Statistics Canada reported a decline in retail sales in August when an increase was expected.
- **U.S. consumer spending jumps, but inflation remains tame.** Consumer spending in U.S. recorded its biggest increase in more than eight years.
- **U.S. GDP rises more than expected.** The U.S. economy continued to show solid growth in the third quarter. The Commerce Department reported that the world's largest economy expanded at an annualized 3% in the third quarter.
- **U.S. CPI rises.** Consumer prices in the U.S. posted its biggest increase in eight months in September. The Labor Department reported that its consumer price index (CPI) increased by 0.5% in September after a 0.4% rise reported in August.
- **Robust growth in Euro-zone.** The Euro-zone economy continued its forward momentum as Eurostat reported its preliminary reading of the third quarter GDP growth within the 19-member zone.
- **ECB continues with bond purchase.** The ECB decided to make changes to its bond purchase program, but refused to announce a concrete plan as to when it will be ended.
- **Euro-zone manufacturing surges.** The 19-member bloc enjoyed the most productive month in more than six and half years.
- **BOJ keeps monetary policy status quo.** Unlike some of its peers such as the U.S. Federal Reserve and the ECB, Bank of Japan (BOJ) decided to maintain its loose monetary policy of no change following its two-day meeting.
- **China reports 3rd quarter growth in line with expectations.** The National Bureau of Statistics reported that the world's second largest economy grew 6.8% in the third quarter, matching economists' estimates.

Index/Commodity/Currency		
Close	MonthChange	YTDChange
S&P/TSX Composite		
16,025.59	390.7	738.0
	2.5%	4.8%
BMO Nesbitt Burns Small Cap		
904.15	14.7	23.9
	1.7%	2.7%
Dow Jones Industrial Average		
23,377.24	972.2	3,614.6
	4.3%	18.3%
S&P 500		
2,575.26	55.9	336.4
	2.2%	15.0%
NASDAQ Composite		
6,727.67	231.7	1,344.5
	3.6%	25.0%
MSCI-EAFE Index		
2,002.54	28.7	318.5
	1.5%	18.9%
WTI Crude Oil (per barrel, in \$US)		
54.63	3.05	0.80
	5.9%	1.5%
Gold (per ounce, in US\$)		
1,271.80	-11.30	120.90
	-0.9%	10.5%
Canadian Dollar (¢ per US\$)		
77.56	-2.57	3.09
	-3.2%	4.1%

Sources: Bloomberg, PC Bond

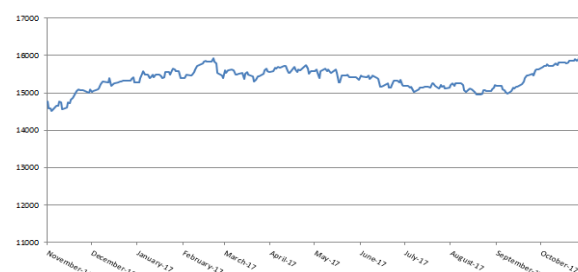
Canadian Markets

S&P/TSX Composite Index Sector Snapshot

- GDP falls.** Economic growth in the country fell unexpectedly in August as declines in manufacturing and energy sectors overtook gains in other industries. For the month, GDP contracted 0.1%, led by a second straight month of weakness in the goods production, which fell 0.7%. This reading is consistent with data points showing softness in other areas of the economy. The month's reading was the first monthly decline since October 2016.
- Hold on interest rates.** The Bank of Canada (BoC) held off on any rate movements at their latest monetary policy meeting as signs of the economy cooling off after a tremendous growth run. The current benchmark overnight rate stands at 1%. In his report, BoC governor Stephen Poloz stated the economy will need "less monetary stimulus" but would exercise caution in the coming periods with uncertain economic conditions ahead, namely the outcome of NAFTA re-negotiations. Predictions have the BoC making three rate hikes in 2018, down from an earlier four.
- Inflation gains.** With soft inflation numbers since May, the economy saw a bump in consumer prices led by higher prices at the gas pumps. In September, price growth rose 0.2% from the month previous. Increases in food, transportation, and shelter costs contributed, while clothing and home furnishings detracted. On a year-over-year basis, inflation rose to 1.6%, a third straight increase. CPI-Common, a better measure of core price increases by the Bank of Canada, was unchanged at 1.5% for the month.
- Unemployment rate holds.** Full-time hirings was the key to September's jobs report as the economy's labour market grew for a 10th straight month, adding 10,000 jobs. This kept the national jobless rate at 6.2%, on par with forecasts. Growth was seen in the public-sector and in manufacturing, keeping pace with increased factory activity. The month's participation rate dropped a notch to 65.6%.
- PPI lower.** Lower prices on autos and food led a broad drop in the Producer Price Index in September, Statistics Canada reported. Reflecting the price that manufacturers receive for their goods, the index fell 0.3% as 16 of the 21 sub-groups were lower where forecasts called for an increase of 0.4%. With some sectors priced in U.S. currency, had it stayed constant, PPI would have increased 0.3%.
- Wholesale sales climb.** A rise in sales of personal and household goods, as well as motor vehicle and parts subsectors, sent wholesales sales higher in August. As reported by Statistics Canada, monthly receipts rose \$62.8B, an increase of 0.5% and on par with economist expectations. Sales were higher in four of the seven subsectors followed for the measure, while in volume terms sales rose 0.4%.
- Manufacturing sales rises.** After falling for two straight months, factory sales rose in August, driven higher by transportation equipment and coal and petroleum sectors. For the month, sales rose 1.6% to \$53.5B in receipts as eight of the 21 industries tracked gained, representing more than 67% of August's sales. On a volume basis, sales were higher by 1.2%.
- Factories busier.** Manufacturing activity in the goods-producing sector rose in September as IHS Markit's Purchasing Manager Index (PMI) rose to 55.0 from August's 54.6 reading. This was the 19th straight month of expansion in the sector as business conditions continue to be robust and improve. Key factors can be attributed to increased output and growth in new orders, with most coming domestically, as demand weakened from the U.S. and abroad.
- Retail sales decline.** Shoppers were less inclined to spend as Statistics Canada reported a decline in retail sales in August when an increase was expected. With eight of 11 sectors tracked falling, sales fell 0.3%, short of the 0.5% forecasted, as grocery stores and home renovation centres were hit the heaviest. On an annual basis, consumer sales continue to be strong at 6.9%, higher than earlier estimates.
- Canada Housing News:**
 - Slow starts.** The number of groundbreaking across the country fell in September, but not as much as forecasted. For the month, 217,118 units were reported by CMHC, down from August's revised 225,918. Most of the declines were in the multi-unit dwellings, which fell 10.7%, while single family homes rose 8.2%. This was the first decline after eight consecutive months of gains.
 - Permits decline.** A cooling trend may be forming as the total value of permits issued fell for a third straight month in August; despite the by 5.5% fall last month, the housing market remains robust and at peak levels. Expectations had called for a decline of 1% as requests to build multi-family homes and commercial buildings fell.
 - Existing home sales rise.** CREA reported that home sales rose by 2.1% from the previous month nationally in September. Vancouver and Toronto led all gainers, where half of the markets followed saw increases. On a non-seasonally adjusted basis, sales activity for the month was 11% lower than a year ago, and almost 12% lower than the record set in March.
 - New home prices rise.** The cost of a new home rose a notch in August as improved market conditions catalyzed the increase. During the month, prices edged up 0.1% on contributions by London, ON (+1%) and Kelowna, BC (+0.9%) as reported by Statistics Canada. On an annual basis, new home prices were unchanged at 3.8% from the previous month.

Sector	Month Return	YTD Return	Weight (%)
Financials	4.03	8.70	34.9
Energy	(0.43)	(10.26)	19.7
Materials	1.57	3.19	11.4
Industrials	3.42	17.25	9.6
Consumer Discretionary	3.19	19.37	5.5
Telecoms	2.95	9.70	4.8
Utilities	3.11	7.85	3.8
Consumer Staples	2.22	2.74	3.6
Information Technology	2.80	15.63	3.3
Real Estate	3.20	4.22	2.9
Health Care	(0.29)	(9.58)	0.6

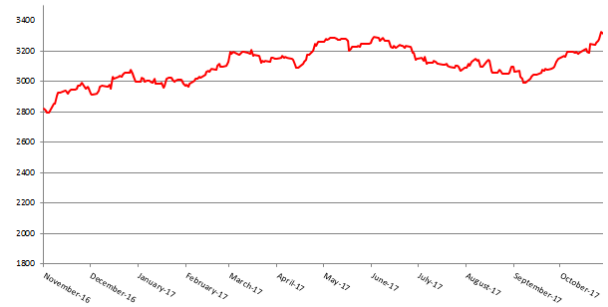
S&P/TSX Composite - 1 Year ending October 31, 2017



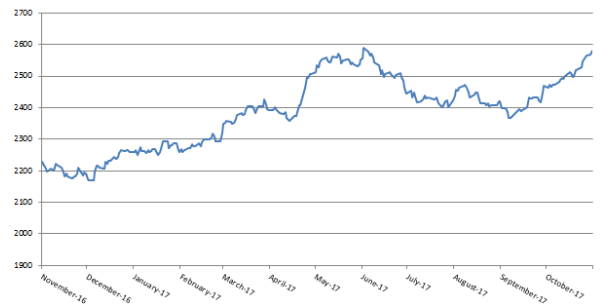
U.S. Markets

- **U.S. indices climb.** Equity markets in the U.S. continued to ride the bull market to new record highs in October, ending another positive month on strong corporate earnings announcements. Also helping equities is optimism on the soon-to-be released Trump tax reforms and inaction by the Federal Reserve on rates and the suspense of who will be its new Chairperson. The benchmark S&P500 and Dow Jones were higher by 2.2% and 4.3% each to close at 2,575 and 23,377, respectively. The tech-heavy Nasdaq ended at a record 6,728, a 3.6% gain for the month.
- **U.S. consumer spending jumps, but inflation remains tame.** Consumer spending in U.S. recorded its biggest increase in more than eight years. The Commerce Department reported that consumer spending surged 1% in September, the biggest increase since August 2009; economists were expecting an increase of 0.8%. Despite strong level of spending, inflation stayed stable. The Fed's preferred inflation gauge, the core personal consumption expenditures (PCE) price index, rose 1.3% on the year in September, again missing the Fed's inflation target of 2% for nearly 5 1/2 years running.
- **U.S. GDP rises more than expected.** The U.S. economy continued to show solid growth in the third quarter. The Commerce Department reported that the world's largest economy expanded at an annualized 3% in the third quarter; economists were expecting a growth rate of only 2.5%. A big surge in inventories added by businesses in the third quarter was believed to be one of the main drivers of the stronger than expected growth.
- **U.S. CPI rises.** Consumer prices in the U.S. posted its biggest increase in eight months in September. The Labor Department reported that its consumer price index (CPI) increased by 0.5% in September after a 0.4% rise reported in August; economists were expecting an increase of 0.6%. Gasoline prices surged 13.1% in September as hurricane Harvey disrupted refinery capacity in the Gulf Coast. Core CPI, which excludes food and energy prices, increased by 0.1%, lower than the expected 0.2% increase. On a year-over-year basis, the CPI and core CPI increased by 2.2% and 1.7% respectively.
- **U.S. economy loses jobs.** For the first time in the past seven years, the U.S. economy lost jobs in September. The Labor Department reported that 33,000 jobs were lost in September, widely missing economists' expectations of an increase of 90,000. The unemployment rate fell to 4.2% from 4.4%. Despite the disappointment, many economists believed September's figure was an outlier as most of these job losses were the direct result of Hurricanes Harvey and Irma, which hammered Texas and Florida. On the positive side, hourly wages jumped to an annualized rate of 2.9%.
- **U.S. 'flash' composite PMI rises.** According to the IHS Markit's 'flash' composite purchasing managers' index (PMI), U.S. economic growth accelerated in October. The composite PMI moved up to 55.7 from September's final reading of 54.6; economists were expecting a smaller increase to 54.8. Both manufacturing and services sectors expanded faster in October: manufacturing PMI increased to 54.5 from last month's reading of 53.0; services PMI jumped to 55.9 from 55.1. Both readings exceeded economists' forecast.
- **U.S. consumer confidence declines slightly.** Consumer confidence slid slightly in October, after reaching record highs last month. The University of Michigan reported that its consumer sentiment index dropped from September's reading of 101.1 to 100.7 in October. Economists were expecting a smaller drop to 100.9 in October.
- **U.S. retail sales rebound.** After a negative month in August, U.S. retail sales bounced back. The Commerce Department reported that September's sales rose 1.6% after a decline of 0.2% reported in August; economists were expecting a larger increase of 1.7%. Replacement vehicle demand attributed to the hurricanes that hit Houston and Florida helped push the overall sales figure higher.
- U.S. Housing News:
 - **U.S. home prices climb.** Home prices advanced to all-time high in August. The S&P CoreLogic Case-Schiller home price index increased by 6.1% year-over-year in August, beating economists' estimated 5.8% increase to reach an all-time high. The 20-city index registered a 5.9% increase in August, with prices in Seattle, Las Vegas, and San Diego leading the pack.
 - **U.S. new home sales rise.** New home sales unexpectedly increased in September, according to a report by the Commerce Department. New home sales were reported to increase by 18.9% to a seasonally adjusted annual pace of 667,000 units, crushing estimates of an annual pace of 555,000 units. It was the largest percentage gain in almost 28 years and was also the highest level of new home sales since October 2007. On a year-over-year basis, new home sales were up 17%.
 - **U.S. pending home sales stay flat.** Sales of previously-owned homes were flat in September as inventories remained tight in the market. The National Association of Realtors reported that its pending home sales index was unchanged in September, remaining at 106.0. Economists were expecting a small rise of 0.2%. On a year-over-year basis, pending home sales were down 3.5%.
 - **U.S. housing starts fall.** Housing starts fell more than expected in September. The Commerce Department reported that home building fell 4.7% in September to a seasonally adjusted annual pace of 1.13 million units; economists were expecting a 1.18 million-unit pace. It was the lowest level in a year. Hurricane Harvey and Irma contributed to the decline as disruptions from the hurricanes caused a 9.3% tumble in the South. Building permits also tumbled 4.5% to an annual rate of 1.22 million units in September.
 - **U.S. existing home sales rises.** Home resales in U.S. unexpectedly rose in September. The National Association of Realtors (NAR) reported that existing home sales increased by 0.7% to a seasonally adjusted annual pace of 5.39 million units; economists were expecting a drop of 1% to a 5.30 million-unit pace. On a year-over-year basis, sales were down 1.5%. Economists expected recent sales would be impacted negatively by the two hurricanes that hammered the South, yet sales recovered faster than expected.

S&P 500 Composite (in CAD) - 1 Year ending October 31, 2017



MSCI EAFE (in CAD) - 1 Year ending October 31, 2017



European Markets

- **Robust growth in Euro-zone.** The Euro-zone economy continued its forward momentum as Eurostat reported its preliminary reading of the third quarter GDP growth within the 19-member zone. The single-currency bloc expanded by 0.6% over the previous quarter, beating economists' estimated growth of 0.5%. On a year-over-year basis, GDP grew by 2.5% in Q3, also higher than economists' forecast of 2.4%. The labor market also showed improvement in September with the unemployment rate dropping a tick lower from August's 9% to 8.9%.
- **Euro-zone inflation slows.** Inflation within the Euro-zone slowed in October according to the preliminary estimate by Eurostat. The 'flash' harmonized index of consumer prices (HICP) rose 1.4% year-over-year in October, slower than the 1.5% pace reported in September. It missed economists' estimate of a 1.5% increase and was also at its lowest level since March.
- **Euro-zone unemployment unchanged.** Eurostat reported that the unemployment rate within the Euro-zone remained at 9.1% in August, unchanged from July's figure. Economists were expecting the jobless rate to decline to 9.0%.
- **ECB continues with bond purchase.** The ECB decided to make changes to its bond purchase program, but refused to announce a concrete plan as to when it will be ended. The central bank announced reductions in the monthly bond purchase size from the current €60B to €30B starting in January, but the program will be extended until at least September next year. ECB President Mario Draghi said that the changes were a "downsize" rather than "tapering" and that QE "was not going to stop suddenly". The announcement of the change caused the euro to tumble as many market participants expected a more 'hawkish' move by the ECB.
- **ECB minutes reveal support for winding down of QE.** In the European Central Bank's September meeting minutes, it showed that policymakers were almost certain to press ahead with the winding down of its QE program. In the minutes, policymakers were increasingly confident that the economic recovery within the region would sustain without continuation of QE. However, policymakers also expressed concerns in two areas: lack of wage growth and the strength of the euro. More details on the plan were expected to be announced following its October meeting.
- **Euro-zone manufacturing surges.** The 19-member bloc enjoyed the most productive month in more than six and half years. September's IHS Markit's manufacturing purchasing managers' index (PMI) rose to 58.1 from August's reading of 57.4, reaching the highest level since February 2011. Economists were expecting a slightly higher reading of 58.2.

Asian Markets

- **BOJ keeps monetary policy status quo.** Unlike some of its peers such as the U.S. Federal Reserve and the ECB, Bank of Japan (BOJ) decided to maintain its loose monetary policy of no change following its two-day meeting. Short-term benchmark interest rates are to be kept at -0.1% and the target for the 10-year government bond yield will be maintained at 0%. With inflation remaining at a low level, BOJ doesn't seem to be in a hurry to tighten its policy.
- **Japan's consumer prices rise.** Consumer prices in Japan rose for the ninth straight month. The core consumer price index (CPI), which includes energy prices but excludes fresh food, increased by 0.7% in September year-over-year, matching August's pace. Economists were expecting a slightly faster pace of 0.8%.
- **Japan manufacturing activity slows.** Japan's manufacturing remained in expansion mode in October, but at a slower pace. The Markit/Nikkei 'flash' manufacturing purchasing managers' index was reported to be 52.5 in October, a slight drop off from September's final reading of 52.9. The index had remained above the 50-mark for the 14th straight month.
- **China reports 3rd quarter growth in line with expectations.** The National Bureau of Statistics reported that the world's second largest economy grew 6.8% in the third quarter, matching economists' estimates. It was slightly lower than the 6.9% growth reported for the second quarter. So far this year, China's economy has performed better than the 6.5% growth target set by Premier Li Keqiang for 2017.
- **China's CPI and PPI move higher.** Both consumer prices and producer prices in China rose in September. The National Bureau of Statistics reported that September's consumer price index (CPI) rose 1.6% on the year, matching economists' expectations. The producer price index (PPI) crushed economists' expectations by increasing 6.9%; economists were expecting a year-over-year rise of 6.3% only.
- **China's manufacturing PMI falls.** Manufacturing activity in China slowed in October. The National Bureau of Statistics reported that the official manufacturing purchasing managers' index (PMI) came in at 51.6 in October, down from September's reading of 52.4, also missing economists' expected reading of 52.0.

Key Take-Away

Change of heart. Following two surprise rate hikes in Q3, the Bank of Canada's Stephen Poloz eased off the gas pedal and held off on any rate action, at least for the time being. Despite an economy that has been prospering since the start of the year, inflation has been persistently weak. Considered "noise", it prompted a hawkish central bank to pursue its rate hikes. However, softening data as of late, combined with uncertainty of the effects of the re-negotiation of a new NAFTA deal on the economy, has turned the BoC slightly dovish. In addition, changes affecting the housing market and the continued burden of high household debt weighted on the decision to leave rates unchanged at their latest meeting. With this change of heart, early predictions have the next BoC move to occur in March 2018 with three rate hikes instead of four for next year.

A mixed bag. A slew of published economic data reports changed the landscape of Canada's economy. GDP continues to shine above all other developed global economies while the labour market remains robust with jobs being added for ten straight months. Increased activity and sales in manufacturing were the catalyst for more people working, despite concerns a stronger Loonie would dampen the sector. In addition, inflation, which was muted for most of the summer, saw an uptick in September. This pleased the Bank of Canada (BoC) though it was still off their target 2% range. However, other data points show a different picture. Retail sales, a major force behind economic growth, faltered below expectations, while the housing market has shown some weakness in home starts and building permit issuances. With only a couple of meetings left in 2017, the BoC will observe the effects of the last two hikes, given the variability in strength of key economic indicators, before they consider another one.

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