

October 2018

## Monthly Overview

Despite the solid backdrop for capital markets coming from earnings and the economy, trade-related headwinds and concerns over NAFTA created mixed results for investors during the third quarter. Canada's benchmark S&P/TSX Composite index slid by 0.6% during the quarter. Weakness in financial, real estate and materials stocks put a lid on performance during the period. There was a bit of positive momentum in the energy, telecom and health care sectors, but not enough to offset the declines elsewhere. The one-year return for the country's main benchmark was 5.9% through September 30. Canadian small cap stocks faced a bit more pressure during Q3, as the S&P/TSX Small Cap index gave back 2.8%.

The loonie picked up 3% versus the greenback, making up for what it lost during the second quarter. The strength of the currency did, however, put a bit of a damper on the returns from foreign markets when translated back to Canadian dollar terms. Note that all returns noted in this and the following paragraph are in CAD terms. U.S. stocks, as measured by the S&P 500, pulled out an impressive gain of 6% in Q3. While tech stocks have been stealing most of the headlines, the U.S. market was powered most convincingly by the health care and industrials sectors. Gains there were 12.7% and 8.3%, respectively. Telecom stocks were up by 8.2%, while shares of technology companies surged 7.1% higher. All but three of the major sector groups posted gains during the quarter, with energy, materials and real estate names being the only areas to not participate in the rally. The one-year gain for the U.S. market to September 30 was 22%.

International stocks, as measured by the MSCI EAFE index, shed 0.2% in Q3. Trade-related concerns pressured EM stocks during the period. Losses there were 2.6%, bringing total losses over the last two quarters to 8.4%.

Canadian investment grade bonds provided a total return of -1% during the third quarter. Global investment grade bonds

showed a similar decline over the period, while high yield issues eked out a small gain in Q3. The Canadian investment grade index also showed a negative return for the year to September 30 and the three year annualized return for the benchmark stood at just 1.6% (all figures in CAD).

Turning briefly to commodities, precious metals were hammered during the quarter, as gold and silver shed 5% and 8.6% respectively. Industrial metals felt the pain as well. There, coppers slipped by nearly 5%. Crude oil ended the quarter marginally lower, but maintained a year-over-year gain of 42%. (All returns in this paragraph in USD).

NAFTA talks concluded just as the third quarter came to a close. The newly renegotiated United States-Mexico-Canada Agreement places no hard limit on auto exports to the U.S., gives American farmers greater access to Canada's dairy industry and keeps the Chapter 19 provision that allows companies to request arbitration if they feel their products have been hit unfairly with countervailing or anti-dumping duties.

The Bank of Canada raised its policy rate early on in Q3, representing its only increase during the period. The 0.25% hike moved the policy rate to 1.5%, the highest since 2008. The move marked the second increase in 2018 as upward shifts in inflation and strong economic data outweighed an intensifying tariff war with the U.S. Canadian unemployment most recently came in at 6%, and the jobless rate has hovered between 5.8% and 6% all year.

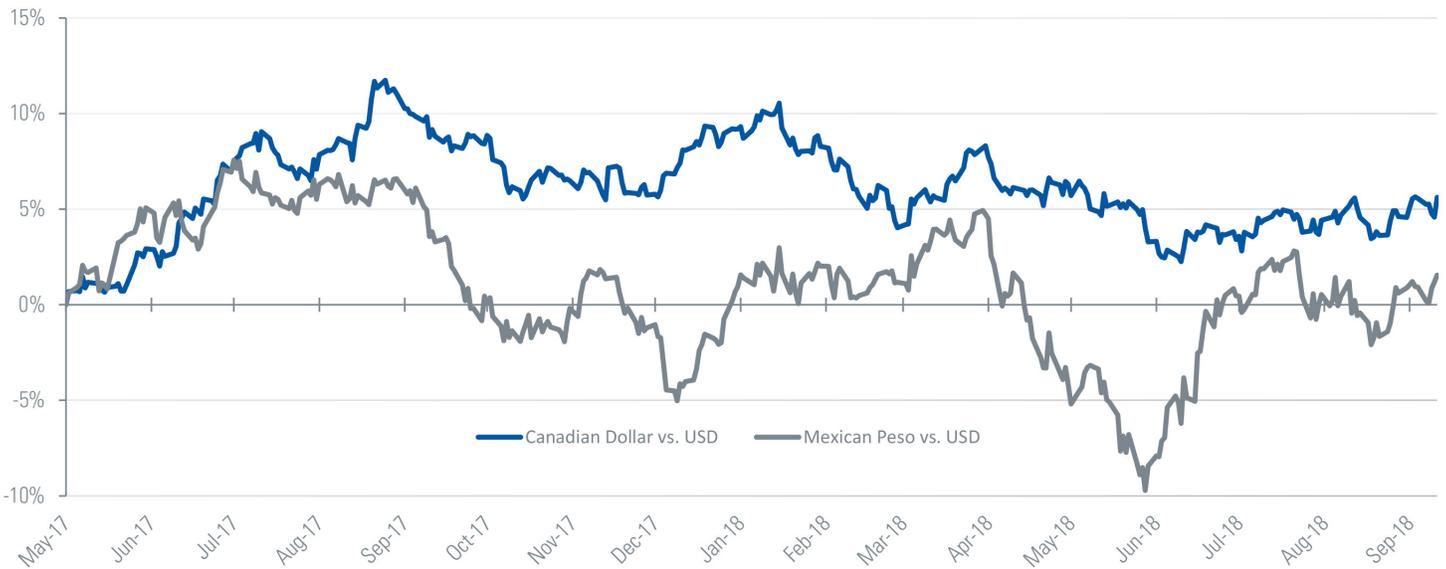
The U.S. Federal Reserve raised its target rate by 0.25% once during the quarter, bringing the range to 2% to 2.25%. Growth for the U.S. economy most recently came in at an impressive 4.2%, while the unemployment rate south of the 49th parallel stood at 3.9%. You'd have to go back to late 2000 to find an equally low jobless rate, and prior to that, the last time the unemployment rate was lower was in 1970.

# Monthly Market Statistics

Data to September 28, 2018, unless otherwise indicated

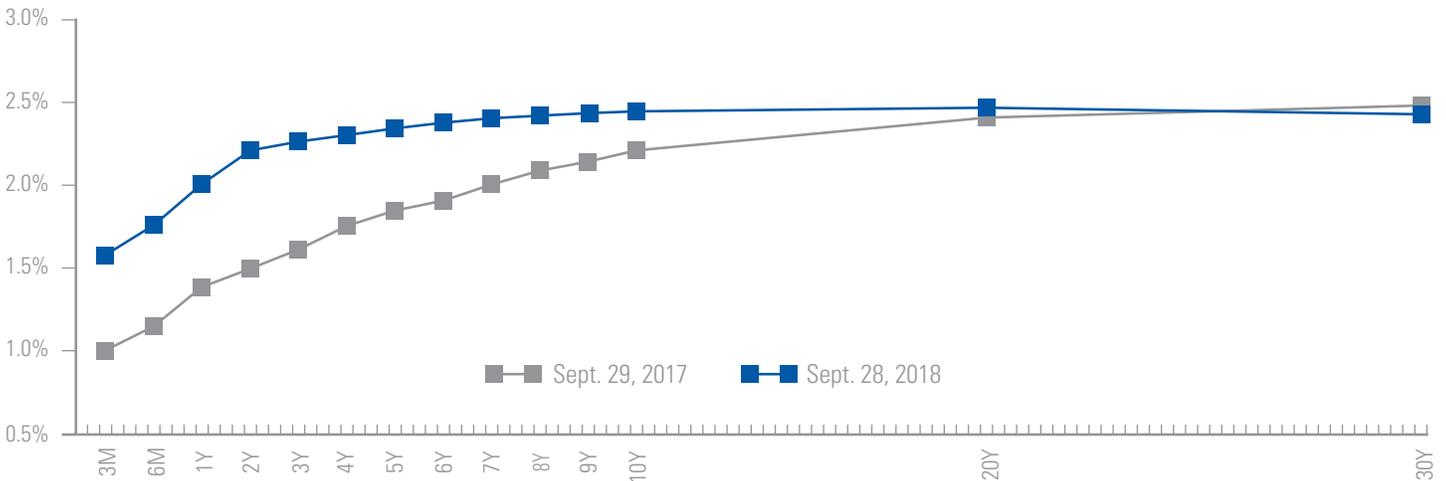
On May 18, 2017, a notice of intent was submitted to Congress to renegotiate NAFTA. Since then, negotiations have collapsed, progressed, been put on hold, with President Trump threatening to kill NAFTA more than a few times. The risk of a NAFTA collapse impacted monetary policy decisions from both Canada and Mexico and caused major swings in their currencies against the U.S. dollar during this tumultuous time. On September 30, 2018, the U.S., Canada and Mexico reached a deal to revamp NAFTA, via the U.S.-Mexico-Canada Agreement, or USMCA. The Chart of The Month illustrates the return of both the loonie and the Mexican peso against the greenback during the NAFTA negotiations, and the ups and downs in the currencies is a clear reflection of the ups and downs in the process.

## Chart of the Month: NAFTA's Wild Currency Ride



Source: Bloomberg

## Canadian Sovereign Yield Curve



Source: Bloomberg

# Monthly Market Statistics

Data to September 28, 2018, unless otherwise indicated

## Equity Index Returns (% in CAD)

Index	1 Mo	3 Mo	6 Mo	YTD	1 Yr	3 Yr	5 Yr	3 Yr Std Dev
S&P/TSX Composite	-0.9	-0.6	6.2	1.4	5.9	9.7	7.8	6.6
S&P/TSX Small Cap	-1.4	-2.8	3.5	-4.5	0.0	11.2	4.2	13.0
S&P 500	-0.4	6.0	11.7	14.2	22.2	16.0	19.3	9.3
MSCI EAFE	-0.1	-0.2	0.8	2.3	7.0	8.6	9.9	11.1
MSCI World	-0.4	3.5	7.5	9.4	15.9	12.9	15.1	9.4
MSCI World Small Cap	-2.3	0.5	5.9	8.5	14.7	14.0	15.4	10.3
MSCI Europe	-0.2	-0.8	0.0	1.1	4.0	7.0	9.2	14.0
MSCI EM	-1.5	-2.6	-8.4	-4.5	3.1	11.5	8.9	14.2
MSCI AC Asia	-0.6	-1.0	-2.3	0.6	9.3	12.0	11.6	11.7

Source: Bloomberg

## Fixed Income Returns (% in CAD)

Index	1 Mo	3 Mo	6 Mo	YTD	1 Yr	3 Yr	5 Yr	3 Yr Std Dev
FTSE TMX Canada Universe Bond	-0.1	-0.1	-0.5	-0.4	1.7	1.6	3.3	3.4
Barclays Global Agg	-0.9	-0.9	-3.7	-2.4	-1.3	2.0	0.8	4.9
Barclays High Yield Very Liquid Index	-0.4	0.9	3.9	5.6	6.1	6.1	9.5	5.4

Source: Bloomberg

## Commodity Prices (Prices and Returns in USD)

Cross	09/28/2018 Price (\$)	MoM Change (%)	YoY Change (%)
WTI Crude Oil	73.25	4.9	41.8
Natural Gas	3.01	3.2	0.0
Copper	2.81	5.9	-5.1
Silver	14.71	1.9	-11.8
Gold	1191.50	-0.8	-7.0

Source: Bloomberg

## Economic Data

Canada	
Real GDP – Q2 (q/q ann. % change)	2.9
Consumer Prices (y/y % change)	2.8
Unemployment Rate, Sept. '18	6.0
United States	
Real GDP – Q2 (q/q ann. % change)	4.2
Consumer Prices (y/y % change)	2.7
Unemployment Rate, Sept. '18	3.9

Source: Bloomberg, Stats Canada

## One Month Sector Returns (% in CAD)

Sector	S&P/TSX Composite 1M returns	S&P 500 1M returns
Consumer Discretionary	-34.4	0.1
Consumer Staples	-0.1	0.1
Energy	-3.2	1.6
Financials	-0.1	-3.1
Health Care	12.2	2.0
Industrials	0.2	1.2
Info Tech	0.1	-1.3
Materials	-1.3	-3.0
Real Estate	-0.5	-3.6
Telecom Services	-0.5	3.3
Utilities	-1.8	-1.5

Source: Bloomberg

## Exchange Rates

Cross	09/28/2018	6 Mos Ago	1 Yr Ago
USD/CAD	1.29	1.29	1.25
EUR/CAD	1.50	1.59	1.47
GBP/CAD	1.68	1.81	1.67
CAD/JPY	88.09	82.40	90.22

Source: Bloomberg

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