



Wealth Management
Dominion Securities

Portfolio Advisory Group | October 2016



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What moved the markets

Financial markets were mixed in October as investors digested a bevy of U.S. corporate earnings, a full slate of central bank meetings, and a deluge of economic data. The defining theme of the month may have been a jump in longer term yields in the U.S., due to a shift in inflation expectations, and a resulting rally in the U.S. dollar.

Equity markets were mixed as major U.S. indices posted modest declines while many European bourses eked out modest gains. Financial markets began to price in Hillary Clinton winning the U.S. Presidency on November 8th with greater attention getting paid to the prospect of a Democratic sweep of the Senate and House.

Earnings beats in the U.S. have been widespread this season. As of the end of October, 74% of companies that have announced earnings results reported an upside to bottom-line estimates with all 11 sectors delivering positive surprises. Earnings results were higher than consensus by 6.2% while revenues were roughly flat relative to consensus expectations.

On the central bank front, the Federal Reserve indicated it was inching towards a potential rate hike while still emphasizing this cycle will be defined by a slow and gradual approach to policy tightening. The European Central Bank placated concerns that its accommodative approach to policy might be nearing an end as President Mario Draghi announced no changes to benchmark interest rates

and the maintenance of its current asset purchase program. The Bank of Canada pushed out its forecast for a closing of the output gap to 2017 and reiterated the effectiveness of fiscal deficits and the latitude the federal government possessed to run deficits from current levels.

In Canada, Finance Minister Morneau introduced a series of housing related measures announced at a national level designed to stabilize the housing market and address concerns about household debt, which now stands at a record high 100.5% of GDP.

Equity markets in North America delivered varying performance in October. The S&P/TSX moved up 0.6%, with rallies in the Financial and Utilities sectors of 2.6% and 1.9% respectively offset by declines in Healthcare and Consumer Discretionary sectors of 17.7% and 2.2% respectively.

In the U.S., the S&P 500 closed down 1.8%, with 8 sectors ending the month in negative territory. The Financials and Utilities sectors gained 2.3% and 0.9%, respectively, while the Healthcare and Telecommunication sectors both fell by 6.5%.

Number crunching

Equity indices*	Month	YTD*
S&P/TSX Composite Index TR	0.6%	16.5%
Dow Jones Industrial Average TR	-0.8%	6.4%
S&P 500 Index TR	-1.8%	5.9%
NASDAQ Composite Index TR	-2.3%	4.7%
MSCI EAFE TR (USD)	-2.0%	0.1%
MSCI World TR (USD)	-1.9%	4.0%

S&P/TSX sector performance*	Month	YTD*
S&P/TSX Financials TR	2.6%	14.2%
S&P/TSX Energy TR	0.9%	27.7%
S&P/TSX Materials TR	-0.9%	49.2%
S&P/TSX Industrials TR	-0.3%	16.3%
S&P/TSX Consumer Discretionary TR	-2.2%	6.6%
S&P/TSX Telecom Services TR	-0.2%	17.8%
S&P/TSX Information Technology TR	-1.3%	4.3%
S&P/TSX Consumer Staples TR	1.9%	11.2%
S&P/TSX Utilities TR	1.5%	19.9%
S&P/TSX Healthcare TR	-17.7%	-75.2%

* All returns are on a Total Return basis. All indices are in local currency unless otherwise noted. Source: Bloomberg

Fixed Income-Specific Developments

In Canada, the month started on a positive note as it was reported the economy added 67,200 new jobs in September, the highest amount since April 2012, while the unemployment rate held steady at 7.0%. The tone shifted at the Bank of Canada's policy meeting when Governor Poloz revealed that officials "actively discussed" easing policy in response to economic conditions. The BoC left its benchmark interest rate unchanged at 0.5% but lowered its forecasts for growth and delayed the closing of the output gap to around mid-2018 in its Monetary Policy Report (MPR) statement.

Continued strength in U.S. economic data raised the probability of a U.S. rate hike through October. The nonfarm payroll report showed that the U.S. economy added 156,000 jobs in September, slightly below expectation of 172,000, but likely not enough to shift the current Federal Reserve narrative of leaning towards a rate hike in the near-term. The release of the September FOMC minutes showed disagreement among Fed voters over the timing of interest rate hikes but financial markets were pricing in a move of 25 basis points at the December meeting. ISM Manufacturing, reported at 51.1, exceeded expectations, and rebounded from a contraction in September. GDP was another bright spot, rising 2.9% in the 3rd quarter versus forecasts of 2.6% growth and better than the 1.4% recorded in the 2nd quarter.

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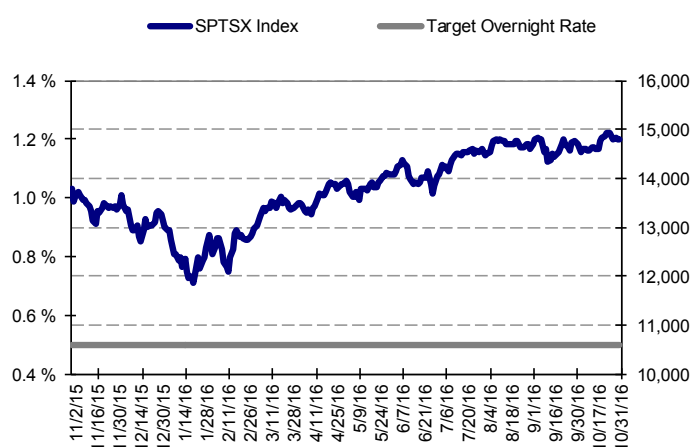
Currencies (in Canadian dollars)	Exchange	Month	YTD*
U.S. Dollar	1.3409	2.1%	-3.1%
Euro	1.4724	-0.2%	-2.1%
British Pound	1.6416	-3.6%	-19.5%
Japanese Yen	0.0128	-1.2%	11.2%

Currencies (one Canadian dollar)	Exchange	Month	YTD*
U.S. Dollar	0.7458	-2.1%	3.2%
Euro	0.6791	0.2%	2.0%
British Pound	0.6092	3.8%	24.2%
Japanese Yen	78.1730	1.2%	-10.0%

Commodities (US\$)	Spot price	Month	YTD*
Crude Oil (WTI per barrel)	\$46.86	-2.9%	26.5%
Natural Gas (per million btu)	\$3.03	4.1%	29.5%
Gold (per ounce)	\$1,277.30	-2.9%	20.3%
Silver (per ounce)	\$17.91	-6.6%	29.2%
Copper (per pound)	\$2.20	-0.1%	2.9%
Nickel (per pound)	\$4.73	-0.9%	18.9%
Aluminum (per pound)	\$0.79	4.2%	15.6%
Zinc (per pound)	\$1.12	3.6%	53.0%

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S&P/TSX Index – target overnight rate, LTM



Source: RBC Wealth Management, Bloomberg

Global Developments

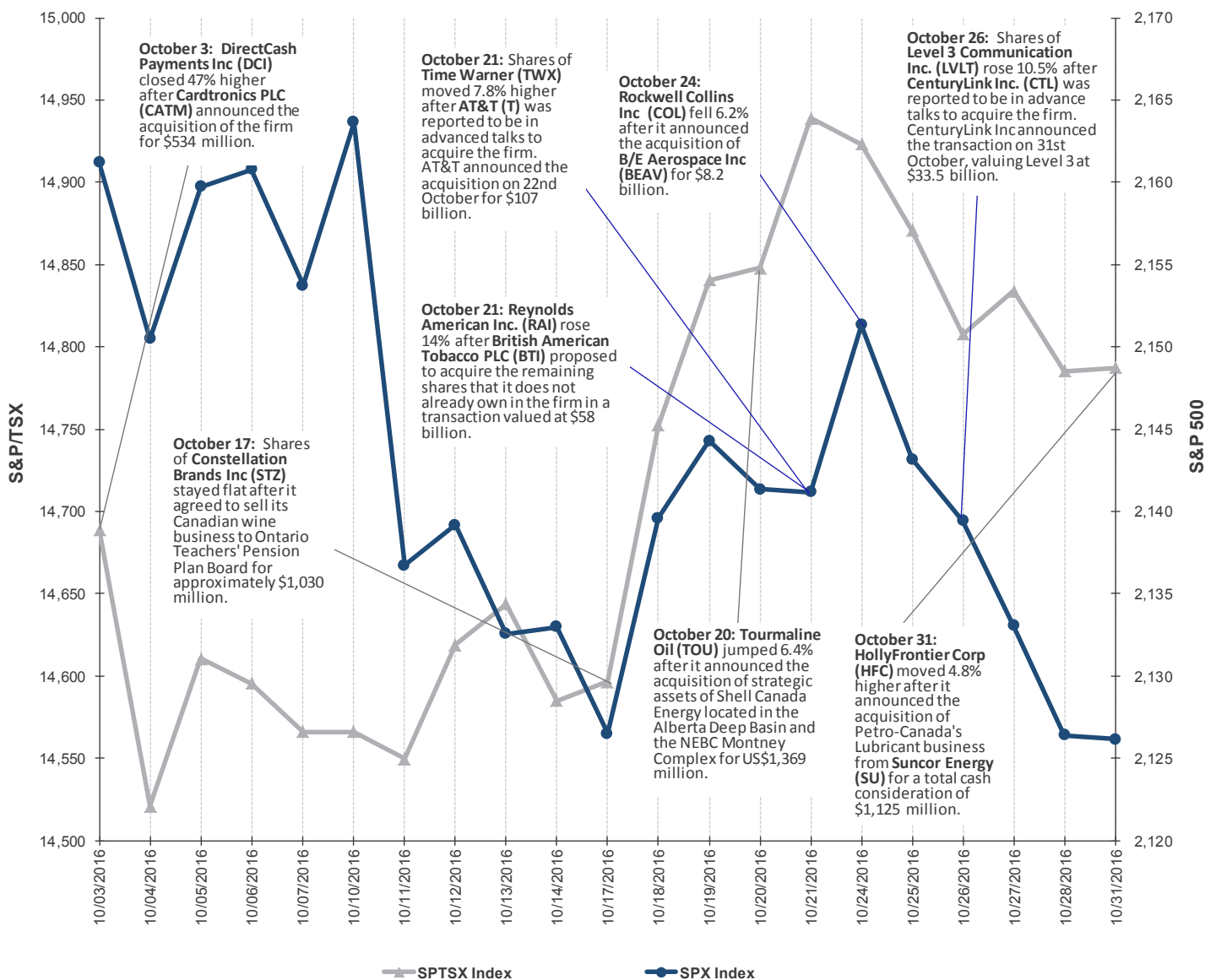
Economic data out of Europe was somewhat encouraging given evidence of growth but the pace of expansion may still not be fast enough to meaningfully sop up extra slack in the economy. The IHS Markit Purchasing Managers' Index for manufacturing, used by ECB to assess the health of the region's economy, rose to 53.3 up from 52.6 in September. This represented the strongest pace of growth in the region in nearly two and a half years. Business sentiment was at its highest level in more than two years and factory orders were at a five month high. Eurozone GDP grew at a 0.3% pace in the third quarter, matching the pace of growth in the second quarter, thanks to an improvement in activity in France. In the U.K., the fallout of the Brexit vote was most felt in currency markets as the British pound fell to fresh new 30-year lows in October versus the U.S. dollar.

In China, trade data released showed a 10% year over year decline in exports in September, which was the largest since February. The decline in exports from the world's second largest economy renewed some concerns about deteriorating global demand. GDP in China was however a bright spot as it expanded at an annualized rate of 6.7% in the third quarter, which was in line with the economic forecasts and in line with the government's growth target range of 6.5-7.0% for 2016.

Crude oil continued to hold its gains near \$50 per barrel as U.S. DOE crude oil inventories declined to the lowest level since December 2015. Yet, there is growing skepticism with the agreement of OPEC and non-OPEC members to freeze production as several countries are already seeking exemption. Gold ended the month at \$1271 per oz, down ~4.0% and traded at a 4-month low in mid-October as global yields edged higher and the market began to price in a healthy probability of a Fed hike in 2016.

North American equity highlights

October 2016

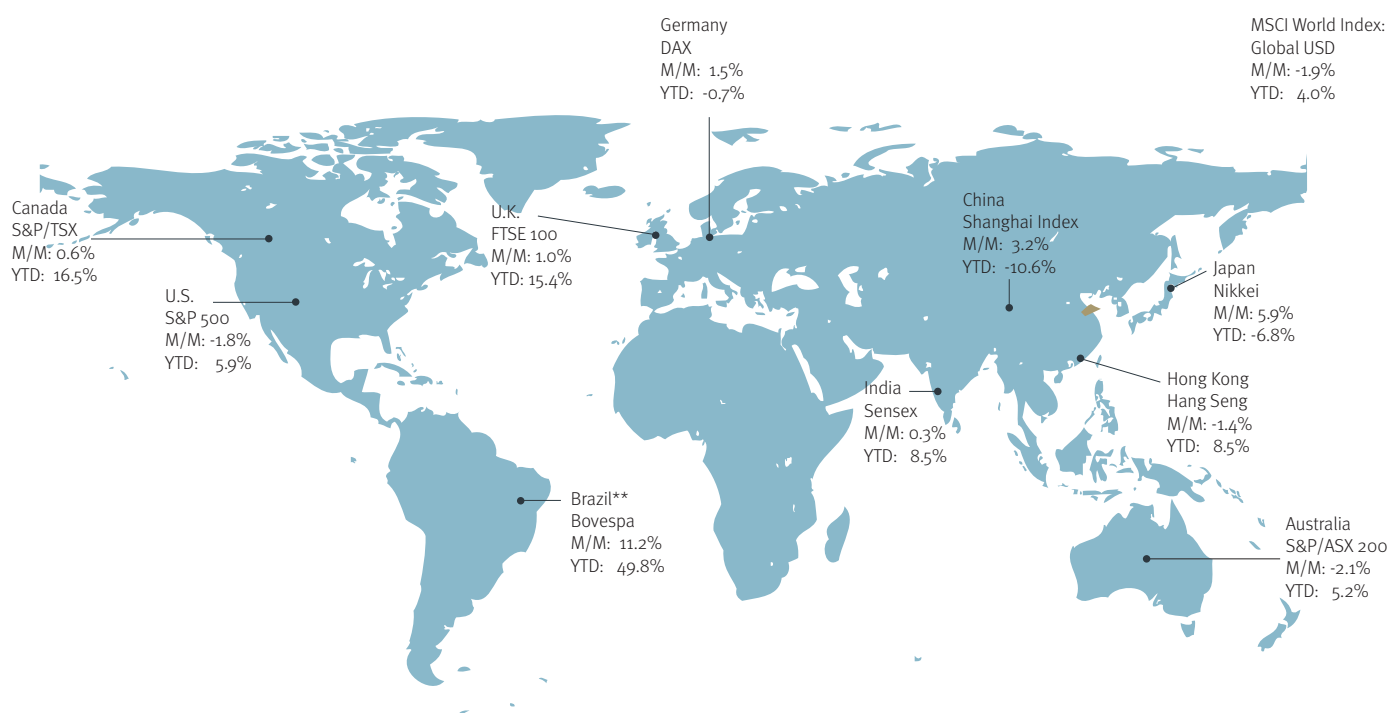


¹Bloomberg ²RBC Capital Markets Pricing Data
Source: Bloomberg

World markets

October month-over-month and year-to-date performance

Most markets delivered positive results in October. In the Americas, S&P/TSX and Brazil's Bovespa rose by 0.6% and 11.2% respectively while the S&P 500 closed down 1.8%. In Europe, U.K.'s FTSE and Germany's DAX moved higher by 1.0% and 1.5% respectively. In Asia, Japan's Nikkei, China's Shanghai Index and India's Sensex each closed the month up 5.9%, 3.2% and 0.3% respectively. Hong Kong's Hang Seng and Australia's S&P/ASX 200 both closed lower by 1.4% and 2.1% respectively. Overall, the MSCI World Index decreased by 1.9% for the month but is up 4.0% for the year.



All returns are on a total return basis unless otherwise noted. All returns calculated in local currency except for MSCI World

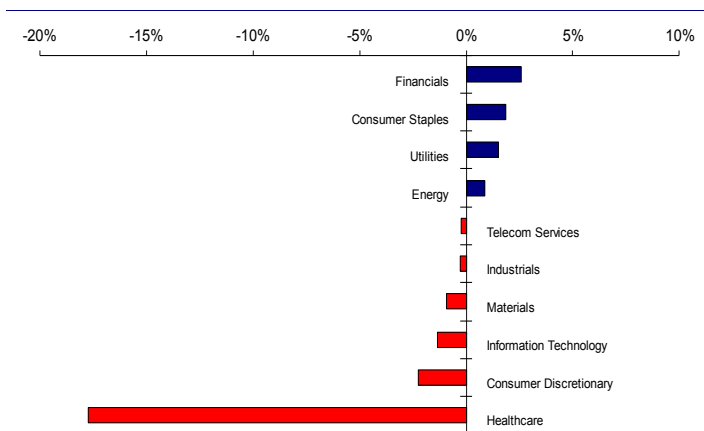
** These indices are calculated on a price return basis

Source: Bloomberg, RBC Wealth Management, 10/31/16

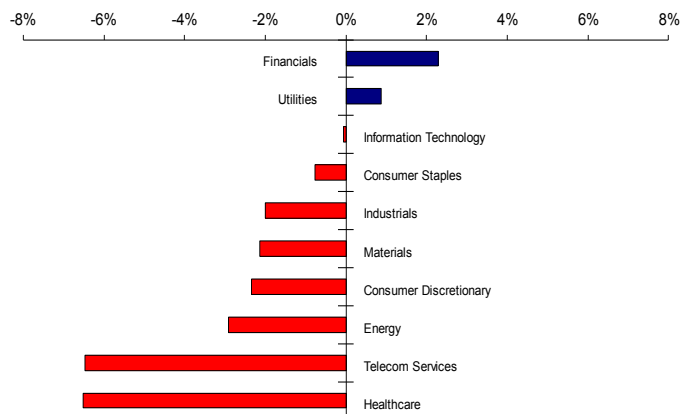
Canadian & U.S. equities

October 2016

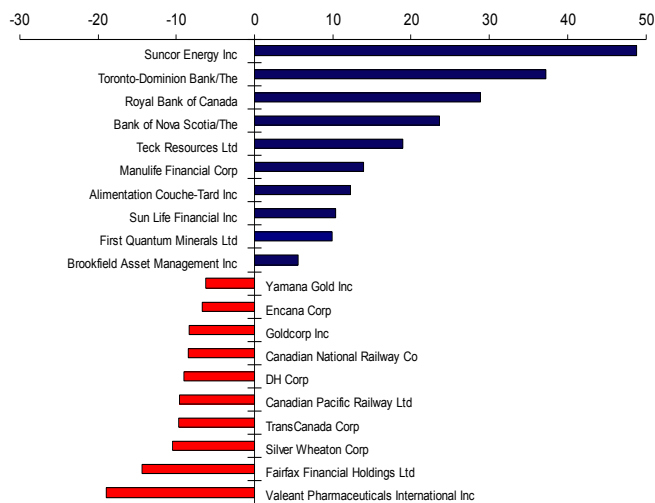
S&P/TSX composite sector movement



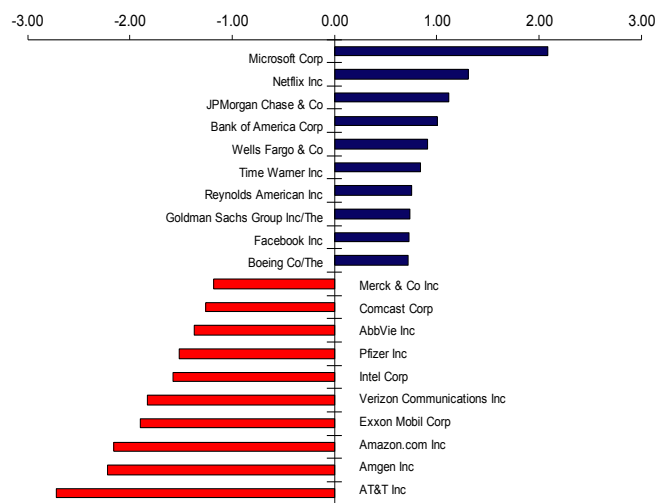
S&P 500 sector movement



Top 10 S&P/TSX contributors/decliners by index points



Top 10 S&P 500 contributors/decliners by index points



Source: Bloomberg

Canadian and U.S. economic data

October 2016

Release Date	Economic Indicators: Canada	Period	Consensus	Actual	Prior
Labour market					
10/07/2016	Net Change in Employment (ooo, SA)	Sep	7.5k	67.2k	26.2k
10/07/2016	Participation Rate (SA)	Sep	65.50%	65.70%	65.50%
10/07/2016	Unemployment Rate (SA)	Sep	7.00%	7.00%	7.00%
Housing market					
10/11/2016	Housing Starts (ooo, SAAR)	Sep	190.0k	220.6k	184.1k
10/13/2016	New Housing Price Index (y-o-y)	Aug	2.80%	2.70%	2.80%
10/14/2016	Existing Home Sales (m-o-m)	Sep	--	0.80%	-3.10%
10/13/2016	Teranet/National Bank HPI (m-o-m)	Sep	--	0.80%	1.50%
Consumer & manufacturing					
10/21/2016	Retail Sales (m-o-m, SA)	Aug	0.30%	-0.10%	-0.20%
10/21/2016	Retail Sales Less Autos (m-o-m, SA)	Aug	0.30%	0.00%	-0.20%
10/18/2016	Manufacturing Sales (m-o-m, SA)	Aug	0.30%	0.90%	0.00%
Trade					
10/05/2016	Merchandise Trade (billion, SA)	Aug	-2.45b	-1.94b	-2.19b
Prices					
10/21/2016	Consumer Price Index (m-o-m)	Sep	0.20%	0.10%	-0.20%
10/21/2016	Consumer Price Index (y-o-y)	Sep	1.40%	1.30%	1.10%
10/21/2016	Bank of Canada CPI Core (m-o-m)	Sep	0.20%	0.20%	0.00%
10/21/2016	Bank of Canada CPI Core (y-o-y)	Sep	1.80%	1.80%	1.80%
10/31/2016	Industrial Product Price (m-o-m)	Sep	0.40%	0.40%	-0.40%
10/31/2016	Raw Materials Price Index (m-o-m)	Sep	0.50%	-0.10%	-0.70%
Other indicators					
10/24/2016	Wholesale Sales (m-o-m, SA)	Aug	0.60%	0.80%	0.10%
10/07/2016	Ivey Purchasing Managers Index (SA)	Sep	53.1	58.4	52.3
10/06/2016	Building Permits (m-o-m, SA)	Aug	1%	10%	3%

Release date	Economic indicators: U.S.	Period	Consensus	Actual	Prior
10/28/2016	GDP (q-o-q, SAAR)	3Q A	2.60%	2.90%	1.40%
10/28/2016	GDP Price Index (q-o-q, SAAR)	3Q A	1.40%	1.50%	2.30%
10/28/2016	Core PCE (q-o-q, SAAR)	3Q A	1.60%	1.70%	1.80%
Labour market					
10/07/2016	Change in Nonfarm Payrolls (ooo, SA)	Sep	172k	156k	167k
10/07/2016	Unemployment Rate (SA)	Sep	4.90%	5.00%	4.90%
Housing market					
10/19/2016	Building Permits (ooo, SAAR)	Sep	1165k	1225k	1152k
10/19/2016	Housing Starts (ooo, SAAR)	Sep	1175k	1047k	1150k
10/26/2016	New Home Sales (ooo, SAAR)	Sep	600.00	593.00	575.00
10/20/2016	Existing Home Sales (million, SAAR)	Sep	5.35m	5.47m	5.30m
10/18/2016	NAHB Housing Market Index (SA)	Oct	63	63	65
10/03/2016	Construction Spending (m-o-m, SA)	Aug	0.30%	-0.70%	0.50%
Consumer & manufacturing					
10/14/2016	Advance Retail Sales (m-o-m, SA)	Sep	0.60%	0.60%	-0.20%
10/14/2016	Retail Sales Less Autos (m-o-m, SA)	Sep	0.50%	0.50%	-0.20%
10/25/2016	Consumer Confidence (SA)	Oct	101.5	98.6	103.5
10/28/2016	U. of Michigan Confidence	Oct F	88.2	87.2	87.9
10/28/2016	Personal Consumption (q-o-q, SAAR)	3Q A	2.60%	2.10%	4.30%
10/27/2016	Durable Goods Orders (m-o-m, SA)	Sep P	0.00%	-0.10%	0.30%
10/05/2016	Factory Orders (m-o-m, SA)	Aug	-0.20%	0.20%	1.40%
Trade					
10/13/2016	Import Price Index (m-o-m)	Sep	0.20%	0.10%	-0.20%
10/13/2016	Import Price Index (y-o-y)	Sep	-1.00%	-1.10%	-2.20%
10/05/2016	Trade Balance (billion, SA)	Aug	-\$39.2b	-\$40.7b	-\$39.5b
Prices					
10/18/2016	Consumer Price Index (m-o-m, SA)	Sep	0.30%	0.30%	0.20%
10/18/2016	Consumer Price Index (y-o-y)	Sep	1.50%	1.50%	1.10%
10/18/2016	CPI Core Index (SA)	Sep	248.72	248.61	248.33
10/31/2016	PCE Deflator (y-o-y, SA)	Sep	1.20%	1.20%	1.00%
Other indicators					
10/03/2016	ISM Manufacturing Index (SA)	Sep	50.4	51.5	49.4
10/31/2016	Chicago Purchasing Manager Index	Oct	54.0	50.6	54.2
10/20/2016	Philadelphia Fed Index	Oct	5.0	9.7	12.8
10/20/2016	Leading Indicators (m-o-m)	Sep	0.20%	0.20%	-0.20%
10/14/2016	Business Inventories (m-o-m, SA)	Aug	0.10%	0.20%	0.00%

Source: Bloomberg

SA = Seasonally Adjusted; SAAR = Seasonally Adjusted Annual Rate; m-o-m = Month-over-month % change; q-o-q = Quarter-over-quarter % change; y-o-y = Year-over-year % change.

Notable Canadian dividend activity – October 2016

Increases				
Company	\$ Change		Ex-Date	% Change
Waste Connections Inc.	Prior: \$0.145	New: \$0.1800	November 3, 2016	24.1%
Milestone Apartments Real Estate Trust	Prior: \$0.0458	New: \$0.0504	January 27, 2017	10.0%
Restaurant Brands International Inc.	Prior: \$0.1600	New: \$0.1700	December 6, 2016	6.3%
Smart Real Estate Investment Trust	Prior: \$0.1375	New: \$0.1417	October 27, 2016	3.0%

Source: Bloomberg



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