Economic Commentary

Third Quarter 2017

BOC On The Rise

The Bank of Canada raised interest rates by 25 b.p. at each of its two meetings during the third quarter. The rate hike in early July was expected by the markets, however the subsequent move in September caught a few investors off-guard as many felt the next move would not occur until October. The Canadian dollar rallied dramatically on the back of these moves and touched a high of $0.83 US in early September. However, follow-up comments by the BOC indicated that there is no predetermined path for interest rates and that future moves would be very much data dependent. The BOC also mentioned that they would keep an eye on the level of the Canadian dollar, given the impressive strength that the dollar has shown this year. The dollar retreated at the end of the quarter on these dovish comments by the BOC.

Canadian Economy Leading the Pack

The Canadian economy expanded at a 4.5% annual rate in the second quarter following a 3.7% pace in the first quarter, making it the fastest growing economy in the G7. This represents the fastest growth rate to start the year in Canada since 2002. The Canadian consumer led the way, fueled by low interest rates and a strong job market. Economic growth is expected to subside over the balance of the year due to the impact of higher interest rates as well as a slowdown in the Toronto housing market.

Fed Cautiously Moving Forward

After raising interest rates twice during the first half of the year, the U.S. Federal Reserve remained on hold during the third quarter. Fed Chair Janet Yellen cautioned that interest rate hikes would continue. Lower-than-expected inflation, however, continues to be the main catalyst that could prevent the Fed from raising rates over the near-term.

The Fed did announce in September that it would begin shrinking its $4.5 trillion balance sheet.

Equity Markets Nearing Record Highs

The low interest rate environment has helped fuel equity markets to record highs. Despite equity valuations that appear stretched, most global markets continue to move higher. However, interest rates have begun to rise as the yield on the ten-year Government of Canada bond has increased from a low of 0.95% one year ago, to 2.10% at the end of the quarter. Major global central banks are now shifting away from stimulative monetary policies, which could impact equity markets going forward

Geopolitical and catastrophic headline risks have increased over the past year. Election results in several countries have resulted in a change of the status quo, which has led to a great deal of uncertainty with regard to future policies. In addition, many natural catastrophic events have occurred, including several hurricanes and earthquakes, which will significantly impact future economic growth. Despite the high level of uncertainty and risks in the market, volatility indices are at historic lows.

Key Metrics

Indicator	Value	Chg Q3	Chg 1Y
S&P/TSX Composite	15,634.94	3.7%	9.2%
S&P 500 (USD)	2,519.36	4.5%	18.6%
MSCI EAFE (USD)	1,973.81	5.5%	19.7%
FTSE TMX Universe Bond Index	1,016.28	-1.8%	-3.0%
USD/CAD	$0.80	4.0%	5.3%
WTI Crude ($/bl))	$51.67	10.5%	-1.3%
GoC 10Y Bond	2.10%	+33.7 bp	+110.3 bp
GoC Deposit Rate	1.00%	+50 bp	+50 bp
Cdn CPI YoY	1.4%	0.4%	0.1%
US 10Y Treasury	2.33%	+2.9 bp	+73.9 bp
Fed Funds Rate	1.25%	0	+75 bp
USD CPI YoY	1.9%	0.3%	0.4%

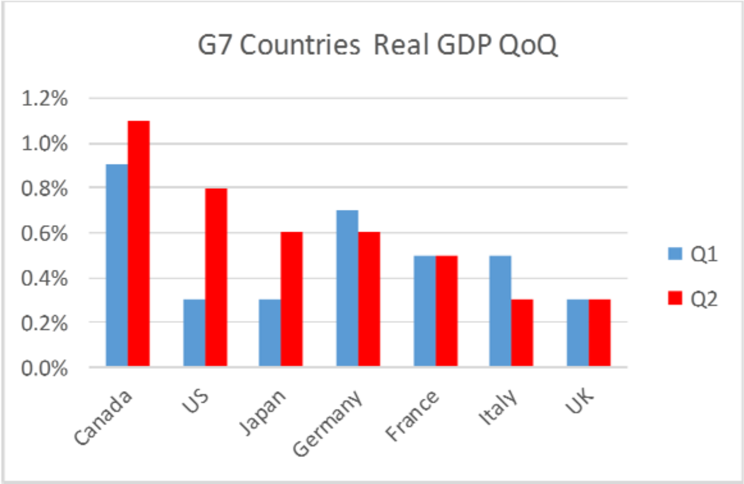
Top Themes

Canada's economy firing on all cylinders

US Fed cautious on path to normalization

Record high equity markets ; record low volatility

Top Chart: Canada Leads G7 Economies



Source: Bloomberg, Lincluden