



MONTH IN REVIEW

Portfolio Advisory Group

September 2015



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WHAT MOVED THE MARKETS

Market volatility intensified in September as fears of slower global growth resurfaced and weakness in commodities spilled into other sectors of the corporate bond market. Closing out the month, major equity indices trended lower as risk-off sentiment drove investors into the safety of government bonds. The much anticipated FOMC meeting revealed the Fed was placing greater emphasis on global economic and financial developments, which caused some to question whether financial stability was now a third mandate of the central bank. It now appears that the first rate increase from the US Federal Reserve may come in December. A broad sell-off in biotech stocks also hindered investor confidence as talks of potential price controls for the pharmaceutical industry developed.

In Canada, the Bank of Canada left its overnight target rate unchanged, but noted that there is “some spillover to the rest of the economy” from lower oil and commodity prices. The U.S. dollar continued to strengthen against the Canadian dollar hitting fresh highs while crude stabilized around \$45/barrel after hitting multi-year lows in August.

North American indices continued to decline in September, with the S&P/TSX posting a loss of 3.7% and the S&P 500 falling 2.5%. For the S&P/TSX, sector performance was mixed (5 of 10 sectors finished the month in negative territory), but a steep loss in Healthcare (-22%) alongside declines in Energy (-8.7%) and Materials (-9.6%) dragged the entire index down. 8 out of 10 sectors for the S&P 500 were in the red, with weakness in Materials (-7.4%) and Energy (-6.7%) more than offsetting the lone positive performers, Utilities (2.9%) and Consumer Staples (0.5%). Of note, Japan's Nikkei is now the only major global indices to remain in positive territory year-to-date, up 1.1% for the year despite losing 7.5% during the month.



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FIXED INCOME-SPECIFIC DEVELOPMENTS

With an overall balanced statement, the Bank of Canada kept its overnight target rate steady at 50bps as Governor Poloz predicted an economic rebound in the third quarter. The Canadian economy grew better than expected in July at 0.8% (Est. 0.7%). Data from earlier this month revealed that second quarter GDP declined by 0.5% (Est. -1.0%). Although this trend marks a “technical” recession (two consecutive quarters of negative growth), most economists expect this recession to be short-lived as earlier policy changes work through the economy. An uptick in exports combined with the resilience of full-time job additions support further recovery through the second half of the year. Furthermore, cheaper fuel and lower interest rates provided a boost to consumers and will serve as an additional tailwind. That said, the futures market is still pricing in a 15% probability of a rate cut before the end of the year. The benchmark Canada 10-year bond closed the month at 1.43%, 6 bps lower than last month’s closing yield of 1.49%.

In the U.S., second quarter GDP rose at 3.9% annualized, beating estimates of a 3.7% advance. The result, boosted by consumer spending and construction, is indicative of strong domestic growth in the face of an anticipated global slowdown. A strong labor market combined with cheaper fuel and higher home prices is likely to continue raising household purchases and help propel the U.S. economy. Despite a booming employment landscape, policymakers still grappled with weak inflation during the much anticipated FOMC meeting this month and left the overnight target rate unchanged at the 0-0.25% level. Global slowdown concerns remain a high priority as the Fed debates the timing of the next interest rate increase. The futures market is currently pricing a 16% probability of a rate hike at the Fed’s October meeting, down from 42% from the month before. The benchmark U.S. Treasury 10-year bond closed the month at 2.04%, 17 bps lower than last month’s closing yield of 2.21%.

NUMBER CRUNCHING

Equity Indices*	Month	YTD*
S&P/TSX Composite Index TR	-3.7%	-7.0%
Dow Jones Industrial Average TR	-1.4%	-7.0%
S&P 500 Index TR	-2.5%	-5.3%
NASDAQ Composite Index TR	-3.2%	-1.6%
MSCI EAFE TR (USD)	-5.0%	-4.9%
MSCI World TR (USD)	-4.4%	-5.6%

S&P/TSX Sector Performance*	Month	YTD*
S&P/TSX Financials TR	-0.1%	-3.3%
S&P/TSX Energy TR	-8.7%	-21.6%
S&P/TSX Materials TR	-9.6%	-23.9%
S&P/TSX Industrials TR	1.4%	-10.0%
S&P/TSX Consumer Discretionary TR	0.4%	3.9%
S&P/TSX Telecom Services TR	2.2%	5.3%
S&P/TSX Information Technology TR	-2.7%	4.7%
S&P/TSX Consumer Staples TR	2.8%	11.5%
S&P/TSX Utilities TR	0.7%	-2.2%
S&P/TSX Healthcare TR	-21.8%	33.7%

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

GLOBAL DEVELOPMENTS

Global markets remained under pressure as a number of countries around the globe were downgraded this month. Japan's rating dropped from AA- to A+ and Brazil was downgraded from BBB- to BB+ (both by S&P). France was downgraded one notch by Moody's to Aa2. Although these downgrades were largely expected, they led to increased volatility across global markets. This situation was further exacerbated by the declining ability of Emerging Market borrowers to service USD-denominated debt (which, in turn, is driven by the slowing of EM economies and the declining value of currencies versus the U.S. dollar). For many EM borrowers, the amount owed has increased 3- or 4-fold.

Euro area second quarter GDP data was revised upwards to 0.4% from an initial recording of 0.3%. Growth was driven primarily by a surge in exports and consumer spending. While the ECB predicted continued growth, albeit at a weaker pace, it highlighted softness in emerging markets as a potential headwind.

Keeping with the global narrative, economic data remained mixed for China. While retail sales were robust, industrial profits tumbled ~9% in August compared to a year ago, much worse than the previous month's contraction of 2.9%. Market participants continue to remain cautious on the repercussions of Chinese economic weakness on the global economy.

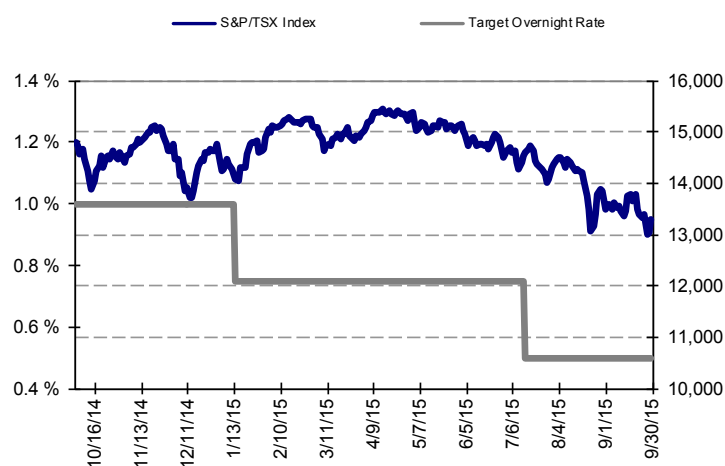
Currencies (in Canadian Dollars)	Exchange	Month	YTD*
US Dollar	1.3313	1.3%	14.6%
Euro	1.4880	1.0%	5.8%
British Pound	2.0140	-0.1%	11.3%
Japanese Yen	0.0111	2.4%	14.3%

Currencies (One Canadian Dollar)	Exchange	Month	YTD*
US Dollar	0.7512	-1.3%	-12.7%
Euro	0.6720	-1.0%	-5.5%
British Pound	0.4966	0.1%	-10.1%
Japanese Yen	90.0450	-2.4%	-12.6%

Commodities (US\$)	Spot Price	Month	YTD*
Crude Oil (WTI per barrel)	\$45.09	-8.4%	-15.4%
Natural Gas (per million btu)	\$2.52	-6.1%	-12.6%
Gold (per ounce)	\$1,115.07	-1.7%	-5.9%
Silver (per ounce)	\$14.52	-0.7%	-7.5%
Copper (per pound)	\$2.35	0.6%	-18.7%
Nickel (per pound)	\$4.70	3.3%	-31.2%
Aluminum (per pound)	\$0.71	-1.3%	-14.2%
Zinc (per pound)	\$0.77	-6.7%	-22.5%

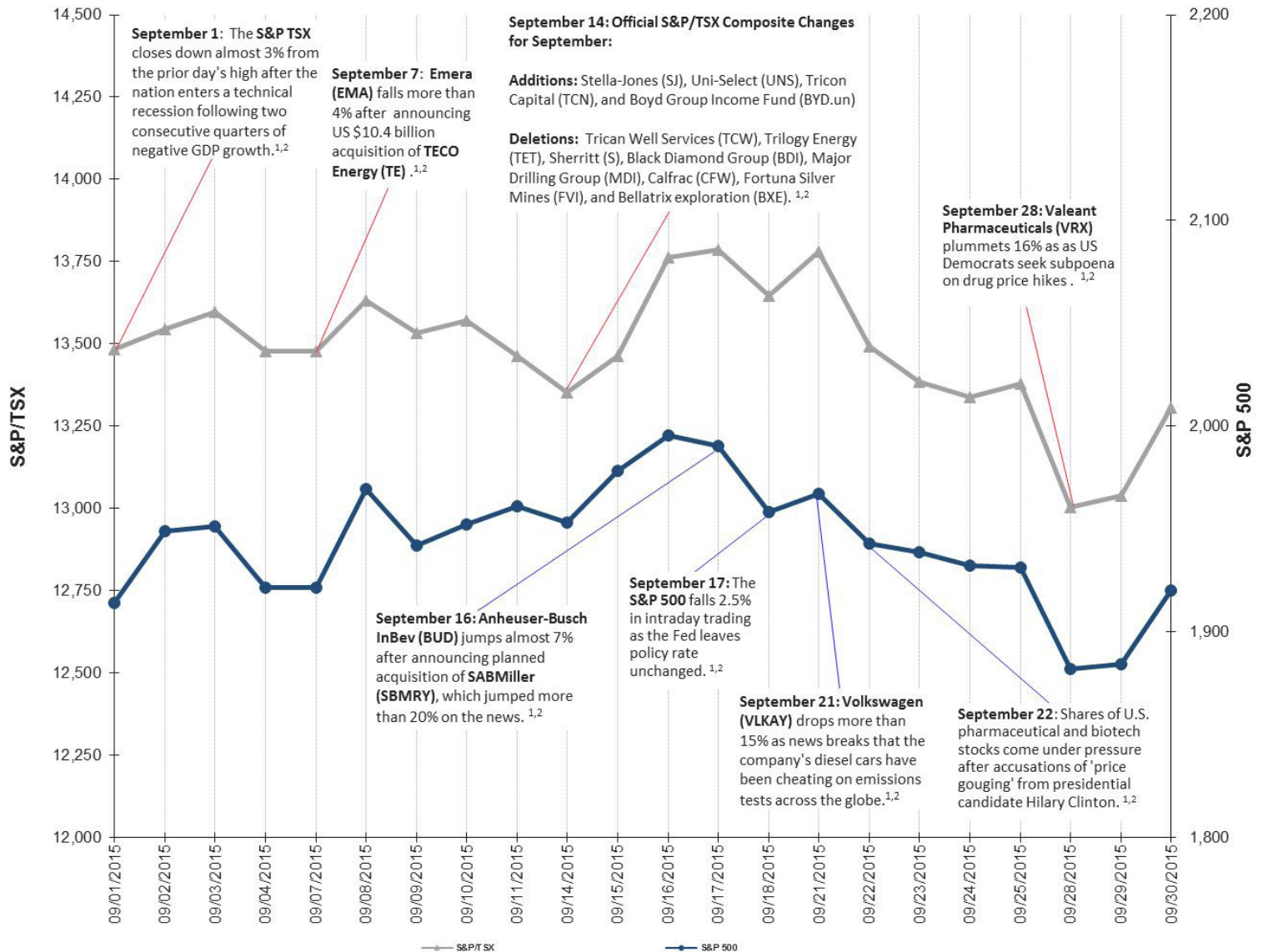
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S&P/TSX Index - Target Overnight Rate, LTM



Source - RBC Wealth Management, Bloomberg

NORTH AMERICAN EQUITY HIGHLIGHTS – SEPTEMBER 2015

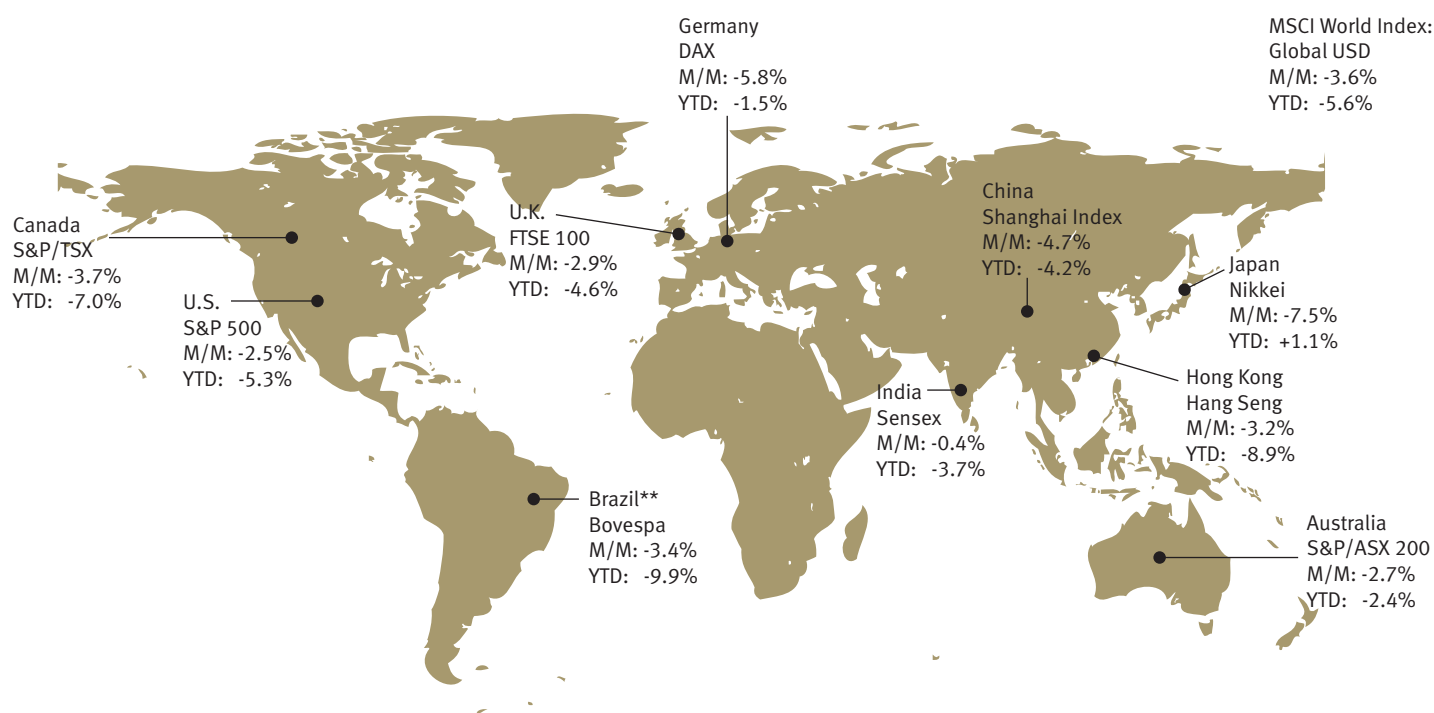


¹Bloomberg ²RBC Capital Markets Pricing Data
Source: Bloomberg

WORLD MARKETS

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

Following a similar path to August, all major global indices finished the month in negative territory. Japan was the clear laggard, down 7.5%, but, somewhat surprisingly, remains the only index in positive territory for the year (up 1.1%). Other Asian markets were also weak, with China's Shanghai Index down 4.7%, Hong Kong's Hang Seng down 3.2%, and India's Sensex down 0.4%. Australia's S&P/ASX 200 followed a similar path, down 2.7% for the month. North American markets were also weak, with Canada's S&P/TSX down 3.7% and U.S.'s S&P 500 down 2.5%. Further south, Brazil's Bovespa lost 3.4%. Europe did not escape the weakness, with the U.K.'s FTSE 100 down 2.9% and Germany's DAX down 5.8%. Overall, the MSCI World Index lost 3.6%, and is now down 5.6% for the year.

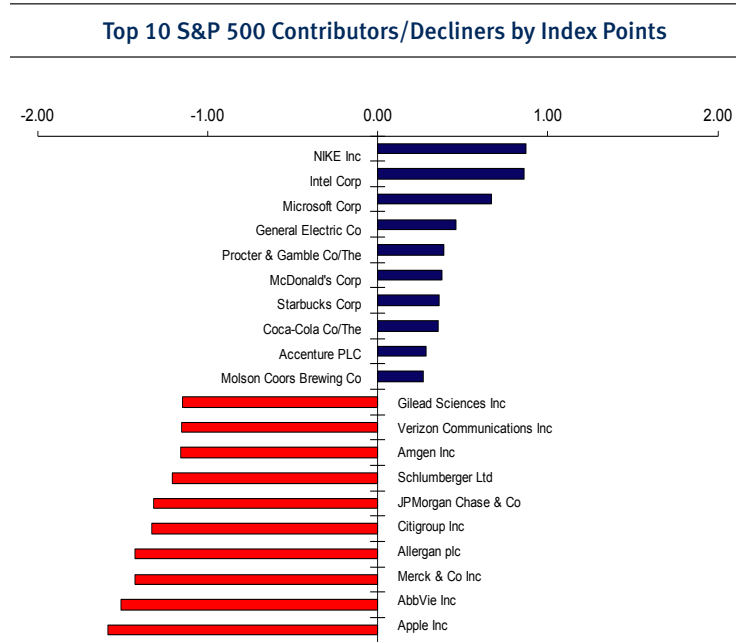
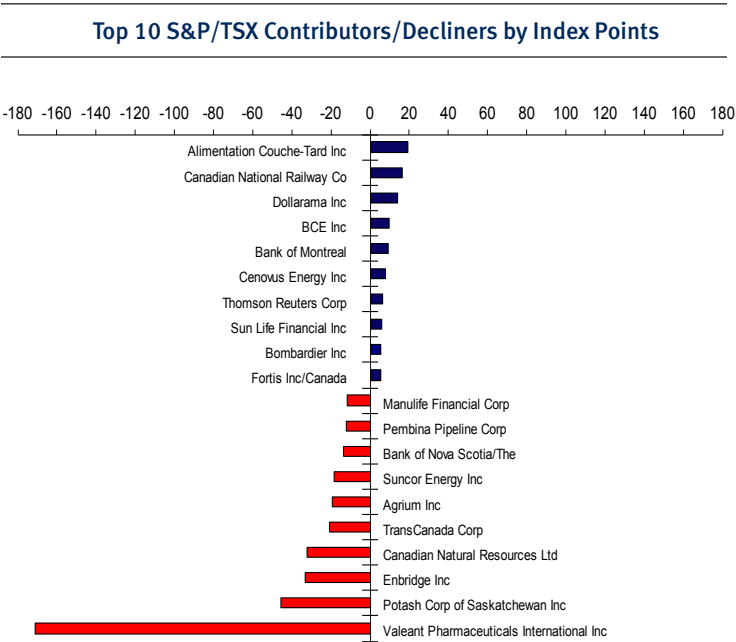
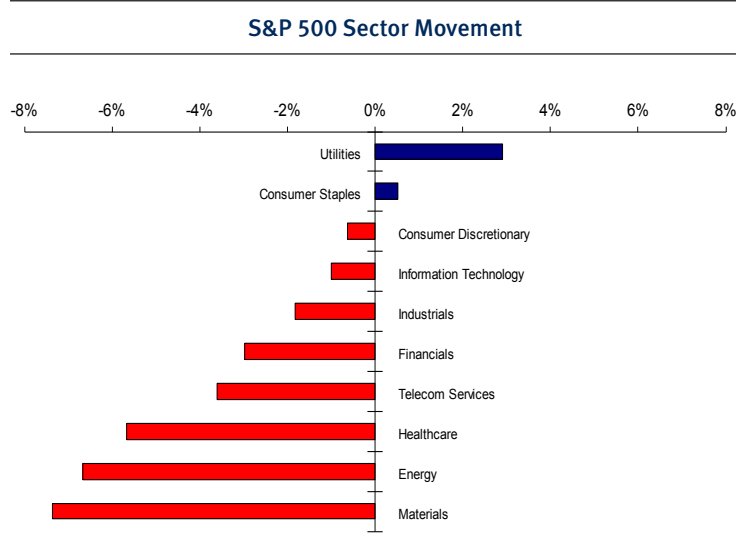
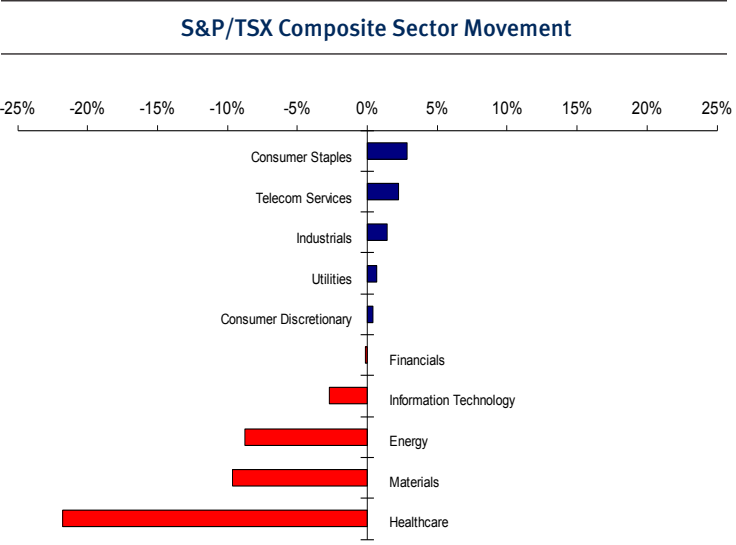


Source – Bloomberg, RBC Wealth Management, 9/30/15

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

** These indices are calculated on a price return basis

CANADIAN & U.S. EQUITIES – SEPTEMBER 2015



Source: Bloomberg

CANADIAN AND U.S. ECONOMIC DATA – SEPTEMBER 2015

Release Date	Economic Indicators: Canada	Period	Consensus	Actual	Prior
09/30/2015	Gross Domestic Product (m-o-m, SA)	Jul	0.20%	0.30%	0.40%
09/30/2015	Gross Domestic Product (y-o-y, SA)	Jul	0.70%	0.80%	0.50%
	Labour market				
09/04/2015	Net Change in Employment (000, SA)	Aug	-5.0	12.0	6.6
09/04/2015	Participation Rate (SA)	Aug	65.70%	65.90%	65.70%
09/04/2015	Unemployment Rate (SA)	Aug	6.80%	7.00%	6.80%
	Housing market				
09/09/2015	Housing Starts (000, SAAR)	Aug	191	216.9	193.3
09/10/2015	New Housing Price Index (y-o-y)	Jul	1.30%	1.30%	1.30%
09/15/2015	Existing Home Sales (m-o-m)	Aug	--	0.30%	-0.40%
09/14/2015	Teranet/National Bank HPI (m-o-m)	Aug	--	1.00%	1.20%
	Consumer & Manufacturing				
09/23/2015	Retail Sales (m-o-m, SA)	Jul	0.70%	0.50%	0.40%
09/23/2015	Retail Sales Less Autos (m-o-m, SA)	Jul	0.50%	0.00%	0.50%
09/16/2015	Manufacturing Sales (m-o-m, SA)	Jul	1.10%	1.70%	1.50%
	Trade				
10/06/2015	Merchandise Trade (billion, SA)	Aug	--	--	-0.59
	Prices				
09/18/2015	Consumer Price Index (m-o-m)	Aug	0.00%	0.00%	0.10%
09/18/2015	Consumer Price Index (y-o-y)	Aug	1.30%	1.30%	1.30%
09/18/2015	Bank of Canada CPI Core (m-o-m)	Aug	0.20%	0.20%	0.00%
09/18/2015	Bank of Canada CPI Core (y-o-y)	Aug	2.10%	2.10%	2.40%
09/29/2015	Industrial Product Price (m-o-m)	Aug	-0.50%	-0.30%	0.70%
09/29/2015	Raw Materials Price Index (m-o-m)	Aug	-7.50%	-6.60%	-6.00%
	Other Indicators				
09/21/2015	Wholesale Sales (m-o-m, SA)	Jul	0.80%	0.00%	1.30%
10/06/2015	Ivey Purchasing Managers Index (SA)	Sep	--	--	58
10/07/2015	Building Permits (m-o-m, SA)	Aug	--	--	-1%

Release Date	Economic Indicators: U.S.	Period	Consensus	Actual	Prior
09/25/2015	GDP (q-o-q, SAAR)	2Q T	3.70%	3.90%	3.70%
09/25/2015	GDP Price Index (q-o-q, SAAR)	2Q T	2.10%	2.10%	2.10%
09/25/2015	Core PCE (q-o-q, SAAR)	2Q T	1.80%	1.90%	1.80%
	Labour market				
10/02/2015	Change in Nonfarm Payrolls (000, SA)	Sep	200.0	--	173.0
10/02/2015	Unemployment Rate (SA)	Sep	5.10%	--	5.10%
	Housing market				
09/17/2015	Building Permits (000, SAAR)	Aug	1159	1170	1130
09/17/2015	Housing Starts (000, SAAR)	Aug	1160	1126	1161
09/24/2015	New Home Sales (000, SAAR)	Aug	515	552	522
09/21/2015	Existing Home Sales (million, SAAR)	Aug	5.50	5.31	5.58
09/16/2015	NAHB Housing Market Index (SA)	Sep	61	62	61
10/01/2015	Construction Spending (m-o-m, SA)	Aug	0.50%	--	0.70%
	Consumer & Manufacturing				
09/15/2015	Advance Retail Sales (m-o-m, SA)	Aug	0.30%	0.20%	0.70%
09/15/2015	Retail Sales Less Autos (m-o-m, SA)	Aug	0.20%	0.10%	0.60%
09/29/2015	Consumer Confidence (SA)	Sep	96.8	103.0	101.3
09/25/2015	U. of Michigan Confidence	Sep F	86.5	87.2	85.7
09/25/2015	Personal Consumption (q-o-q, SAAR)	2Q T	3.20%	3.60%	3.10%
09/24/2015	Durable Goods Orders (m-o-m, SA)	Aug	-2.30%	-2.00%	1.90%
10/02/2015	Factory Orders (m-o-m, SA)	Aug	-1.20%	--	0.40%
	Trade				
09/10/2015	Import Price Index (m-o-m)	Aug	-1.60%	-1.80%	-0.90%
09/10/2015	Import Price Index (y-o-y)	Aug	-11.10%	-11.40%	-10.50%
10/06/2015	Trade Balance (billion, SA)	Aug	-42.0	--	-41.9
	Prices				
09/16/2015	Consumer Price Index (m-o-m, SA)	Aug	-0.10%	-0.10%	0.10%
09/16/2015	Consumer Price Index (y-o-y)	Aug	0.20%	0.20%	0.20%
09/16/2015	CPI Core Index (SA)	Aug	242.81	242.69	242.51
09/28/2015	PCE Deflator (y-o-y, SA)	Aug	0.30%	0.30%	0.30%
	Other Indicators				
10/01/2015	ISM Manufacturing Index (SA)	Sep	50.6	--	51.1
09/30/2015	Chicago Purchasing Manager Index	Sep	53.0	48.7	54.4
09/17/2015	Philadelphia Fed Index	Sep	5.9	-6.0	8.3
09/18/2015	Leading Indicators (m-o-m)	Aug	0.20%	0.10%	0.00%
09/15/2015	Business Inventories (m-o-m, SA)	Jul	0.10%	0.10%	0.70%

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 – SEPTEMBER 2015

INCREASES			
Company	\$ Change		Ex-Date
North West Co (NWC)	Prior: \$0.29	New: \$0.31	September 28, 2015
DHX Media (DHX/B)	Prior: \$0.14	New: \$0.15	October 6, 2015
Fortis Inc. (FTS)	Prior: \$0.34	New: \$0.375	November 16, 2015
DECREASES			
Company	\$ Change		Ex-Date
Pengrowth Energy Corp (PGF)	Prior: \$0.02	New: \$0.01	TBA
PHX Energy Services (PHX)	Prior: \$0.0175	New: \$0.0033	September 28, 2015
Freehold Royalties (FRU)	Prior: \$0.09	New: \$0.07	September 28, 2015
Calfrac Well Services (CFW)	Prior: \$0.0625	New: \$0.015625	October 1, 2015
Canyon Services Group (FRC)	Prior: \$0.075	New: \$0.03	October 7, 2015
Sherritt International (S)	Prior: \$0.01	New: \$0.00	--
Penn West Petroleum (PWT)	Prior: \$0.01	New: \$0.00	--

Source: Bloomberg

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