

MONTH IN REVIEW

Portfolio Advisory Group | October 2015



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What Moved the Markets

Markets rallied in October as concerns over global growth temporarily eased, China demonstrated determination to meet its GDP growth target and the European Central Bank unexpectedly opened the door to further stimulus. The much anticipated FOMC meeting hinted that a December rate hike is still on the table as the Fed adopted a more hawkish tone and downplayed the risks of global economic developments on the domestic economy.

Market expectations with respect to future interest rate hikes reversed momentum in October in response to the Fed's messaging, even as domestic economic data came in softer. In Canada, the Bank of Canada left its overnight target rate unchanged as it deemed the "risks around the inflation profile to be roughly balanced" with total inflation trending near the lower end of its 1% to 3% target range. The Bank also revised its GDP expectations downwards in September's Monetary Policy report. The U.S. dollar index continued to strengthen reaching its highest level since early August while crude stabilized around $46.40/barrel.

North American indices bounced back during the month of October, albeit to different degrees. On the Canadian front, a strong showing in 7 out of 10 sectors was dampened by a 46% decline in the Healthcare sector. In a reversal of recent trends, Materials and Energy led the way higher, up 7.4% and 7.7%, respectively. In the U.S., all ten sectors rose, also led higher by Materials and Energy, which posted gains of 13.5% and 11.4%. Overall, all major global indices finished the month in positive territory, a stark contrast to September which saw most indices and sub-indices in the red.

RBC Wealth Management
Dominion Securities

All indices and figures priced in local currency as at October 31, 2015 (unless otherwise stated). For Important Disclosures, see page 10.

Fixed Income-Specific Developments

The Bank of Canada maintained its overnight target rate at 0.50%, in-line with expectations heading into the meeting. The Bank remains patient with policy as inflation, economic growth and employment have evolved as expected. Resilience in job additions and steady inflation is providing policymakers some time to see how previous stimulus initiatives are filtering into the economy. Due to slowing global growth, the risks to the Canadian economy seem to be skewed to the downside as demand for commodities remains weak. Persistent declines in crude oil caused exports to fall 3.6% in August, while the trade deficit widened to $2.5 billion, suggesting that manufacturers have yet to reap the full benefits of a weaker Canadian dollar. Crude ended the month at $46.40/barrel after hitting a five week high (~$51) earlier in the month.

The benchmark Canada 10-year bond closed the month at 1.54%, 11 bps higher than last month's closing yield of 1.43%.

In the U.S., the FOMC maintained its overnight target rate at the 0-0.25% range. Despite an uneven U.S. economy, the Fed left the door open for a potential rate hike in December. By adopting more explicit language in its statement, the Fed indicated that a rate hike may be imminent as it now shifts its focus to data specifically ahead of its next meeting. However, disappointing retail sales (0.1% vs. 0.2% Est.), lower jobs growth (142k new jobs vs. 201k Est.), and a slower pace of quarterly GDP growth (1.5% vs. 3.9% in Q2) could potentially derail plans from the Fed to raise the overnight target rate before the end of 2015. The futures market is currently pricing a 50% probability of a rate hike before the end of the year, up from 33% prior to the Fed release. The benchmark U.S. Treasury 10-year bond closed the month at 2.14%, 10 bps higher than last month's closing yield of 2.04%.

Global Developments

Number Crunching

Equity Indices*	Month	YTD*
S&P/TSX Composite Index TR	2.0%	-5.2%
Dow Jones Industrial Average TR	8.6%	1.0%
S&P 500 Index TR	8.4%	2.7%
NASDAQ Composite Index TR	9.4%	7.7%
MSCI EAFE TR (USD)	7.8%	2.5%
MSCI World TR (USD)	8.0%	1.9%

S&P/TSX Sector Performance*	Month	YTD*
S&P/TSX Financials TR	4.0%	0.6%
S&P/TSX Energy TR	7.7%	-15.6%
S&P/TSX Materials TR	7.3%	-18.4%
S&P/TSX Industrials TR	2.2%	-8.0%
S&P/TSX Consumer Discretionary TR	3.2%	7.3%
S&P/TSX Telecom Services TR	5.3%	10.9%
S&P/TSX Information Technology TR	1.5%	6.2%
S&P/TSX Consumer Staples TR	-1.9%	9.3%
S&P/TSX Utilities TR	-1.7%	-3.8%
S&P/TSX Healthcare TR	-45.7%	-27.4%

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

The Liberal Party of Canada swept to a decisive victory in federal elections, winning 184 seats of 338 seats. We expect the Liberal platform, which points to increased spending on infrastructure, lower taxes on those making less than $200,000 per annum, higher taxes on those making in excess of $250,000 to $300,000 per annum, and modest deficits to have an overall positive impact on growth. However, we would caution that we are basing this purely on the election platform and actual policies could differ from those put forward in the campaign.

Weaker than expected Chinese GDP (6.9% vs. 7.0% Est.) reignited worries of a global growth slowdown, which led to further declines in base metals and oil. The People's Bank of China (PBOC) also trimmed its benchmark lending rate to 4.35% from 4.6% and cut its reserve requirement ratio for banks to 17.5% from 18%. The continued campaign of expanded stimulus underscores the central bank's determination to meet the 7% growth target for 2015. The rate cut marks the fifth time the PBOC has lowered its target rates since last November.

In keeping with the global narrative, the ECB left its main interest rate at a record low of 0.05% and signaled possible new simulative policy at the next meeting. ECB President Mario Draghi reiterated at a news conference that the central bank is willing to expand its bond-buying program if needed. Mr. Draghi also suggested that further cuts to the deposit rate may be necessary, despite the fact that they currently sit at negative 0.20%.

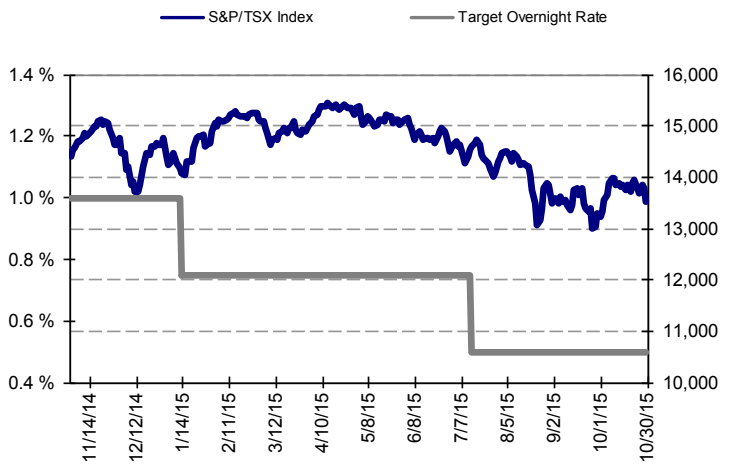
Currencies (in Canadian Dollars)	Exchange	Month	YTD*
US Dollar	1.3080	-1.8%	12.6%
Euro	1.4394	-3.3%	2.4%
British Pound	2.0167	0.1%	11.4%
Japanese Yen	0.0108	-2.3%	11.6%

Currencies (One Canadian Dollar)	Exchange	Month	YTD*
US Dollar	0.7647	1.8%	-11.1%
Euro	0.6947	3.4%	-2.3%
British Pound	0.4956	-0.2%	-10.3%
Japanese Yen	92.2140	2.4%	-10.5%

Commodities (US$)	Spot Price	Month	YTD*
Crude Oil (WTI per barrel)	$46.59	3.3%	-12.5%
Natural Gas (per million btu)	$2.32	-8.0%	-19.7%
Gold (per ounce)	$1,142.16	2.4%	-3.6%
Silver (per ounce)	$15.55	7.1%	-1.0%
Copper (per pound)	$2.33	-0.7%	-19.2%
Nickel (per pound)	$4.70	0.0%	-31.2%
Aluminum (per pound)	$0.65	-8.1%	-21.1%
Zinc (per pound)	$0.77	0.9%	-21.8%

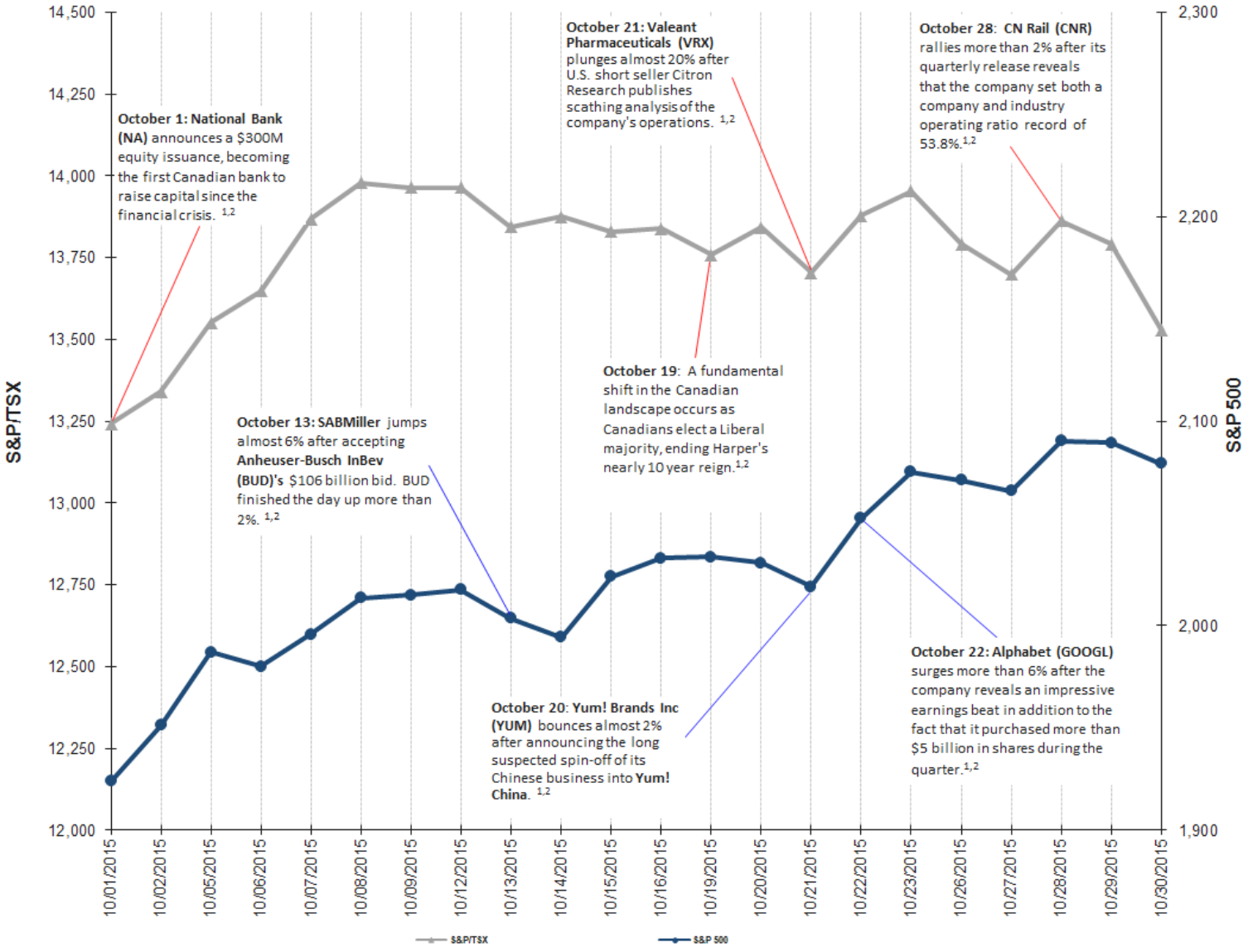
*All returns are on a Total Return basis All indices are in local currency unless otherwise noted.

S&P/TSX Index - Target Overnight Rate, LTM



Source - RBC Wealth Management, Bloomberg

North American Equity Highlights – October 2015

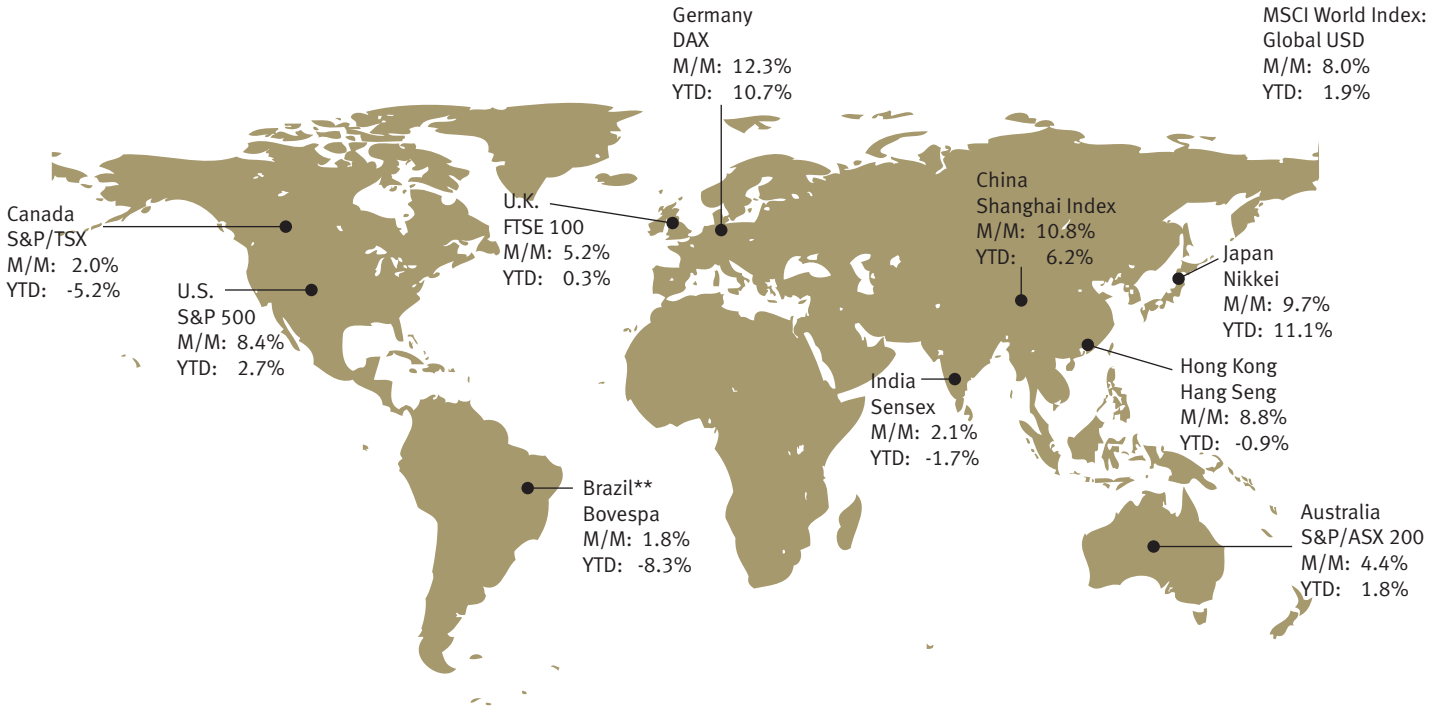


[1]Bloomberg [2]RBC Capital Markets Pricing Data
Source: Bloomberg

World Markets

October Month-over-Month and Year-to-Date Performance

In stark contrast to September, all major global indices finished the month in positive territory. Germany's DAX was the clear winner, finishing the month up 12.3%, far ahead of the U.K.'s FTSE 100 and Australia's S&P/ASX 200, which closed October up 5.2% and 4.4%, respectively. China's Shanghai Index was the only other country to post double-digit gains, swinging back into positive territory and generating a return of 10.8%. The remaining Asian markets were also strong, with Japan's Nikkei rising 9.7% and Hong Kong's Hang Seng increasing 8.8%. The tone in North American markets was more mixed; in the U.S., the S&P 500 was up 8.4%, while Canada's S&P/TSX was only up 2.0%. Similar to Canadian markets, India's Sensex finished October up 2.1%, while Brazil's Bovespa saw returns of 1.8%. Overall, the MSCI World Index gained 8.0%, and is now up 1.9% for the year.

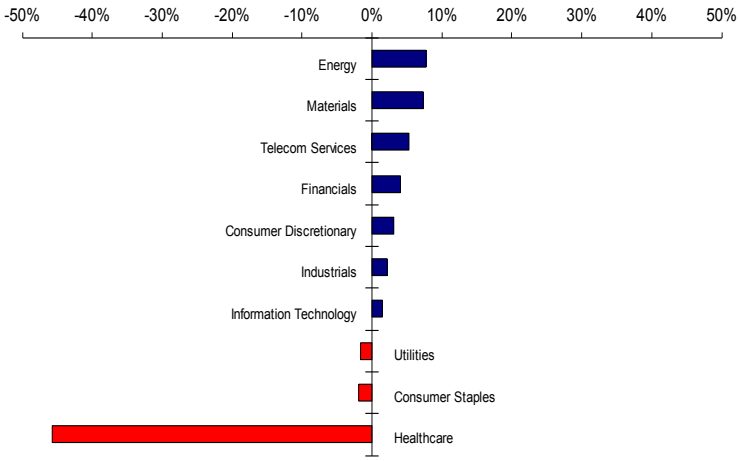


Source – Bloomberg, RBC Wealth Management, 10/31/15

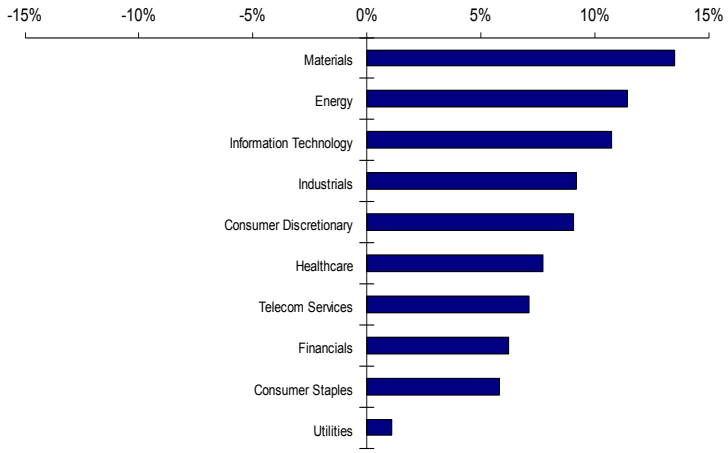
All returns are on a total return basis unless otherwise noted. All returns calculated in local currency except for MSCI World
** These indices are calcuated on a price return basis

Canadian & U.S. Equities – October 2015

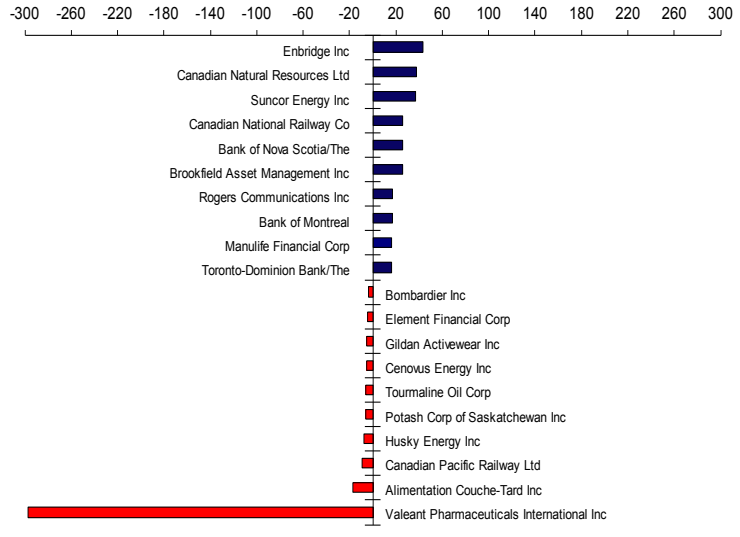
S&P/TSX Composite Sector Movement



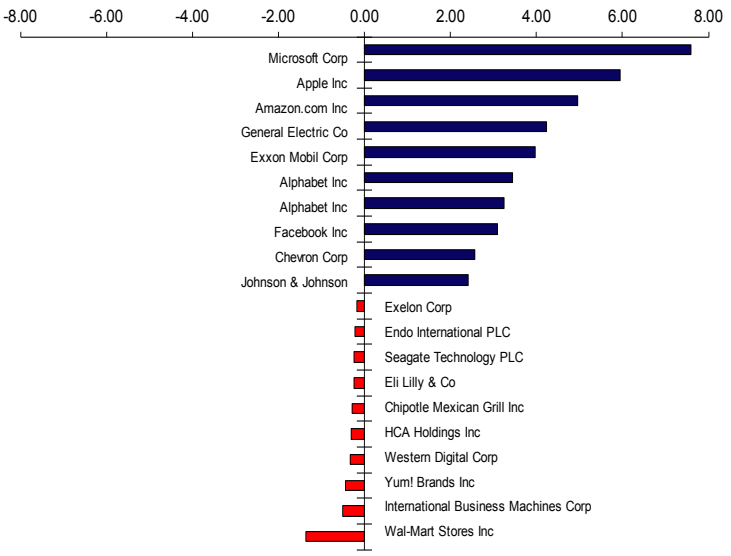
S&P 500 Sector Movement



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 2015

Release Date	Economic Indicators: Canada	Period	Consensus	Actual	Prior
10/30/2015	Gross Domestic Product (m-o-m, SA)	Aug	0.10%	0.10%	0.30%
10/30/2015	Gross Domestic Product (y-o-y, SA)	Aug	1.00%	0.90%	0.70%
	Labour market				
11/06/2015	Net Change in Employment (000, SA)	Oct	10.0	--	12.1
11/06/2015	Participation Rate (SA)	Oct	65.80%	--	65.90%
11/06/2015	Unemployment Rate (SA)	Oct	7.10%	--	7.10%
	Housing market				
10/08/2015	Housing Starts (000, SAAR)	Sep	202	230.7	214.9
10/08/2015	New Housing Price Index (y-o-y)	Aug	--	1.30%	1.30%
10/15/2015	Existing Home Sales (m-o-m)	Sep	--	-2.10%	0.30%
10/15/2015	Teranet/National Bank HPI (m-o-m)	Sep	--	0.60%	1.00%
	Consumer & Manufacturing				
10/22/2015	Retail Sales (m-o-m, SA)	Aug	0.10%	0.50%	0.60%
10/22/2015	Retail Sales Less Autos (m-o-m, SA)	Aug	0.20%	0.00%	0.10%
10/16/2015	Manufacturing Sales (m-o-m, SA)	Aug	-1.00%	-0.20%	1.70%
	Trade				
11/04/2015	Merchandise Trade (billion, SA)	Sep	-1.75	--	-2.53
	Prices				
10/23/2015	Consumer Price Index (m-o-m)	Sep	-0.10%	-0.20%	0.00%
10/23/2015	Consumer Price Index (y-o-y)	Sep	1.10%	1.00%	1.30%
10/23/2015	Bank of Canada CPI Core (m-o-m)	Sep	0.30%	0.20%	0.20%
10/23/2015	Bank of Canada CPI Core (y-o-y)	Sep	2.20%	2.10%	2.10%
10/29/2015	Industrial Product Price (m-o-m)	Sep	-0.10%	-0.30%	-0.30%
10/29/2015	Raw Materials Price Index (m-o-m)	Sep	1.10%	3.00%	-6.80%
	Other Indicators				
10/20/2015	Wholesale Sales (m-o-m, SA)	Aug	0.20%	-0.10%	-0.10%
11/05/2015	Ivey Purchasing Managers Index (SA)	Oct	55.0	--	53.7
11/06/2015	Building Permits (m-o-m, SA)	Sep	1%	--	-4%

Release Date	Economic Indicators: U.S.	Period	Consensus	Actual	Prior
10/29/2015	GDP (q-o-q, SAAR)	3Q A	1.60%	1.50%	3.90%
10/29/2015	GDP Price Index (q-o-q, SAAR)	3Q A	1.40%	1.20%	2.10%
10/29/2015	Core PCE (q-o-q, SAAR)	3Q A	1.40%	1.30%	1.90%
	Labour market				
11/06/2015	Change in Nonfarm Payrolls (000, SA)	Oct	180.0	--	142.0
11/06/2015	Unemployment Rate (SA)	Oct	5.10%	--	5.10%
	Housing market				
10/20/2015	Building Permits (000, SAAR)	Sep	1170	1103	1161
10/20/2015	Housing Starts (000, SAAR)	Sep	1142	1206	1132
10/26/2015	New Home Sales (000, SAAR)	Sep	549	468	529
10/22/2015	Existing Home Sales (million, SAAR)	Sep	5.39	5.55	5.30
10/19/2015	NAHB Housing Market Index (SA)	Oct	62	64	61
11/02/2015	Construction Spending (m-o-m, SA)	Sep	0.50%	--	0.70%
	Consumer & Manufacturing				
10/14/2015	Advance Retail Sales (m-o-m, SA)	Sep	0.20%	0.10%	0.00%
10/14/2015	Retail Sales Less Autos (m-o-m, SA)	Sep	-0.10%	-0.30%	-0.10%
10/27/2015	Consumer Confidence (SA)	Oct	102.9	97.6	102.6
10/30/2015	U. of Michigan Confidence	Oct F	92.5	90.0	92.1
10/29/2015	Personal Consumption (q-o-q, SAAR)	3Q A	3.30%	3.20%	3.60%
10/27/2015	Durable Goods Orders (m-o-m, SA)	Sep	-1.50%	-1.20%	-3.00%
11/03/2015	Factory Orders (m-o-m, SA)	Sep	-0.90%	--	-1.70%
	Trade				
10/09/2015	Import Price Index (m-o-m)	Sep	-0.50%	-0.10%	-1.60%
10/09/2015	Import Price Index (y-o-y)	Sep	-11.20%	-10.70%	-11.30%
11/04/2015	Trade Balance (billion, SA)	Sep	-41.0	--	-48.3
	Prices				
10/15/2015	Consumer Price Index (m-o-m, SA)	Sep	-0.20%	-0.20%	-0.10%
10/15/2015	Consumer Price Index (y-o-y)	Sep	-0.10%	0.00%	0.20%
10/15/2015	CPI Core Index (SA)	Sep	243.04	243.21	242.69
10/30/2015	PCE Deflator (y-o-y, SA)	Sep	0.20%	0.20%	0.30%
	Other Indicators				
11/02/2015	ISM Manufacturing Index (SA)	Oct	50.0	--	50.2
10/30/2015	Chicago Purchasing Manager Index	Oct	49.5	56.2	48.7
10/15/2015	Philadelphia Fed Index	Oct	-2.0	-4.5	-6.0
10/22/2015	Leading Indicators (m-o-m)	Sep	-0.10%	-0.20%	0.00%
10/14/2015	Business Inventories (m-o-m, SA)	Aug	0.10%	0.00%	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 2015

INCREASES				
Company	$ Change		Ex-Date	% Change
AltaGas (ALA)	Prior: $0.16	New: $0.165	October 22, 2015	3.1%
Genworth MI Canada (MIC)	Prior: $0.39	New: $0.42	November 11, 2015	7.7%

DECREASES				
Company	$ Change		Ex-Date	% Change
Westshore Terminals (WTE)	Prior: $0.33	New: $0.25	TBA	-24.2%
Western Energy Services (WRG)	Prior: $0.075	New: $0.05	December 29, 2015	-33.3%

Source: Bloomberg

Important Disclosures

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