



What moved the markets

Central bank policy and the North American Free Trade Agreement dominated the headlines in October. The Bank of Canada kept its overnight interest rate unchanged at 1%, the central bank's more cautious messaging and softening economic data helped push bond yields and the Canadian dollar lower.

South of the border, the Federal Reserve was in focus as economists parsed the minutes from the September FOMC meeting and speculation surrounded who President Donald Trump would nominate to succeed Chair Janet Yellen. Elsewhere, the European Central Bank announced their decision to extend their asset purchase program in a soft taper, Catalonia declared its independence from Spain and both the Japanese Prime Minister Shinzo Abe and Chinese President Xi Jinping secured their next term in power.

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Equity market update

Equity markets were positive in North America, with the S&P/TSX Composite outperforming the S&P 500 by 0.4%. The S&P/TSX moved up 2.7%, largely driven by the 4.6% gain in the Financials sector.

In the U.S., the S&P 500 closed up 2.3%, with most sectors ending the month in positive territory. The Information Technology sector led the U.S. markets with a strong 7.8% rally followed by Utilities up 3.9%. The Telecom Services sector dragged the index down losing -7.6%.

All indices and figures priced in local currency as at October 31, 2017 (unless otherwise stated). For important disclosures, see page 10.

Fixed income-specific developments

Canadian bond yields and the Canadian dollar moved lower after the Bank of Canada (BoC) kept its overnight lending rate unchanged at 1% and delivered a message that was more cautious than recent communiqués. The BoC reiterated their ‘data dependent’ stance and noted that economic growth is expected ‘to moderate to a more sustainable pace in the second half of 2017 and remain close to potential over the next two years’. In the Monetary Policy Report, the BoC projects inflation will reach the mid-point of its 1-3% target in the second half of 2018 and increased their forecast for consumption growth to 2.1% in 2017, but left the 2018 and 2019 forecasts unchanged at 1.3% and 1.0% respectively. The BoC also reiterated that it will be closely watching how higher interest rates impact borrowers given the high level of household debt. Softer economic data in October likely influenced the BoC’s more balanced message as the CPI, retail sales and GDP reports all fell short of expectations. The GDP report showed that the growth receded for the first time in ten months, posting a 0.1% decline in August.

While the BoC held off raising rates, tighter policy will be applied to one segment of the residential mortgage market as the Office of the Superintendent of Financial Institutions finalized a series of measures that will impact uninsured mortgage underwriting. The new regulation will more closely align uninsured mortgage underwriting standards with those applied to insured mortgages and the most notable change is that uninsured borrowers will need to qualify for the loan at the higher of the contractual mortgage rates plus 2% or the 5-year benchmark rate published by the Bank of Canada. Mortgages taken out prior to January 1, 2018 or existing mortgages that are rolled over at the same institution are exempt from the rule but existing mortgages refinanced at a different institution will be subject to the new treatment.

On a more expansionary note, the Federal Government issued its fall economic statement in tune with the stronger GDP growth experienced this year. This, combined with a better starting point from the 2016/17 fiscal year, meant the government was able to improve their budgetary outlook. This gave them a \$46.6 billion fiscal dividend for their 5-year outlook horizon which they used to reduce the deficit by \$8.6 billion this year and by \$33 billion cumulatively over the next five years. Those calling for the government to use the full fiscal dividend to reduce budget deficits over the next five years were disappointed as statements showed that Ottawa does not plan for a return to balance by fiscal year 2023, when a \$12.5 billion deficit is expected.

On NAFTA, the fourth round of talks were held in Washington where Prime Minister Justin Trudeau and President Enrique Peña Nieto both rejected a proposed

Number crunching

Equity indices*	Month	YTD*
S&P/TSX Composite Index TR	2.7%	7.3%
Dow Jones Industrial Average TR	4.4%	20.6%
S&P 500 Index TR	2.3%	16.9%
NASDAQ Composite Index TR	3.6%	26.1%
MSCI EAFE TR (USD)	1.5%	22.3%
MSCI World TR (USD)	1.9%	18.8%

S&P/TSX sector performance*	Month	YTD*
S&P/TSX Financials TR	4.6%	12.1%
S&P/TSX Energy TR	-0.3%	-7.9%
S&P/TSX Materials TR	1.6%	4.2%
S&P/TSX Industrials TR	3.4%	18.6%
S&P/TSX Consumer Discretionary TR	3.3%	21.3%
S&P/TSX Telecom Services TR	3.0%	13.3%
S&P/TSX Information Technology TR	2.8%	16.1%
S&P/TSX Consumer Staples TR	2.3%	3.8%
S&P/TSX Utilities TR	3.3%	11.5%
S&P/TSX Healthcare TR	-0.2%	-8.7%

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

‘sunset clause’ as well as a proposal to replace the single trilateral accord with three bilateral agreements. The next round of NAFTA negotiations will be held in Mexico City on November 17th.

In contrast to Canada, where bond yields fell 10-15 bps in October, US yields moved higher with the largest moves coming in shorter-dated maturities. The minutes from the FOMC meeting showed that labor market tightness is top of mind for policymakers. The FOMC believes this supports the case for future rate hikes even as there is acknowledgement that structural factors are acting to suppress inflation below historic levels. The minutes stated that employment additions over the summer ‘remained well above the pace likely to be sustainable in the longer-run,’ and that alternate measures of labor market strength like the quits rate, household assessment of job availability, and individuals working part time for economic reasons, have all returned to pre-recession levels. Of important note was that policy makers do not want to fall into a situation where the current low inflation is in fact transitory and they fall behind the curve, which hints that they will be very data dependent and inflation will be a key input. Consistent with a tight labor market, US economic growth topped expectations third quarter GDP growth came in at 3.0% (annualized) versus the 2.6% estimate and inflation exceeded 2% for the first time since the spring.

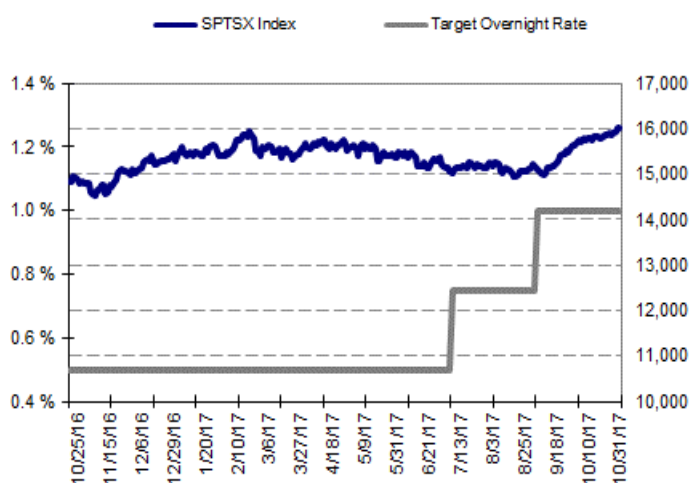
Currencies (in Canadian dollars)	Exchange	Month	YTD*
U.S. Dollar	1.2888	3.3%	-4.1%
Euro	1.5009	1.9%	6.2%
British Pound	1.7119	2.4%	3.3%
Japanese Yen	0.0113	2.3%	-1.3%

Currencies (one Canadian dollar)	Exchange	Month	YTD*
U.S. Dollar	0.7758	-3.3%	4.3%
Euro	0.6662	-1.9%	-5.8%
British Pound	0.5841	-2.4%	-3.1%
Japanese Yen	88.1690	-2.3%	1.3%

Commodities (US\$)	Spot price	Month	YTD*
Crude Oil (WTI per barrel)	\$54.38	5.2%	1.2%
Natural Gas (per million btu)	\$2.90	-3.7%	-22.2%
Gold (per ounce)	\$1,271.07	-0.7%	10.3%
Silver (per ounce)	\$16.72	0.4%	5.0%
Copper (per pound)	\$3.09	6.0%	23.4%
Nickel (per pound)	\$5.56	17.7%	23.0%
Aluminum (per pound)	\$0.97	3.0%	25.7%
Zinc (per pound)	\$1.48	3.3%	26.7%

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



Source: RBC Wealth Management, Bloomberg

Global developments

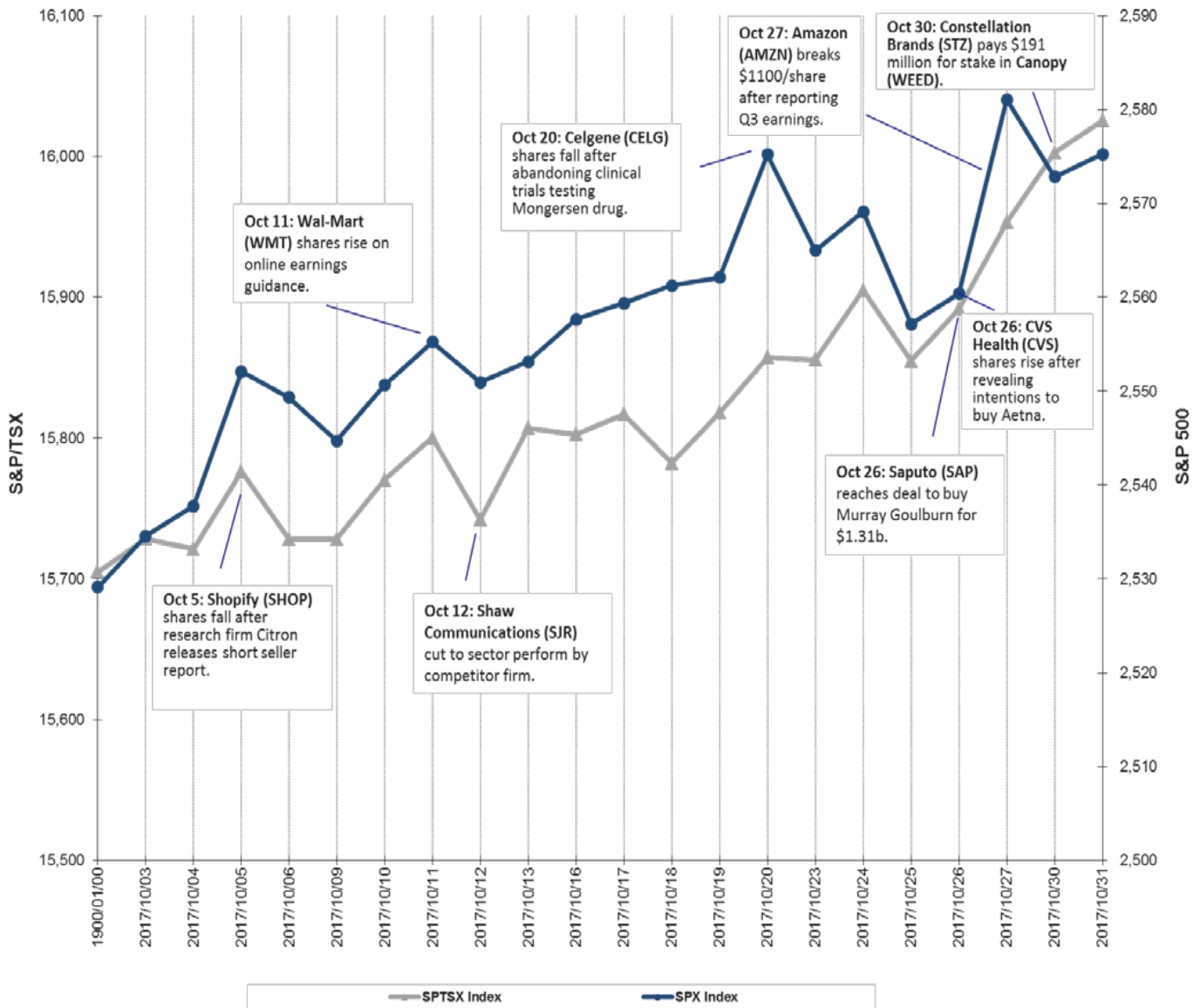
Elsewhere, the European Central Bank (ECB) announced their decision to extend QE purchases by 9 months through September 2018, reducing the monthly purchases to €30 billion per month from the current €60 billion. No indication was made as to a possible change in the composition of purchases going forward and President Mario Draghi stopped short of setting a hard deadline for the end of QE. This keeps the door open for a possible extension of the asset purchase program past the next 12 months. ECB's Governing Council still expects interest rates to remain at their current levels 'well past' the end of purchases.

On the political front, the Catalan Parliament declared independence from Spain's central rule. The Spanish Senate responded by invoking Article 155 which Prime Minister Mariano Rajoy used to dismiss the regional government and called for a Catalan election on December 21st. There was much debate on whether the October 1st referendum for independence was representative of the majority of Catalonians as the vote was counted with 90% in favor while the participation rate was in the low 40%.

In Asia, Japanese Prime Minister Shinzo Abe's ruling coalition won 313 seats of the 465-member lower house in the election, retaining a "supermajority" and leaving the balance of power between ruling and opposition parties in the lower chamber largely unchanged from before the snap election. In China, President Xi Jinping secured a five year term extension at the nation's twice-a-decade Communist Party Congress which he opened with a marathon three-hour-plus speech that laid out a bold vision for turning China into a global leading power by 2050 and a push forward with market-oriented reforms and further opening up market access for foreign companies.

North American equity highlights

October 2017

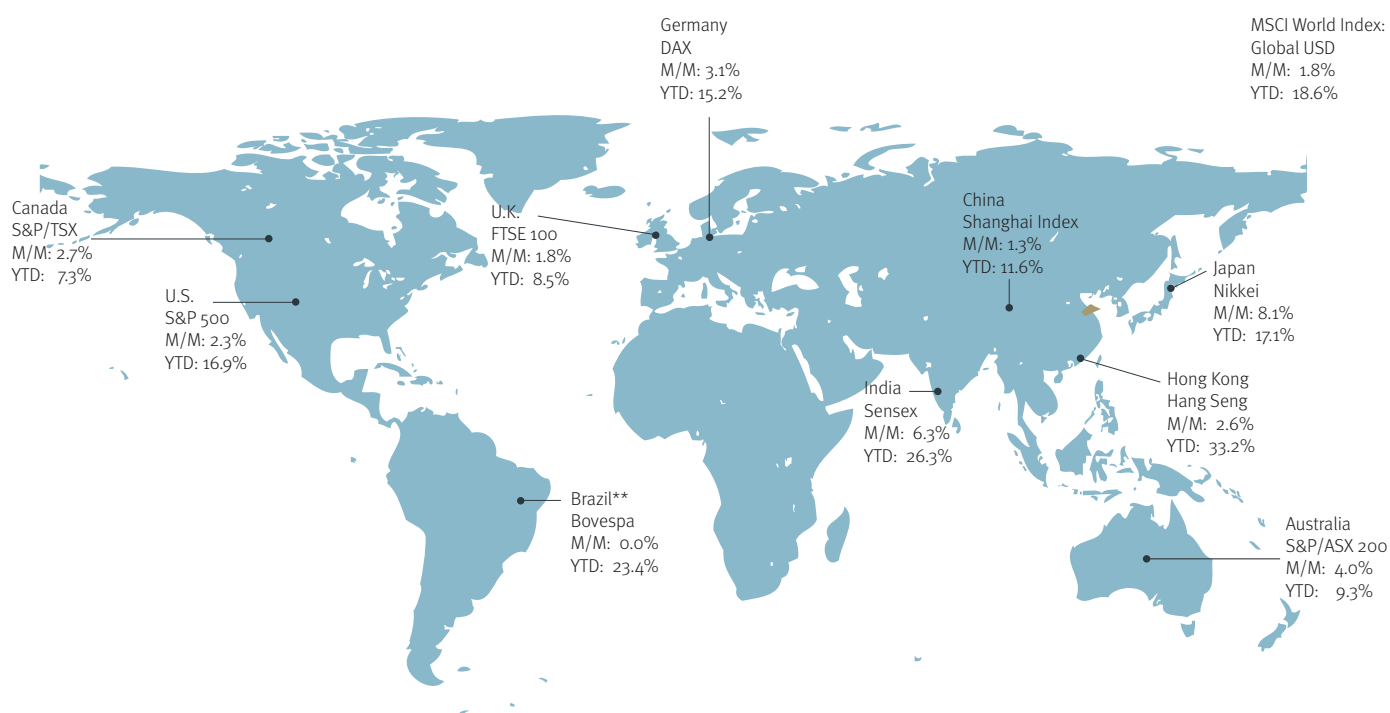


Source: Bloomberg

World markets

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

October was very strong for global indices with all markets closing in positive territory. In the Americas, the S&P 500 and S&P/TSX rose by 2.3% and 2.7%, respectively while the Brazil Bovespa held flat. In Europe, Germany's DAX moved 3.1% higher and the U.K.'s FTSE moved higher by 1.8%. In Asia, China's Shanghai Index and Hong Kong's Hang Seng closed the month up 1.3% and 2.6% respectively, while India's Sensex moved up 6.3%. Japan's Nikkei moved higher by 8.1% and Australia's S&P/ASX 200 rose by 4.0%. Overall, the MSCI World Index has increased by 18.6% YTD.



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

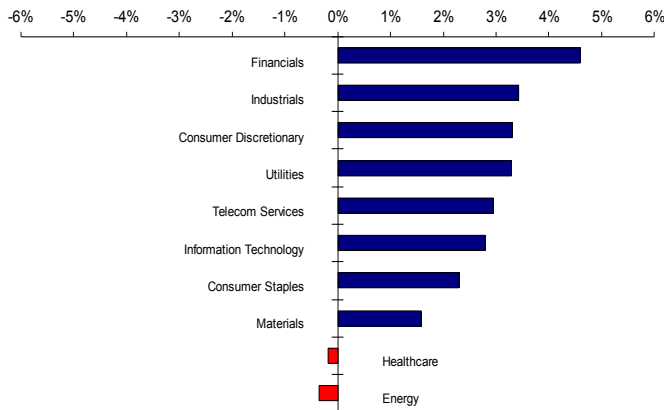
** These indices are calculated on a price return basis

Source: Bloomberg, RBC Wealth Management, 10/31/17

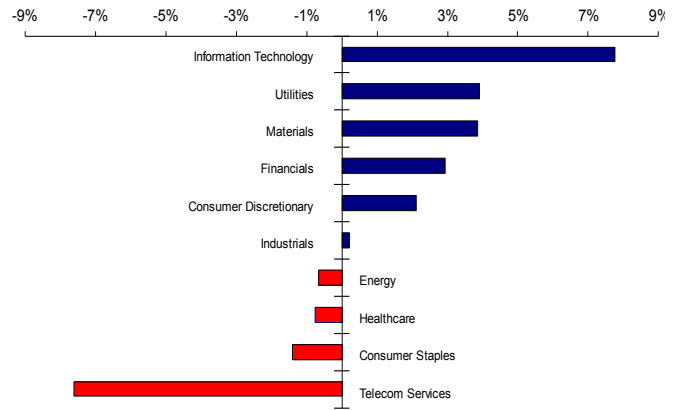
Canadian & U.S. equities

October 2017

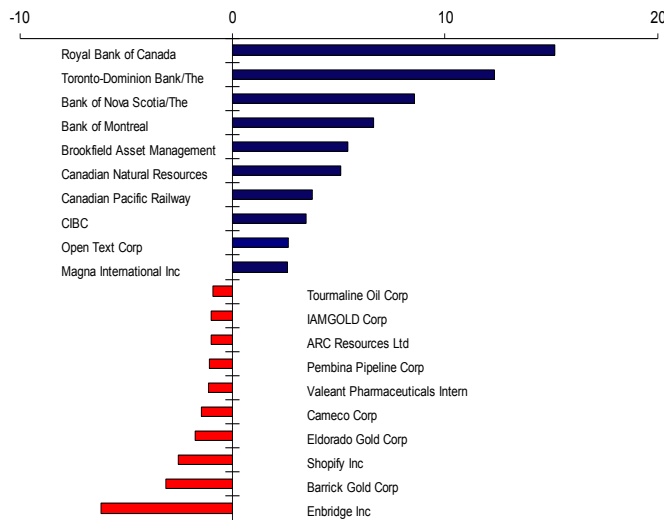
S&P/TSX composite sector movement



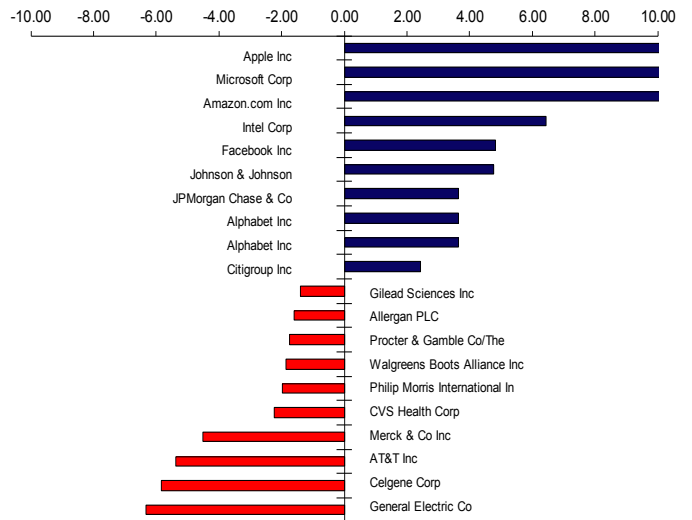
S&P 500 sector movement



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 2017

Release Date	Economic Indicators: Canada	Period	Consensus	Actual	Prior
10/31/2017	Gross Domestic Product (m-o-m, SA)	Aug	0.10%	-0.10%	0.00%
10/31/2017	Gross Domestic Product (y-o-y, SA)	Aug	3.60%	3.50%	3.90%
Labour market					
10/06/2017	Net Change in Employment (ooo, SA)	Sep	12.0k	10.0k	22.2k
10/06/2017	Participation Rate (SA)	Sep	--	65.60%	65.70%
10/06/2017	Unemployment Rate (SA)	Sep	6.20%	6.20%	6.20%
Housing market					
10/10/2017	Housing Starts (ooo, SAAR)	Sep	212.0k	217.1k	226.0k
10/12/2017	New Housing Price Index (y-o-y)	Aug	--	3.80%	3.80%
10/13/2017	Existing Home Sales (m-o-m)	Sep	--	2.10%	1.30%
10/12/2017	Teranet/National Bank HPI (m-o-m)	Sep	--	-0.80%	0.60%
Consumer & manufacturing					
10/20/2017	Retail Sales (m-o-m, SA)	Aug	0.50%	-0.30%	0.40%
10/20/2017	Retail Sales Less Autos (m-o-m, SA)	Aug	0.30%	-0.70%	0.20%
10/18/2017	Manufacturing Sales (m-o-m, SA)	Aug	-0.30%	1.60%	-2.60%
Trade					
10/05/2017	Merchandise Trade (billion, SA)	Aug	-2.60b	-3.41b	-2.98b
Prices					
10/20/2017	Consumer Price Index (m-o-m)	Sep	0.30%	0.20%	0.10%
10/20/2017	Consumer Price Index (y-o-y)	Sep	1.70%	1.60%	1.40%
10/31/2017	Industrial Product Price (m-o-m)	Sep	0.20%	-0.30%	0.40%
10/31/2017	Raw Materials Price Index (m-o-m)	Sep	0.30%	-0.10%	0.90%
Other indicators					
10/23/2017	Wholesale Sales (m-o-m, SA)	Aug	0.50%	0.50%	1.70%
10/06/2017	Ivey Purchasing Managers Index (SA)	Sep	56.0	59.6	56.3
10/10/2017	Building Permits (m-o-m, SA)	Aug	-1%	-6%	-3%

Release date	Economic indicators: U.S.	Period	Consensus	Actual	Prior
10/27/2017	GDP (q-o-q, SAAR)	3Q A	2.60%	3.00%	3.10%
10/27/2017	GDP Price Index (q-o-q, SAAR)	3Q A	1.70%	2.20%	1.00%
10/27/2017	Core PCE (q-o-q, SAAR)	3Q A	1.30%	1.30%	0.90%
Labour market					
10/06/2017	Change in Nonfarm Payrolls (ooo, SA)	Sep	80k	-33k	169k
10/06/2017	Unemployment Rate (SA)	Sep	4.40%	4.20%	4.40%
Housing market					
10/18/2017	Building Permits (ooo, SAAR)	Sep	1245k	1215k	1272k
10/18/2017	Housing Starts (ooo, SAAR)	Sep	1175k	1127k	1183k
10/25/2017	New Home Sales (ooo, SAAR)	Sep	554k	667k	561k
10/20/2017	Existing Home Sales (million, SAAR)	Sep	5.30m	5.39m	5.35m
10/17/2017	NAHB Housing Market Index (SA)	Oct	64	68	64
10/02/2017	Construction Spending (m-o-m, SA)	Aug	0.40%	0.50%	-0.90%
Consumer & manufacturing					
10/13/2017	Advance Retail Sales (m-o-m, SA)	Sep	1.70%	1.60%	-0.10%
10/13/2017	Retail Sales Less Autos (m-o-m, SA)	Sep	0.90%	1.00%	0.50%
10/31/2017	Consumer Confidence (SA)	Oct	121.5	125.9	120.6
10/27/2017	U. of Michigan Confidence	Oct F	100.7	100.7	101.1
10/27/2017	Personal Consumption (q-o-q, SAAR)	3Q A	2.10%	2.40%	3.30%
10/25/2017	Durable Goods Orders (m-o-m, SA)	Sep P	1.00%	2.20%	2.00%
10/05/2017	Factory Orders (m-o-m, SA)	Aug	1.00%	1.20%	-3.30%
Trade					
10/17/2017	Import Price Index (m-o-m)	Sep	0.60%	0.70%	0.60%
10/17/2017	Import Price Index (y-o-y)	Sep	2.60%	2.70%	2.10%
10/05/2017	Trade Balance (billion, SA)	Aug	-\$42.7b	-\$42.4b	-\$43.6b
Prices					
10/13/2017	Consumer Price Index (m-o-m, SA)	Sep	0.60%	0.50%	0.40%
10/13/2017	Consumer Price Index (y-o-y)	Sep	2.30%	2.20%	1.90%
10/13/2017	CPI Core Index (SA)	Sep	253.06	252.86	252.54
10/30/2017	PCE Deflator (y-o-y, SA)	Sep	1.60%	1.60%	1.40%
Other Indicators					
10/02/2017	ISM Manufacturing Index (SA)	Sep	58.1	60.8	58.8
10/31/2017	Chicago Purchasing Manager Index	Oct	60.0	66.2	65.2
10/19/2017	Philadelphia Fed Index	Oct	22.0	27.9	23.8
10/19/2017	Leading Indicators (m-o-m)	Sep	0.10%	-0.20%	0.40%
10/13/2017	Business Inventories (m-o-m, SA)	Aug	0.70%	0.70%	0.30%

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 2017

Increases				
Company	\$ Change		Ex-Date	% Change
Pembina Pipeline Corp	Prior: \$0.1700	New: \$0.1800	October 24, 2017	5.88%
AltaGas Ltd	Prior: \$0.1750	New: \$0.1825	November 24, 2017	4.29%
Waste Connections Inc.	Prior: \$0.1200	New: \$0.1400	November 24, 2017	16.67%
SmartCentres Real Estate Investment Trust	Prior: \$0.1417	New: \$0.1458	October 30, 2017	2.94%

Source: Bloomberg

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			Count	Percent
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