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Monthly Overview

As September 30 marked the end of Q3, this write-up takes a quarterly perspective on the markets and the economy.

Hurricanes and an escalating war of words between the U.S. and North Korea did little to spook stock markets during the third quarter, as all of the major indices we track were up during the period. Impressive earnings growth and clear evidence of solid economic expansion helped underpin the strength in equity prices during the third quarter.

Canadian stocks, as measured by the S&P/TSX Composite, showed a 3.7% improvement during the period. This was powered mostly by solid showings for the ever-important financial services and energy sectors. There, returns were 4.5% and 6.6%, respectively. These sectors combined account for roughly 55% of the value of the index. The price of WTI crude in USD terms shot up by 12% during the quarter, led by September's run-up of 9%. Consumer discretionary names also had a good Q3 showing, posting gains of 4.7%. The ever-tumultuous healthcare sector was the weakest performer during the period as stocks lost 10.3%. The sector's influence on the broader index is very limited, however, as its benchmark weighting is less than 1%.

The S&P 500's local currency gain of 3.7% during the quarter shrank to 0.4% in Canadian dollar terms, but the positive showing marked the eighth consecutive up quarter for the benchmark, the first time such an event has happened in 20 years. The benchmark also ended the quarter at a record high. Technology stocks helped power the index during Q3. The sector jumped 8% and showed an improvement of 25% on a YTD basis through September 30, making technology the best performing sector since the beginning of 2017.

International equities eked out a quarterly gain, with the MSCI EAFE index rising 1.4% in Canadian dollar terms

during the period. Emerging markets stocks were quite strong in Q3 as well, as the MSCI Emerging Markets benchmark jumped nearly 4%.

The environment for bond prices was quite a bit less favourable. Higher interest rates led to losses of about 2% in both the investment grade and high yield areas of the market.

The loonie ended the quarter in a stronger position relative to the greenback, with CAD/USD reaching \$0.80. Recall that in mid-May the loonie slipped as low as \$0.73. Strength in our currency was propelled by the two 25 basis point rate hikes on the part of the Bank of Canada during the quarter, and the Bank's benchmark rate now stands at 1%. Canada's big five banks followed suit and also raised their prime lending rates by 0.50%.

While the Canadian economy printed a much better than expected Q2 GDP growth rate of 4.5%, the third quarter got off to a disappointing start as July's YoY growth flat-lined. Even so, 2017 GDP growth is set to come in near 3%, the best performance in six years.

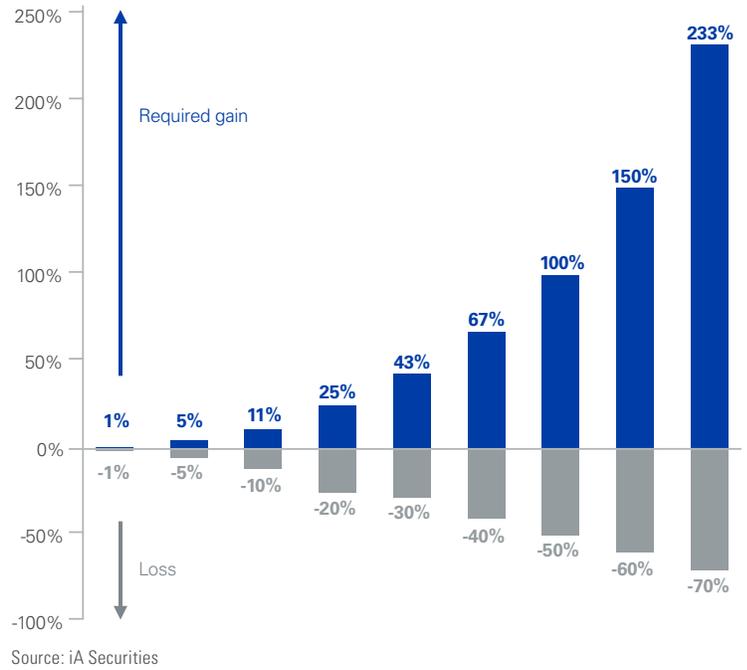
U.S. economic growth seems to have softened a bit in the third quarter in part due to hurricane-related disruptions. That said, economic growth tends to bounce back after hurricanes thanks in part to reconstruction efforts and economists are still predicting the final GDP growth number for the quarter to be just under 2% annualized. The U.S. Federal Open Markets Committee elected to leave interest rates unchanged during its two meetings during the third quarter. The Fed last hiked rates in June, bringing its benchmark rate to 1.25%.

Monthly Market Statistics

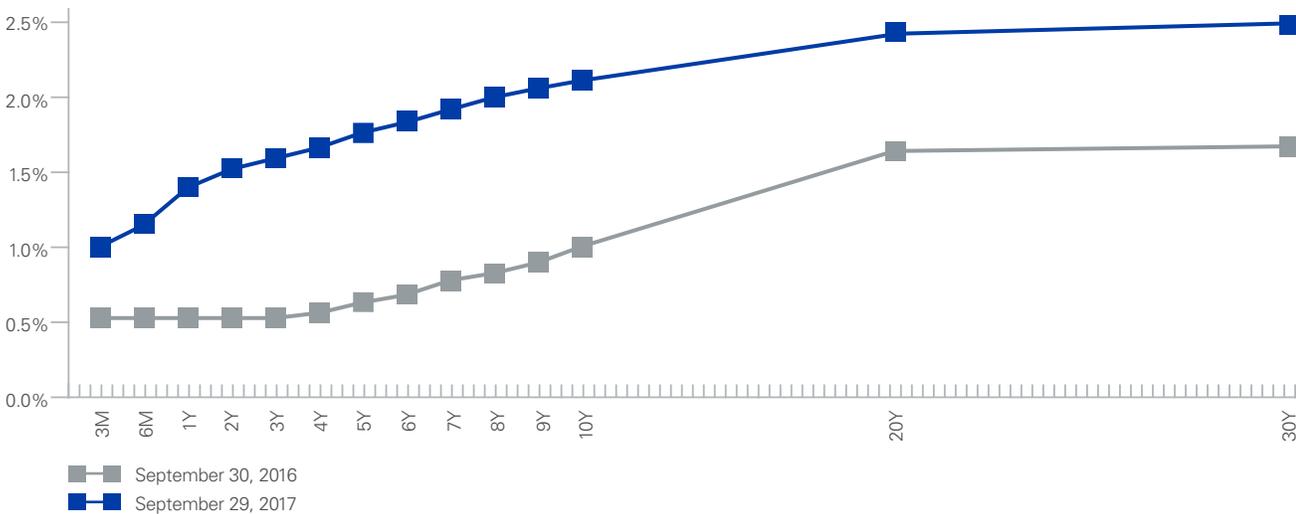
Data to September 30, 2017, unless otherwise indicated

When it comes to comparing investment gains to investment losses, things are far from being symmetrical. In other words, if your portfolio declines by 10%, an increase of 10% will not get you back to break even. You would actually need to see a return of 11% to get you out of the red. As the size of the loss increases, the magnitude of the gain needed to clear the loss increases even faster. So someone experiencing a loss of 50% would need to see his or her portfolio double in value to return to break even. This is fairly simple arithmetic, but it is a reminder of why having a realistic understanding of your risk tolerance is really important. A portfolio constructed with that risk tolerance in mind is just as important.

Chart of the Month: Gains Required to Offset Losses



Canadian Sovereign Yield Curve



Source: Bloomberg

Monthly Market Statistics

Data to September 30, 2017, unless otherwise indicated

Equity Index Returns (% in CAD)

Index	1 Mo	3 Mo	6 Mo	YTD	1Yr	3Yr	5Yr	3Yr Std Dev
S&P/TSX Composite	3.1	3.7	2.0	4.4	9.2	4.5	8.1	7.4
S&P/TSX Small Cap	2.0	2.3	-3.3	-1.9	1.1	2.4	3.9	14.7
S&P 500	1.7	0.4	1.1	6.0	12.9	14.9	19.8	10.0
MSCI EAFE	2.2	1.4	5.2	11.8	13.9	9.5	14.3	12.2
MSCI World	1.9	0.9	2.6	8.2	13.1	12.3	17.1	10.4
MSCI World Small Cap	3.6	2.2	4.2	8.8	14.7	15.3	19.1	11.0
MSCI Europe	2.9	2.1	7.4	14.3	16.9	8.7	14.2	13.1
MSCI EM	-0.7	3.8	7.8	18.9	16.9	9.1	9.4	15.7
MSCI AC Asia	0.2	1.2	4.6	13.4	12.8	11.7	14.0	12.8

Source: Bloomberg

Fixed Income Returns (% in CAD)

Index	1 Mo	3 Mo	6 Mo	YTD	1Yr	3Yr	5Yr	3Yr Std Dev
FTSE TMX Canada Universe Bond	-1.3	-1.8	-0.8	0.5	-3.0	2.8	2.7	4.3
Barclays Global Agg	-1.2	-2.2	-2.0	-1.4	-6.0	5.0	5.4	4.9
Barclays High Yield Very Liquid Index	0.4	-2.2	-2.5	-1.3	2.7	8.6	10.4	6.2

Source: Bloomberg

Commodity Prices (Prices and Returns in USD)

Cross	09/29/2017 Price (\$)	MoM Change (%)	YoY Change (%)
WTI Crude Oil	51.7	9.4	7.1
Natural Gas	3.0	-1.1	3.5
Copper	295.5	-4.0	33.7
Silver	16.7	-4.6	-13.2
Gold	1,281.5	-2.8	-2.4

Source: Bloomberg

Economic Data

Canada	
Real GDP – Q2 (q/q ann. % change)	4.5
Consumer Prices (y/y % change)	1.4
Unemployment Rate, Aug. '17	6.2
United States	
Real GDP – Q2 (q/q ann. % change)	3.1
Consumer Prices (y/y % change)	1.9
Unemployment Rate, Aug '17	4.4

Source: Bloomberg, Stats Canada

One Month Sector Returns (% in CAD)

Sector	S&P/TSX Composite 1M returns	S&P 500 1M returns
Consumer Discretionary	5.6	0.5
Consumer Staples	-0.1	-1.2
Energy	7.7	9.6
Financials	3.9	4.8
Health Care	5.3	0.7
Industrials	3.7	3.7
Info Tech	2.8	0.3
Materials	-3.8	3.2
Real Estate	-0.7	-1.7
Telecom Services	-0.2	3.2
Utilities	-2.0	-3.1

Source: Bloomberg

Exchange Rates

Cross	09/29/2017	6 Mos Ago	1Yr Ago
USD/CAD	1.25	1.33	1.31
EUR/CAD	1.47	1.42	1.47
GBP/CAD	1.67	1.67	1.70
CAD/JPY	90.22	83.64	77.23

Source: Bloomberg

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