



## KARIM VISRAM Private Wealth Management Group

### OCTOBER INVESTMENT COMMENTARY

October was the month for inconsistency. The U.S. economy recorded gains in employment and worker wages, yet the stock market took a hit. Canadian unemployment is at its lowest in 40 years, but diminishing worker wages and labor force numbers sent signals indicating a sluggish economy.

Coming off of an unusually strong September stock market, October proved to be a disappointment. After a tumultuous month, the S&P 500 and NASDAQ had dropped almost 9% and the Dow almost 5% by the end of October. Overseas markets felt the impact as well, dropping between 9-10% for the month. Major technology stocks, including Facebook, Netflix, Apple, Amazon, Google and Microsoft, were down 12%. Yet these stocks still reflected an annual gain for the year of 20%, even after October's dismal performance. The drop in October has been attributed to investor concerns about trade wars, rising interest rates and a slowing down of growth.

Tariffs are still on everyone's mind. As you may recall, the U.S. imposed a 10% tariff on Chinese goods valued at \$200 billion and China soon countered with its own tariffs on U.S. goods valued at \$60 billion. With the U.S. trade tariffs scheduled to increase to 25% by the end of the year, October has seen the start of discussions between the two sides. While Trump appears optimistic, only time will tell if the two superpowers can iron out their differences.

On a related note, China's currency is continuing its decline. In October, the Chinese renminbi fell to almost 7, meaning \$1 USD is equivalent to 7 renminbi. Currency declines boost the export market as it essentially drops the prices of goods being sold, making them more attractive for import. While there has been continuing debate as to the source of the decline, a drop to 7 in the currency would lessen the impact of the U.S.-imposed tariffs. Although China appears to be taking steps to bolster its currency, the drop is eerily similar to China's quick devaluation of its currency three years ago in an effort to boost its slowing economy. The result of that devaluation sent the world's financial markets into a tailspin. All eyes will be watching this.

Conversely, the U.S. dollar fared well during the month of October, with the U.S. Dollar Index logging a gain of 2.1% for the month. The Canadian dollar continued its downward trek, ending at a seven-week low by the end of October.

After finishing strong in September, oil prices began to fall in October with Brent crude (the international benchmark for oil prices) dropping almost \$11 or 9% during the month and U.S. West Texas Intermediate crude (WTI) seeing a similar drop of 10.8%. The Western Canadian Select (WCS) prices dramatically dropped in October, falling from \$40.37 at the end of September to \$21 by the end of October. The WCS is expected to see continued volatility in its pricing until the major pipelines projects are completed in late 2019. The drop in oil prices is partially due to the impending sanctions on Iran that will go into effect in November, as well as investor concern over rising interest rates and a slowing global economy.

Even with the lackluster performance of the stock market, tariff uncertainty and an overall weakening economy across the globe, the U.S. economy continued to show signs of growth. Last week, it was announced that the U.S. economy grew 3.5% in the third quarter. Hiring in October exceeded expectations as over 250,000 jobs were added and wage gains reached 3% over the prior month, keeping the unemployment rate remained at 3.7%.

The Canadian economy sent mixed signals. Canada's unemployment rate continued to drop in October, reaching a 40-year low of 5.8%. However, with slower wage gains and a diminishing labor force, the drop was less than stellar. Exports and imports were down in October as well. Given these conditions, the expected bump in the interest rates may not happen this year.

Investor uncertainty around interest rate hikes, trade tariffs and Iranian sanctions, as well as fluctuating currency rates appear to have slowed the global economy for the month of October. Volatile stock and crude prices deterred investors during the month of October, ultimately impacting the overall market.

It's been a month since the U.S.-Mexico-Canada Agreement (USMCA) was reached. While not much has happened with respect to its passage, much has been said about its potential impact. Dairy farmers and automakers, from both Canada and the U.S., have expressed their disapproval. On the other hand, e-Commerce and intellectual property holders may come out on the winning end. We'll expect to see more when the formal ratification process for the U.S., Mexico, and Canada is under way. In other news, Hurricane Michael took aim at the Southeast U.S. as the fourth most powerful storm in recorded history. With a death toll of 36 and an estimated cost of \$4.5 billion, the hurricane devastated the areas in its direct path. The migrant caravan that left Honduras in October on its trek to the states is still enroute and expected to arrive sometime in November.

Canada became the first major country to legalize recreational marijuana on October 17. There is no shortage of opinions from supporters or critics. What remains to be seen is how legalization will impact the economy, society and business.

With mid-term elections, a possible resolution to trade tariffs between the U.S. and China, U.S. sanctions on Iran going into effect, Canadian housing stats released, and the Federal Reserve releasing its decision on changing interest rates, November should be prove to be far more interesting, to say the least.

I hope you found this monthly commentary informative. We still remain constructive on the equity markets over fixed income, and this is reflected in our portfolios. Please feel free to contact me or any member of my team at 416-956-8888 or via email at [Teamkarim@rbc.com](mailto:Teamkarim@rbc.com) if you have any questions.

Thanks,

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