MERCATOR Financial *Awaken Your Wealth*

Market Commentary

October 31, 2016

What happened?

- October was not a stellar month for equity markets in Canada and the United States. The TSX in Toronto was the lone major market that finished above its September close
    - The TSX reached its highest level in nearly 18 months!
    - Canada's economy and its major index is dominated by oil, materials and financials, and they did well last month
        - In early October OPEC producers agreed to curb production, which drives the price higher, the first plan by OPEC to do so in 8 years
        - By the last week of October doubt began to build whether or not OPEC members would adhere to their agreement, and the price per barrel fell more than $2, wiping out 3+ weeks of gain
        - Energy companies pulled the entire TSX higher
        - Q2 results in the U.S. have been strong leading investors to believe Canadian banks will follow their lead
        - Canada's jobs data was unexpectedly positive as part-time employment increased AND 65,000 new full-time jobs were added

- In international news
    - In the U.S. Q3 earnings reports by corporations have, generally, been better than expected. Last week's results were not as stellar as some of the other reports and uncertainty surrounding the election tempered stock performance
        - Despite those developments the American economy grew at an annualized rate of 2.9% in the third quarter, and more than double the GDP growth rate of Q2
        - Another development that suppressed equity markets was the rise of US federal bonds that reached a six-month high
        - Speculation that the Federal Reserve will raise interest rates continued, and the 10- year bond rates have been bid-up
    - Significant takeover and merger deals were announced last week totaling $177 billion in one week, the highest week on record, and $249 billion for the month!
    - The British Pound fell below $1.30 USD as concerns over the cost of BREXIT continue to mount. The rapid decline and loss of capital is beginning to generate a real movement to reverse, or retake the BREXIT vote.
        - The falling British pound has increased the prospects for increased exports by U.K. firms despite any trade restrictions that may be imposed.

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Stock Exchange	Year to Date Oct. 31, 2016
TSX (Toronto)	13.66%
DOW (U.S.)	4.12%
S&P (U.S.)	4.02%
NASDAQ (U.S.)	3.63%
CAC (France)	-2.76%
FTSE 100 (London)	11.40%
DAX (Germany)	-0.73%
NIKKEI (Japan)	-8.45%
HANG SENG (Hong Kong)	4.66%

Rates as of Oct. 31, 2016 *

Term	*GICs*	*RSPs*
1 year	2.02%	1.51%
2 Year	2.20%	1.70%
3 Year	2.30%	1.75%
4 Year	2.35%	1.85%
5 Year	2.35%	1.91%

*** Rates subject to change without notice.**

DAILY INTEREST ACCOUNT
1.00%

TAX FREE ACCOUNT
1.00%

- China reported a steep decline in its economic situation with a 10% drop over last year, which caused equity prices to mirror slumping Chinese demand for commodities and non-Chinese goods.
- The results were based on solid fundamentals and mostly good news:
  - Materials and energy were 'up' for the week
    - Oil reached its highest price in 15 months, which sent energy stocks higher.
  - A number of American firms reporting strong performance contributed to investor optimism across the globe.
    - In the U.S. approximately 205 firms have reported their earnings and the data has been almost exclusively positive.
    - Of the firms that have reported, 80% reported higher-than-expected earnings and 60% reported higher-than-expected sales

What's ahead for November?

- The dominating news for the next month, and beyond, will be interest rate policy from the U.S. Federal Reserve. Quarter after quarter the predictions have persisted that an interest rate rise is will occur in the near future
  - That announcement was repeated again on November 2nd as inflation stayed below 2% while the economy continued to grow at measured rates, as job creation, consumer confidence and corporate purchasing continued with positive results
  - The belief that the economy would be damaged, not improved, by an interest rate rise facilitated the "steady-as-she-goes" decision.
    - If inflation rises, then The Fed will act. Much more data will be considered, but watch for inflation to be the trigger

Information source(s): Advisors Research Group - Monthly Market Update: October 31, 2016

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