

Davidson Professional Wealth Management

of RBC Dominion Securities

Your Money, Well Managed



Fall Market Commentary

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Market Recap

The past quarter was a predominantly a positive experience during what has traditionally been a challenging season for investors. Despite the myriad of uncertainties from Brexit to the US election the equity markets proved resilient, continuing the strength from earlier this year.

The referendum held in Britain on their EU membership was perhaps the biggest event of the summer and culminated with a vote for Britain to leave the European Union. This was a surprise to many and has led to significant devaluation of the British pound as well as significant uncertainty as to the timing and terms of the "Brexit" process. There is much debate that continues as to what the long term effects will be for both Britain and the EU.

The other ongoing uncertainty driving investors concerns is the outcome of the US election. This is one of the most polarizing campaigns in recent memory as both candidates are disliked by significant proportions of the electorate. As a result the campaign has been rife with personal attacks. The race remains close and this will likely keep markets in check until election day.

We are well positioned for the current market volatility and continue to focus on good quality companies that have a strong commitment to shareholders. As such we continue to favour dividend paying and growing equities and tactical management of cash levels.

Clients within our Private Investment Management program (PIM) and Third Party Pension Management program should receive their quarterly update and personalized portfolio reports within the next few days.

Canadian GDP- Sluggish growth...barely

- The Canadian economy continues to hobble along as low energy prices continue to take their toll on growth in western Canada
- Year over year GDP at a paltry 1% has grown well below potential for the past year
- The most recent quarter showed a contraction in GDP, highlighting the continued risks to the Canadian economy
- One area of the economy that remains strong is the housing market, although the cracks are beginning to widen so investors should take note



Source: Econoday

US Housing Market- Enter the Millennials

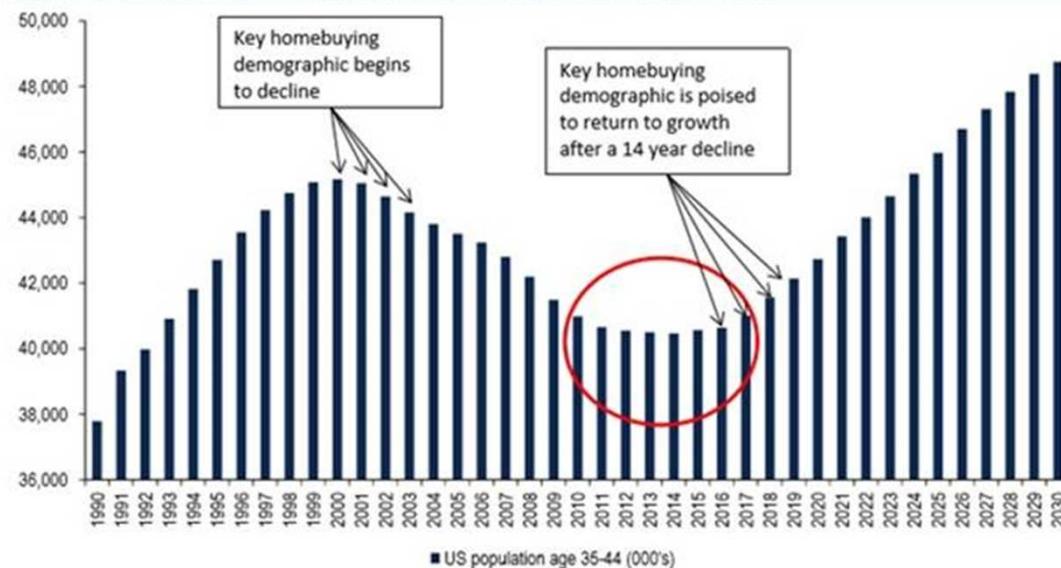
- The US housing market is a big driver of the US economy, contributing to jobs as well as a wealth effect

- The past 14 years has coincided with a declining key age demographic for US home buyers, age 35-44, this is about to make a turn as the chart to the right illustrates

- Millennials, the generational cohort born in the late '70's through early '90s, are finally ready to begin their foray into home ownership.

- As a result there should be increased demand for homes and all the goods that are required to fill them.

Chart 54: U.S. Population age 35-44 is a key home buying demographic that is set to grow over the next decade



Source: BofA Merrill Lynch Global Research, Euromonitor

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US Equity Market- Consolidation before Advance?

- One of the main contributors to the lack of stock market progress over the past two years could be the lackluster earnings performance for that period, and over the long term it is the earnings that drive stock prices

- On the other hand, it is said that stock prices tend to lead earnings by 6–12 months, as investors buy for future expectations, and not the past, so the direction of stock prices could also be an indication of where earnings may be headed.

- This past summer saw the S&P break out to new all-time highs, which could be an early indication an improvement in the earnings picture is also coming, so we think this week of heavy reports will be interesting and possibly telling of the market trend ahead.

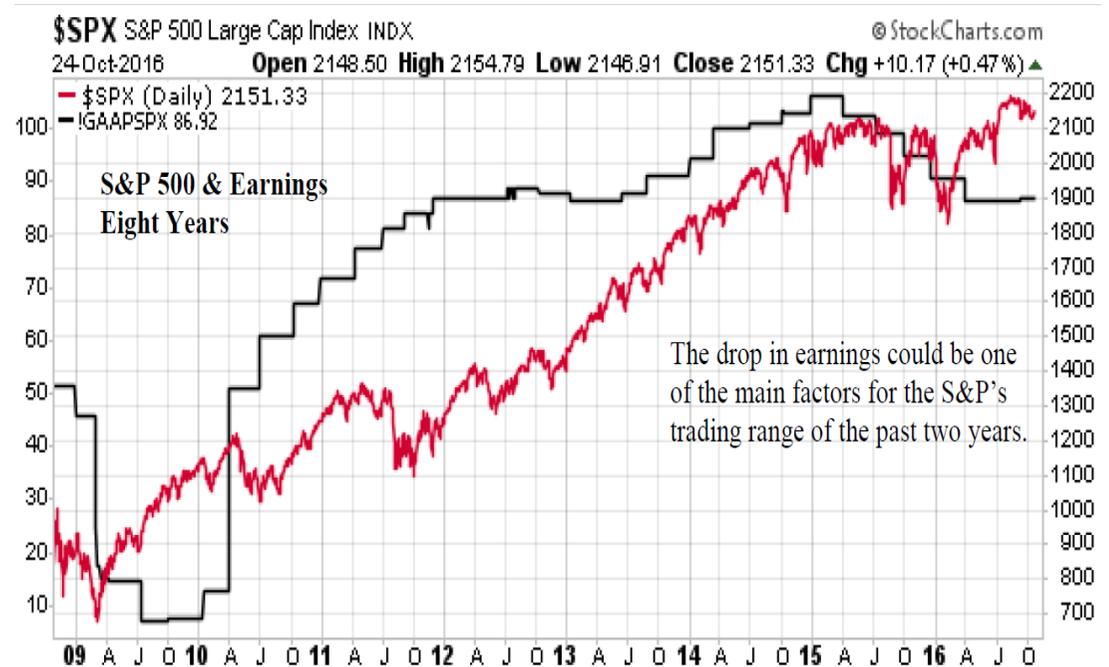
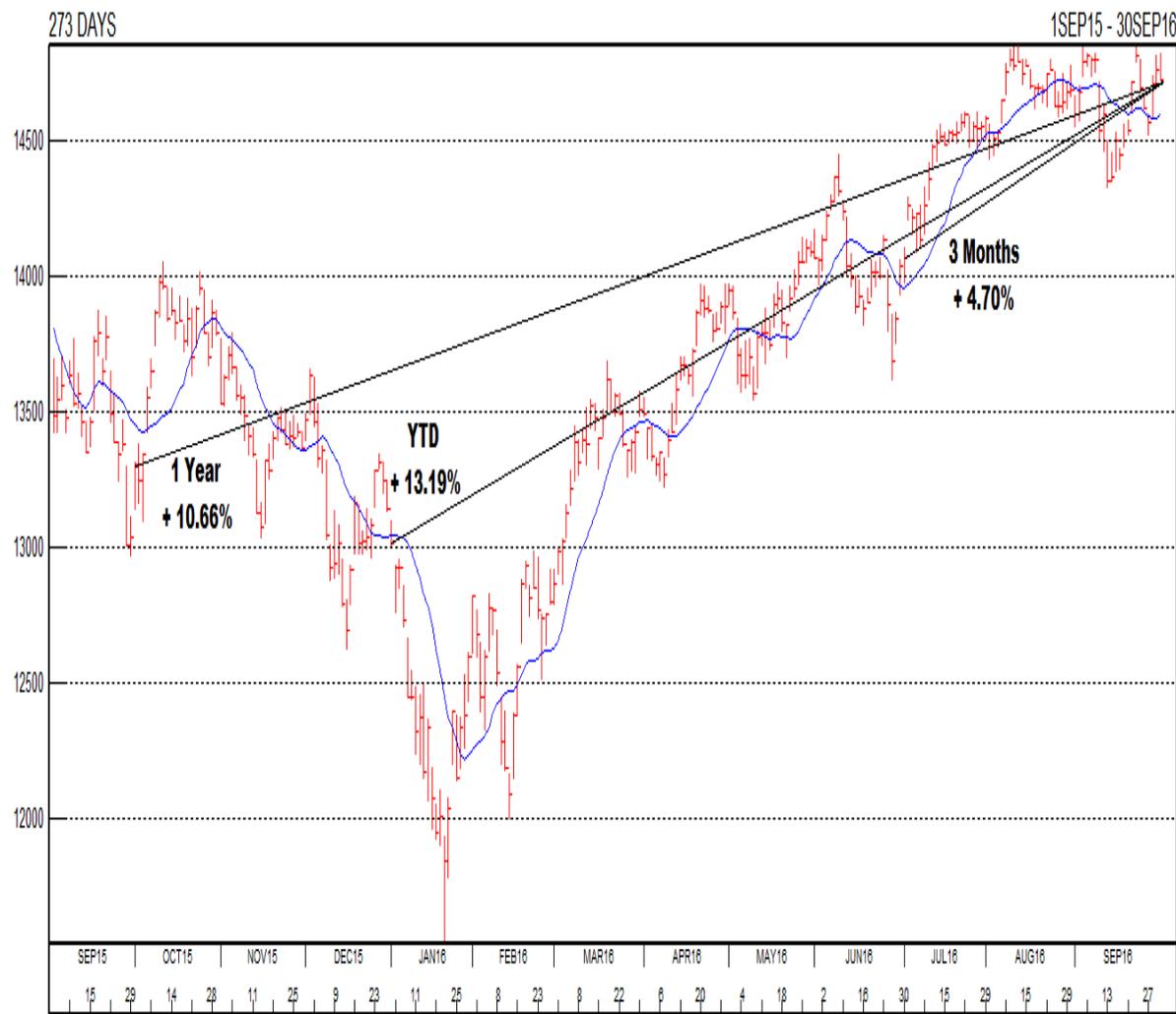


Chart courtesy StockCharts.com and RBC Wealth Management

Commentary Courtesy of Bob Dickey, Technical Analyst RBC Wealth Management USA

TSX Performance: Annual, YTD & 3 Months

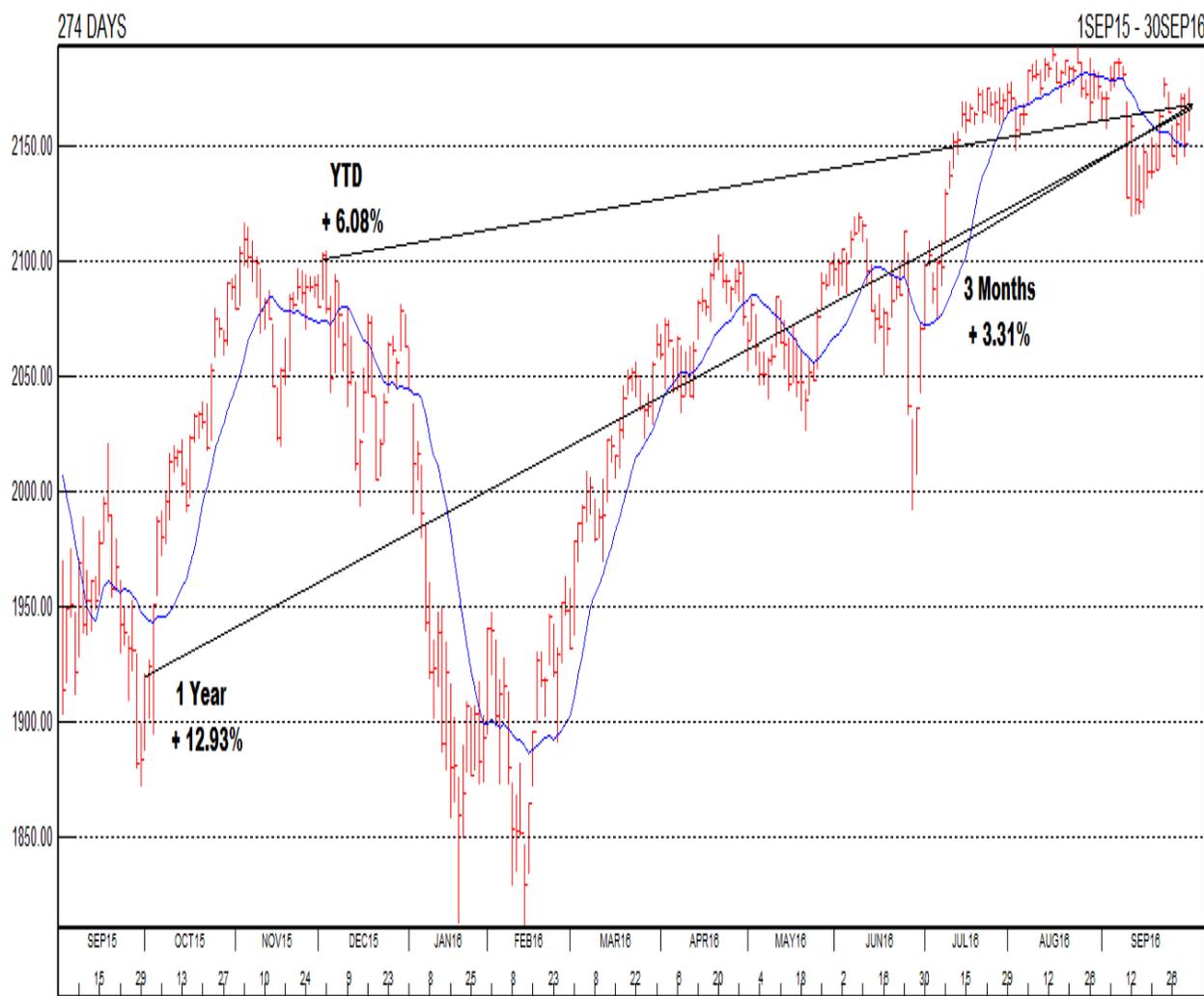
- After a challenging 2015 the Canadian equity market has rebounded nicely in 2016
- Canadian energy and materials companies have led the rebound, although these were the hardest hit during 2015
- Despite the strong recovery the TSX remains below the all time high it achieved in 2014 and is even trading below the level it hit in 2008 when oil was near to \$150 per barrel



Data Source: Trend & Cycle

S&P Performance: Annual, YTD & 3 Months

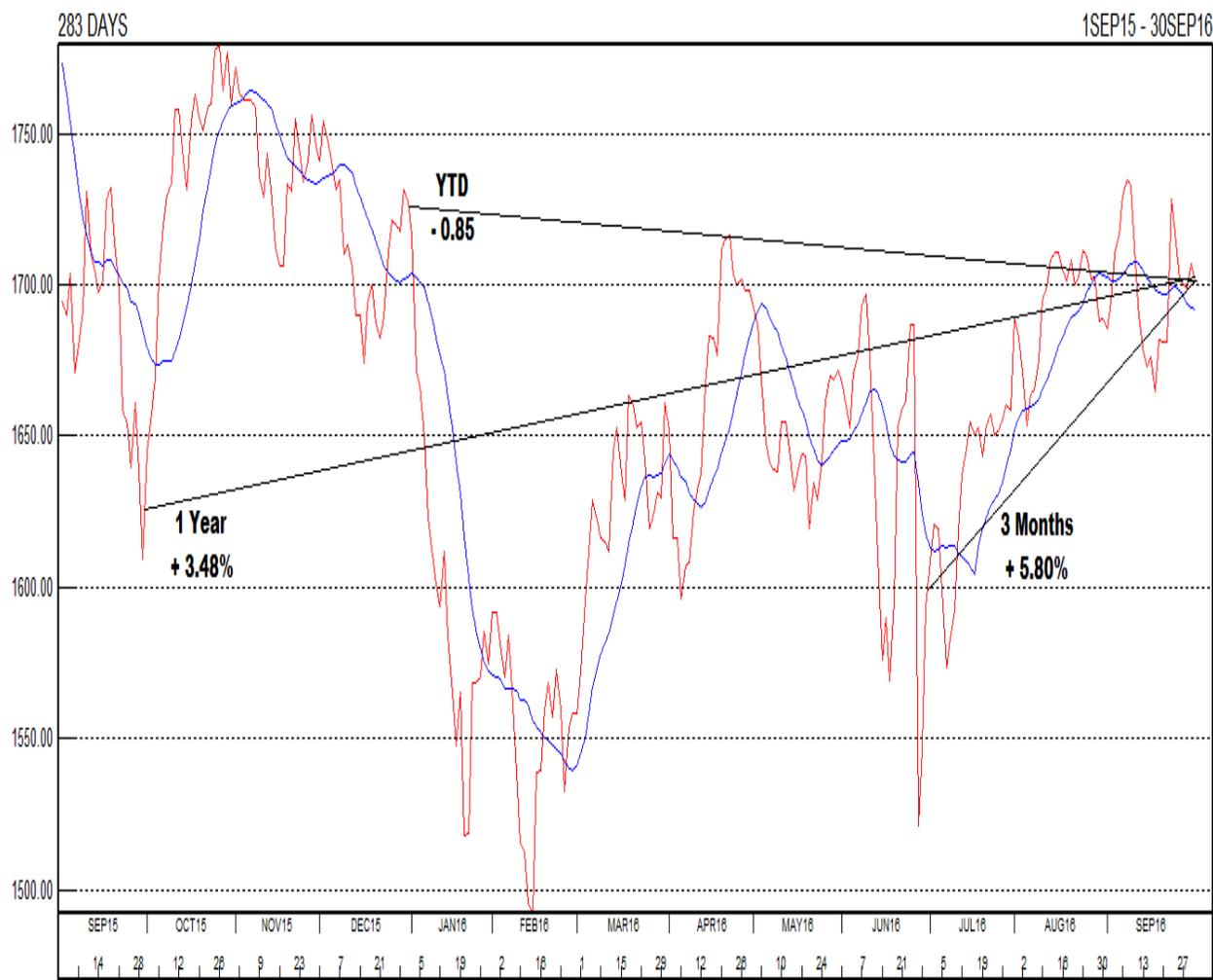
- The US market has been trading in a sideways pattern for the better part of two years. This consolidation pattern can create anxiety in impatient investors
- We saw a mini breakout in the summer but the market has remained mired in the doldrums as the consolidation continues
- Market participants may be waiting for the outcome of the US elections on November 8th (or 28th depending on the candidate you believe in!)



Data Source: Trend & Cycle

EAFE Performance: Annual, 6 & 3 Months

- International equity markets have not recovered to the same degree as other markets, in particular the UK and European markets
- European and UK equities continue to suffer the fallout from the British referendum vote to exit the EU in June. So much remains unknown that the market has difficulty moving beyond this
- Major concerns include how trade agreements will be negotiated, will the major banks relocate from Britain to Germany and how will the British housing market fare post Brexit?

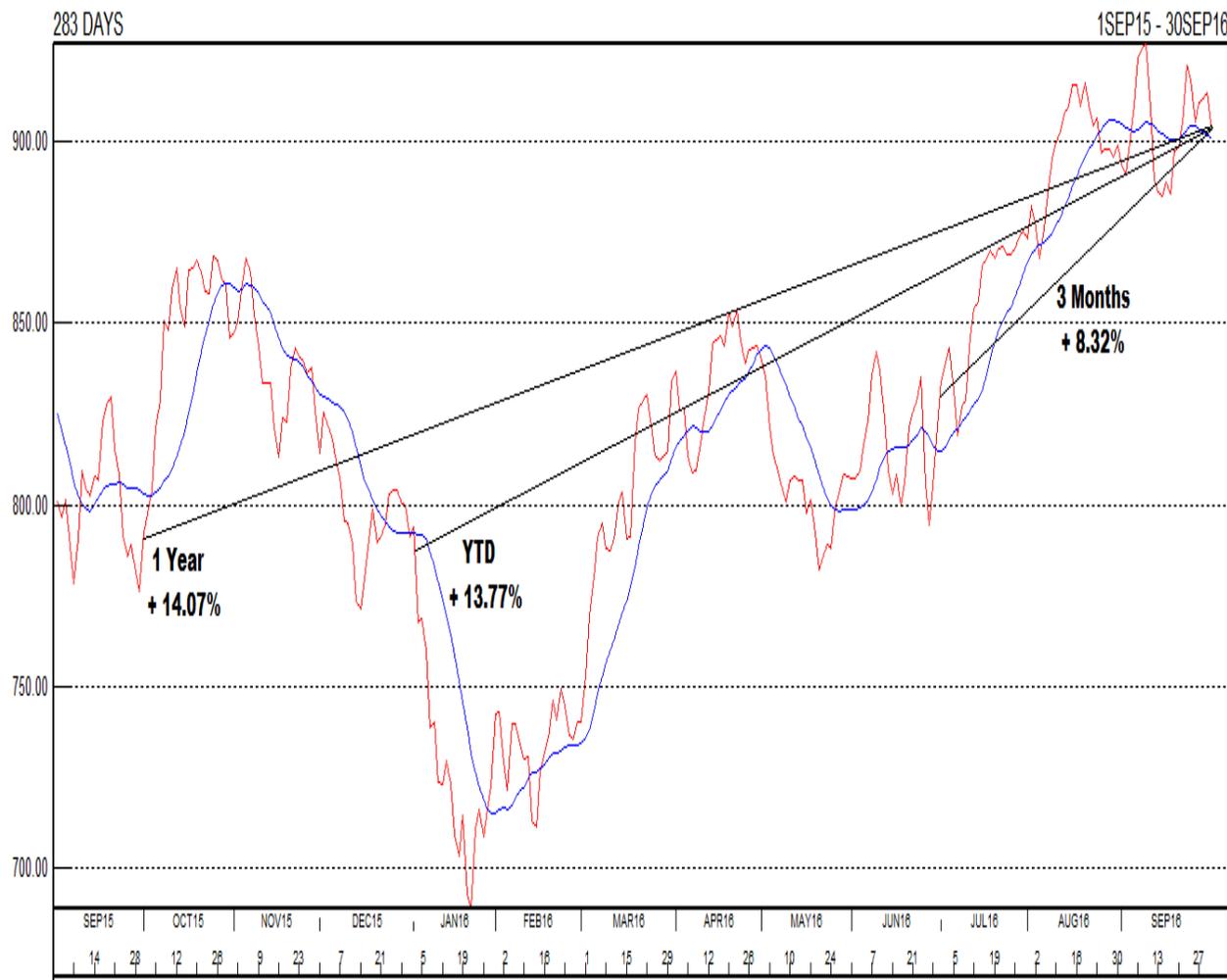


Data Source: Trend & Cycle

EAFE = Europe, Australasia, and Far East Developed Markets

Emerging Markets Performance: Annual, YTD & 3 Months

- Emerging markets have decoupled from their traditional tight relationship with the other international markets, outperforming the other major indices
- The EM advance paused only slightly during the Brexit fallout, perhaps benefitting as capital flowed out of Britain and the EU
- Fears of Chinese debt issues seem to have abated for the moment which has helped push EM equities broadly higher



Data Source: Trend & Cycle

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