

### Highlights

A sharp increase in U.S. Treasury bond yields prompted a correction in global equity markets. Factors such as tighter monetary policy, a contracting labour market and rising oil prices contributed to fears that interest rates could rise faster than expected earlier. Given the likelihood of higher long-term treasury yields, investors were particularly concerned about frothy valuations in sectors such as information technology, consumer discretionary and materials.

Canadian equities also declined over the week, but the more defensively positioned segments of the market, such as the health care and consumer staples sectors, fared relatively better than cyclicals. Global trade tensions continued to dominate sentiment as the International Monetary Fund downgraded its outlook for global economic growth.

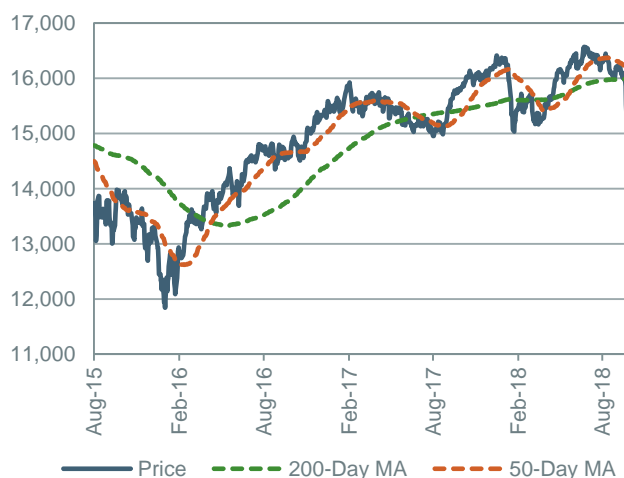
Equity markets in the rest of the world also reflected the risk of rising interest rates, higher inflation and slowing economic growth. Mixed economic data, Brexit concerns and concerns surrounding Italy also hampered performance. India was a prominent exception for the week, as soft inflation data proved encouraging.

The yield on the benchmark 10-year Treasury note fell to 3.140% on Friday from 3.227% at the end of the previous week. This supported some gains in bond markets, helping equities to stabilise on Friday.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	15,414	-3.3%	-4.1%	-4.9%
S&P500	2,767	-4.1%	-5.0%	3.5%
NASDAQ	7,497	-3.7%	-6.8%	8.6%
DJIA	25,340	-4.2%	-4.2%	2.5%
Russell 2000	1,547	-5.2%	-8.8%	0.7%
FTSE 100	6,996	-4.4%	-6.8%	-9.0%
Euro Stoxx 50	3,194	-4.5%	-6.0%	-8.8%
Nikkei 225	22,695	-4.6%	-5.9%	-0.3%
Hang Seng	25,801	-2.9%	-7.2%	-13.8%
Shanghai Comp.	2,607	-7.6%	-7.6%	-21.2%
Sensex	34,734	1.0%	-4.1%	2.0%
MSCI ACWI	495	-3.9%	-5.6%	-3.6%
MSCI Europe	121	-4.6%	-6.2%	-7.7%
MSCI EM	980	-2.1%	-6.5%	-15.4%
Fixed income	Close	Weekly	MTD	YTD
FTSE TMX Uni.	127	0.6%	-0.5%	-3.1%
BBG Global Agg.	471	0.6%	-0.5%	-2.8%
TSX Pref	702	-1.0%	-0.8%	-2.0%
Commodities	Close	Weekly	MTD	YTD
Oil	71.34	-4.0%	-2.6%	18.1%
Natural gas	3.16	0.6%	5.1%	7.0%
Gold	1217.95	1.2%	2.1%	-6.5%
Silver	14.58	-0.4%	-0.5%	-13.9%
Copper	2.80	1.4%	-0.2%	-16.4%
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7678	0.7%	0.9%	3.6%
USD/EUR	0.8651	-0.3%	0.4%	3.9%
CAD EUR	0.6641	-1.0%	-0.5%	0.2%
USD/JPY	112.2100	-1.3%	-1.3%	-0.4%
USD/CNY	6.9220	0.8%	0.8%	6.4%
USD/MXN	18.8599	0.2%	0.8%	-4.1%
GBP/CAD	1.7133	0.9%	1.9%	0.9%
GBP/USD	1.3153	0.3%	0.9%	-2.7%

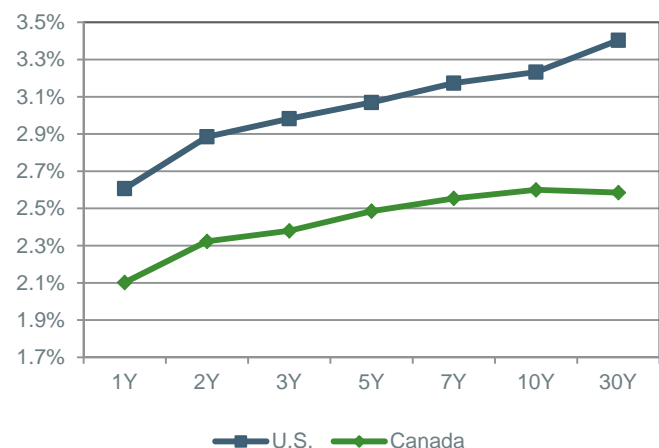
\* Please refer to Appendix for the above table in Canadian dollar terms.

### S&P/TSX Composite Index



Source: Bloomberg.  
Index returns are in local currency. All returns are price returns and do not include dividends.

### Treasury yield curves



Economic indicators	Period	Survey	Actual	Prior period
Canada housing starts	September	208.4k	188.7k	201.0k
Canada building permits (MoM)	August	-0.5%	0.4%	-1.5%
U.S. MBA mortgage applications	July	-	0.2%	0.0%
Canada new housing price index (MoM)	August	0.1%	0.0%	0.1%
U.S. initial jobless claims	Oct 6	210k	214k	207k
U.S. CPI inflation (YoY)	September	2.4%	2.3%	2.7%
University of Michigan sentiment	Oct 6	100.6	99.0	100.1

### Canada

The rise in U.S. Treasury yields coupled with expectations that the Bank of Canada would also raise its benchmark rate of interest contributed to the correction in Canadian equity markets. Energy and industrials sectors fell the most as global trade concerns continued to impact investor sentiment. Companies within the information technology sector also declined.

In economic developments, Canada's housing starts in September fell short of expectations at 188,683; down for the fourth month. Analysts expected a rise of 210,000. Looking ahead, retail sales and inflation data would effect the market's view on further policy tightening by the Bank of Canada at its October 24 meeting.

### U.S.

Mounting inflationary pressure against the backdrop of low unemployment rates and rising wage pressure added to pressure on U.S. equities, as it is expected to negatively impact corporate profit margins. U.S. government bond yields rose sharply, leading some investors to sell stocks in companies with unattractive valuations and those with high levels of debt on balance sheet. Meanwhile, worries about the ongoing U.S.-China trade tensions continued to weigh on investor confidence.

The International Monetary Fund cut its growth expectations for 2018 and 2019, citing rising trade tensions and stress in emerging markets. Investors worried about the impact of Hurricane Michael's landfall in Florida on energy companies. Most sectors declined over the week; with defensive stocks outperforming cyclical stocks. However, stocks rebounded towards the end of the week after inflation rose less than expected

### U.S.

On the economic front, the annual inflation rate in the U.S. slowed down to 2.3% in September from 2.7% in August, mainly due to sharp slowdown in gas prices and smaller increases in fuel and shelter costs. Excluding food and energy, the core inflation rate remained unchanged at 2.2%. Additionally, less favourable views of personal finances pulled consumer sentiment slightly lower this month, to a still very solid 99.0 versus 100.1 in September. Elsewhere, the Small Business Optimism Index fell to 107.9 in September, retreating after August's record reading but still posting the third highest level in the survey's 45-year history. Leading the decrease were the declines in plans to increase inventories, employment, and capital outlays.

### Rest of the world

European stocks slumped to the lowest level since December 2016 as rising interest rates led investors to rotate out of their equity holdings and as concerns about the US/China trade spat remained in focus. Although US economic growth remains robust, some investors worried that the impact of U.S. tax reform will start dissipating, which would weigh on corporate earnings and stocks.

Asian stocks followed the sell-off in US markets as renewed trade tensions between Washington and Beijing dampened the outlook for economic growth and corporate profits. In Japan, a firm yen added to investor worries over China and rising US bond yields. Given their reliance on exports, Japanese corporate earnings tend to be negatively impacted by the strength in their currency. Meanwhile, emerging markets with U.S. dollar denominated debt remained under pressure.

## Looking ahead

Economic indicators	Date	Survey	Prior period
China CPI inflation (YoY)	15-Oct	2.5%	2.3%
Canada CPI inflation (YoY)	19-Oct	2.7%	2.8%
Canada retail sales (MoM)	19-Oct	0.4%	0.3%
Canada manufacturing sales (MoM)	17-Oct	-0.8%	0.9%
U.S. retail sales (ex auto) (MoM)	15-Oct	0.4%	0.3%
U.S. JOLTS	16-Oct	6.905 mn	6.939 mn
U.S. industrial production	16-Oct	0.2%	0.4%
U.S. housing starts	17-Oct	1.22 mn	128 mn
U.S. jobless claims	18-Oct	215k	214k

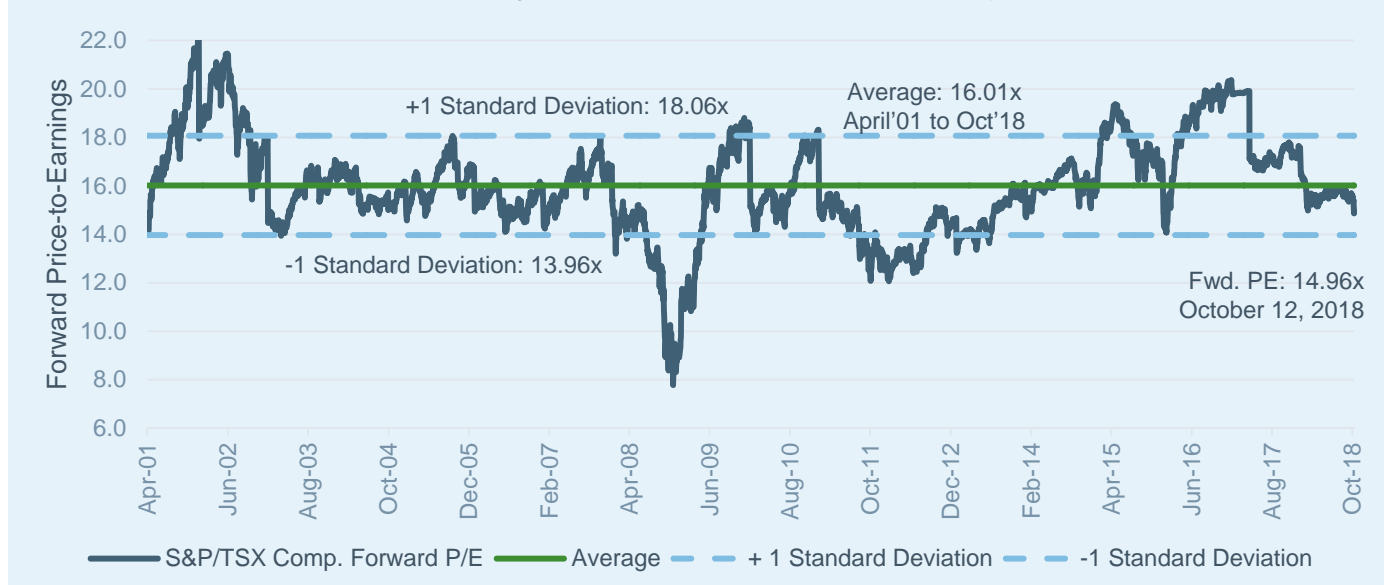
## Central bank meetings

Central banks	Date	Probability of increase	Current rate
BoC	24-Oct	92.4%	1.50%
ECB	25-Oct	4.6%	0.00%
BoJ	31-Oct	-0.6%	-0.10%
BoE	01-Nov	4.5%	0.75%
FOMC	08-Nov	2.0%	2.00%-2.25%

\*Source: Bloomberg, October 15, 2018.

## Spotlight

Canadian equities, as measured by the S&P/TSX Composite, have declined by 4.9% since the beginning of the year in 2018. However, with the market currently trading below its long-term average forward price-to-earnings ratio, solid economic and corporate fundamentals, and a positive earnings outlook, Canadian equities look attractively valued.



Source: Bloomberg Estimates.

## Appendix

### Global markets (Returns in Canadian dollar terms)

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