

Market Matters

OCTOBER 2015 HIGHLIGHTS

- Global equity markets rebounded strongly in October, after sharp declines in August and September.
- Developed markets performed slightly better than emerging markets.
- The Canadian dollar gained ground versus the U.S. greenback, offsetting some of the positive U.S. and international equity returns for Canadian investors.
- North American bond markets were flat to slightly down due to a slight lift in yields.
- Oil and gold prices rose modestly, contributing to the rebound in resource sectors.
- Hindering the performance of the S&P/TSX Composite, index-heavyweight stock, Valeant Pharmaceuticals, was pounded down after a report put into question the company's relationship with specialty pharmacy, Philidor, and its sales practices.

STELLAR MONTH FOR EQUITIES.

October 2015 marked a stellar month for equity markets as global markets were up across the board. A number of multi-year, record-breaking equity performances were recorded in October:

- United States' S&P 500 up 8.3%, best monthly performance since October 2011.
- Germany's DAX up 12.3%, best monthly performance since April 2009.
- France's CAC up 9.9%, best monthly performance since April 2009.
- Japan's Nikkei 225 up 9.8%, best monthly performance in since April 2013.
- The United Kingdom's FTSE 100 up 4.9%, best monthly performance since July 2013.

Emerging markets slightly underperformed developed markets in October, although there was no shame in either group. China's Shanghai Composite Index ending a four-month losing streak with a 10.8% rise.

Canadian equities had a positive start (up 1.7%) to this last quarter of 2015. The three largest sectors of the Canadian stock market reversed course after a tough third quarter. Financials, Energy and Materials sectors (together representing approximately 67% of the S&P/TSX Composite Index) rallied in October up 4%, 7.7%, and 7.3% respectively on a total return basis. The rally in resource stocks was seen around the globe.

Market returns*	October	YTD
S&P/TSX Composite	1.7%	-7.5%
S&P 500	8.3%	1.0%
- in Canadian dollars	5.7%	13.7%
MSCI EAFE	7.8%	4.5%
- in Canadian dollars	5.1%	12.4%
MSCI Emerging Markets	5.3%	-4.2%
FTSE TMX Canada Universe Bond Index**	-0.3%	2.3%
FTSE TMX Canada all corporate bond index**	-0.4%	1.6%

*Local currency (unless specified); price only
 **Total return, Canadian bonds

	Level	October	YTD
CAD per USD exchange rate	\$0.765	1.8%	-11.2%
Oil (West Texas)*	\$46.59	3.3%	-12.5%
Gold*	\$1,142	2.4%	-3.6%
Reuters/Jefferies CRB Index*	\$195.61	1.0%	-14.9%

*US dollars

S&P/TSX Composite sector returns*	October	YTD
S&P/TSX Composite	1.7%	-7.5%
Energy	7.6%	-18.0%
Materials	7.0%	-19.9%
Industrials	2.2%	-9.1%
Consumer discretionary	3.1%	5.6%
Consumer staples	-2.0%	8.3%
Health care	-45.7%	-27.5%
Financials	3.4%	-2.8%
Information technology	1.5%	5.7%
Telecommunication services	5.3%	7.2%
Utilities	-1.9%	-7.2%

*Price only
 Source: Bloomberg, MSCI Barra, NB Financial, FTSE TMX Global Debt Capital Markets Inc.

NO MIRACLE DRUG FOR THIS.

Valeant Pharmaceuticals stock halved in value during the month of October and single-handedly dragged the Canadian healthcare sector down 45.7% in the month. The Canadian Pharmaceutical giant, which earlier this year briefly surpassed RBC to become Canada's largest company by market capitalization, seriously depressed what was otherwise a solid overall equity market performance for the S&P/TSX Composite. Investors felt no love left for Valeant after a wounding report from U.S.-based Citron research put into question the company's relationship with specialty pharmacy, Philidor, and its sales practices.

WHAT MOVED MARKETS?

Classic rebound. Elevated levels of fear that have dominated trading actions in the past few months appear to have calmed, and there was a strong sense that the third-quarter sell-off was overdone. In classic rebound form, September's losers were October's winners as energy and materials sectors soared, while the more income-oriented utilities sector trailed behind.

Better earnings: Nothing earth-shattering, but most corporate earnings from developed markets were modestly better than expected. Perhaps more importantly, earnings forecasts pointed to continued growth, and investors responded with both relief and appreciation.

Central banks make their intentions clear(er): The U.S. Federal Reserve (the Fed) stated that a December rate hike is a 'live possibility'. Investors reacted positively to this more upbeat and hawkish statement from the Fed, adding credence to the presence of economic recovery/stability evidence in America. Meanwhile the Peoples' Bank of China showed that they are keen to support economic activity when they cut official interest rates and lowered the banks' reserve ratio requirement, once again in an effort to aid growth and stability. The European Central Bank also provided a strong indication at its October meeting that it would ease policy further in December. Finally, falling in line with expectations, the Bank of Canada kept policy rates unchanged following their most recent meeting on October 21.

Better than feared growth expectations: Concerns about China's economic growth outlook moderated. While China's GDP growth slowed to 6.9% year-over-year from 7.0% in the second quarter, this was better than markets

had feared. The Canadian economy also showed signs of stabilizing as the August GDP results were up 0.1% and, when combined with gains in June and July, Canadian GDP is essentially flat on a year-to-date basis.

No U.S. government shutdown: The U.S. government approved a two-year budget deal that also addressed the debt limit issue and which had threatened to shut down the government.

BECAUSE IT'S 2015.

Change is afoot. Stock markets are shifting, showing greater breadth and returning to a focus on fundamentals, like earnings and balance sheets - an environment in which stock selection and skilled portfolio management tends to shine.

The Liberal Party won a decisive majority in the Canadian federal election, securing a measure of government stability for at least four years. Canada is expecting to see a number of changes as the government implement its mandate and many campaign trail promises - the first of which having already been accomplished, a gender equal Canadian cabinet.

And further abroad, Chinese politicians saw the need to change and relax the decades-long one-child policy - addressing China's challenging demographic outlook and concerns over their labour force growth stalling with an aging population and not enough youth to fill the gap.

"It is change, continuing change, inevitable change, that is the dominant factor in society today. No sensible decision can be made any longer without taking into account not only the world as it is, but the world as it will be." Isaac Asimov

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