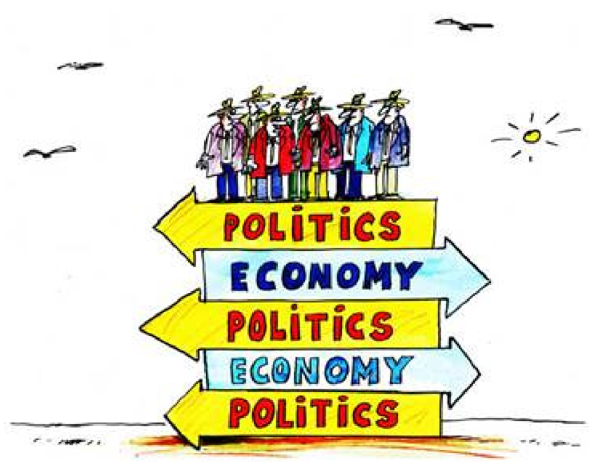
**Ermes Monaco**

**From:** Ermes Monaco
**Sent:** September-14-15 12:54 PM
**To:** Ermes Monaco
**Subject:** VALUED CLIENT MAIL LIST: Economic Outlook - Early Fall Edition

HollisWealth

MonacoAdvisorTeam

## WHO BROUGHT THE GPS?




**Source: Google Images**

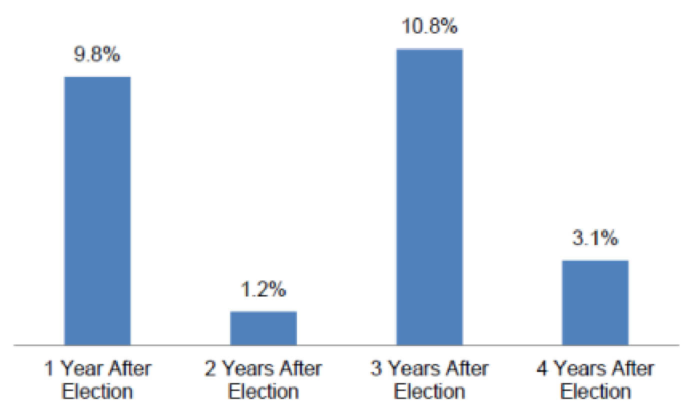
Political critics will often scoff that federal fiscal policy is driven by the interests of the ruling party’s political support and the desire to be re-elected rather than the best interests of the country. Political interests aside, a country’s economic activity will inevitably follow the path of least resistance to business development and profitability. I’m known to say that money is like water that always finds its course. Poor political policy may temporarily dam up the flow but it will always find a way around it. When this happens, reactive political policy will then often accommodate the expanding economic activity contributing to the country’s GDP and tax revenue.

Until recently, much of Canada’s economic activity has been centered around energy and resource development at a time when many other sources of commodities have emerged around the world. Concurrently, the use of oil production as a geo-political tool has arisen again, all of which has created a situation of over-supply and price manipulation. The consequence to the Canadian economy has been the triggering of a second economic recession within the last 8 years.

Now with two political events imminent within the next days and month it is fair to ask what the consequence of these on the economy, investments and personal finances will be. On September 17, the U.S. Federal Reserve bank will be making a decision on whether to increase interest rates. This has been a major source of market uncertainty and volatility this year. The concern is that this will only strengthen the U.S. dollar further while weakening other currencies and creating the risk of inflation outside the U.S. With the loonie already at prevailing lows due to the technical recession, the risk of driving the loonie down further and the cost of living higher is a real threat. Ultimately, however, the size and frequency of U.S. interest rate increases will also influence the true extent of the impact to Canada. Furthermore, as our largest trading partner, the Canadian economy stands to benefit from the U.S. economy which continues to experience moderate but consistent recovery.

The other political event is of somewhat more personal interest to us: On October 19, Canadians will be going to the polls to elect a new federal government. It is very likely that this will result in new economic policies as well as the possibility of a new political government. Engaging in eco-political trivia, some research indicates that the TSX has the most success in the 1st and 3rd years of the federal government's term and that the electoral choice is also of significance:

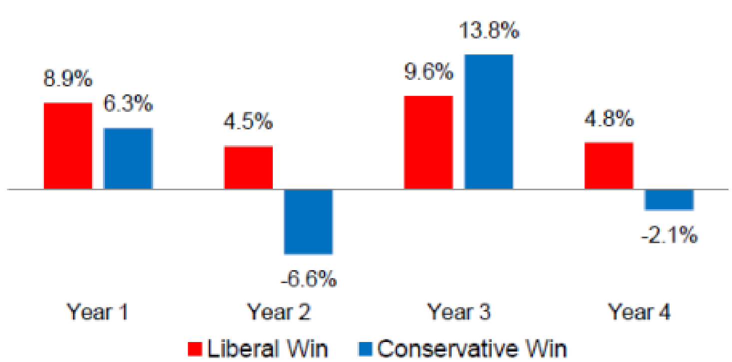
**AVERAGE ANNUAL TSX PERFORMANCE THROUGH PRIME MINISTERIAL TERMS SINCE 1922**




*Source: TMX Group and the Parliament of Canada*

**Taken from HollisWealth Market Research September 11, 2015**

**AVERAGE ANNUAL TSX PERFORMANCE DURING A PRIME MINISTER'S TERM (LIBERAL VS CONSERVATIVE GOVERNMENTS)**

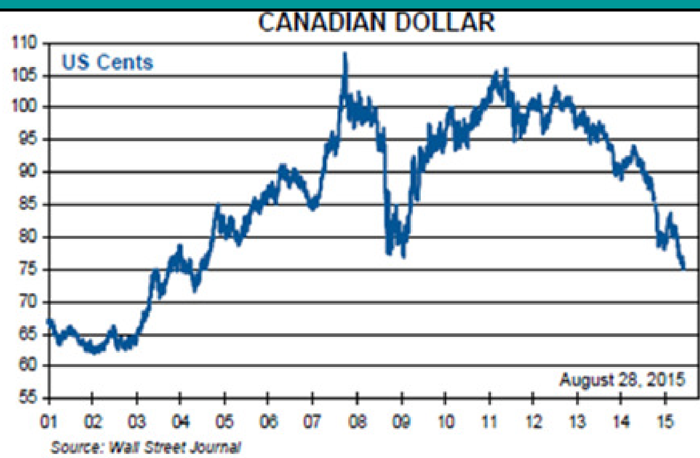



*Source: TMX Group and the Parliament of Canada*

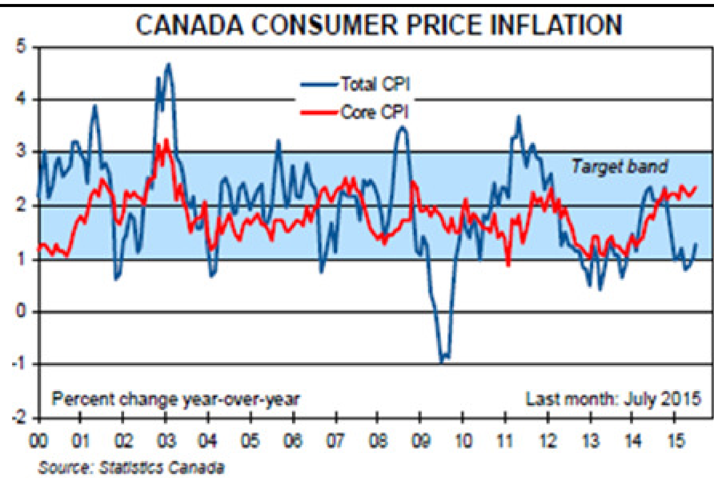
Based on this very limited and subjective information, this would suggest we will have a better 2016 and 2018 under a Liberal government. Of course, this says nothing about the kind of economic policies which might be enacted to help achieve this. ***Therefore, given the resourcefulness of Canadian business and workers, I am only confident that water will continue to find its course and that we will work with or around whatever economic policies are ultimately implemented.***

***(Source for all charts and statistics: HollisWealth Economic Monitor unless otherwise indicated)***

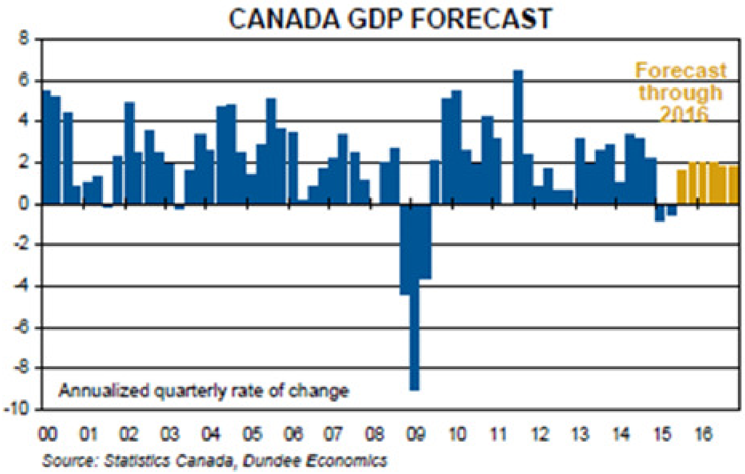
## KEY ECONOMIC INDICATORS




**The Canadian dollar continues to perform relative to oil prices and the value of the U.S. currency**




**The weaker Canadian dollar has increased the cost of imported goods and the cost of living although the Bank of Canada considers this "transitory" in anticipation of a pick-up in Canadian non-energy related manufacturing.**




**Canadian GDP is forecasted to remain sub 2% which will be a challenge for the level of general employment. Non-energy industrial production, which is largely dependent on U.S. strength, has only shown recent signs of improvement to offset the energy sector weakness.**

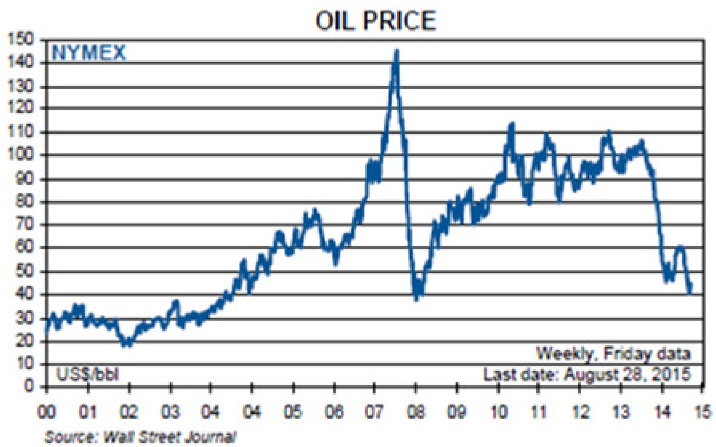
| | Actual | | | | Projected | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 14-IV | 15-I | 15-II | 28-Aug | Sep | Oct | Nov | 15-IV | 16-I | 16-II | 16-III |
| Canada | | | | | | | | | | | |
| Treasury Bill (91-day) | 0.90 | 0.57 | 0.62 | 0.37 | 0.40 | 0.38 | 0.36 | 0.36 | 0.20 | 0.25 | 0.30 |
| Government Bond (10-yr) | 1.92 | 1.33 | 1.68 | 1.47 | 1.58 | 1.61 | 1.65 | 1.65 | 1.60 | 1.70 | 1.70 |
| Prime | 3.00 | 2.85 | 2.85 | 2.70 | 2.70 | 2.70 | 2.70 | 2.70 | 2.55 | 2.55 | 2.55 |
| ***Target Overnight Rate*** | ***1.00*** | ***0.75*** | ***0.75*** | ***0.50*** | ***0.50*** | ***0.50*** | ***0.50*** | ***0.50*** | ***0.25*** | ***0.25*** | ***0.25*** |
| Spread: 10-yr - T Bills | 1.02 | 0.76 | 1.06 | 1.10 | 1.18 | 1.23 | 1.29 | 1.29 | 1.40 | 1.45 | 1.40 |

**Canadian interest rates are likely to remain detached and lag the upward direction of U.S. interest rates due to weakness in our GDP performance.**

**A reduction in prime versus longer term bond yields is being forecast which will create some steepness in the yield curves as the bond market pro-actively builds in a risk premium for the possibility of higher near term inflation.**

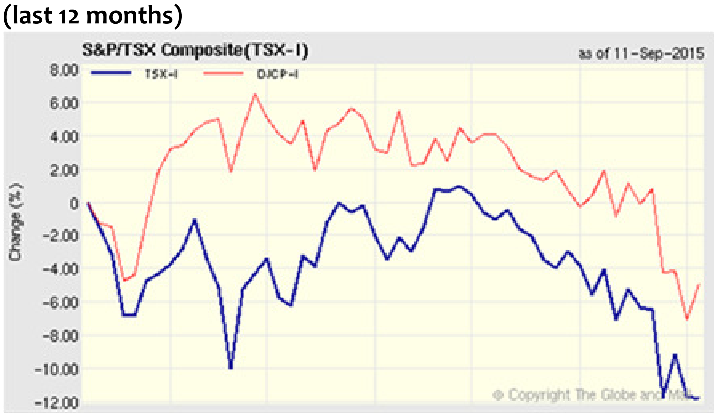
## KEY SECTORS

**ENERGY**




**Global oil prices have continued to decline in the face of high supply and the lack of a coordinated pricing consensus. However, discussions are taking place amongst some oil producers regarding the need for a production cutback which would increase or at least stabilize oil prices.**

**FINANCIAL MARKETS (last 12 months)**

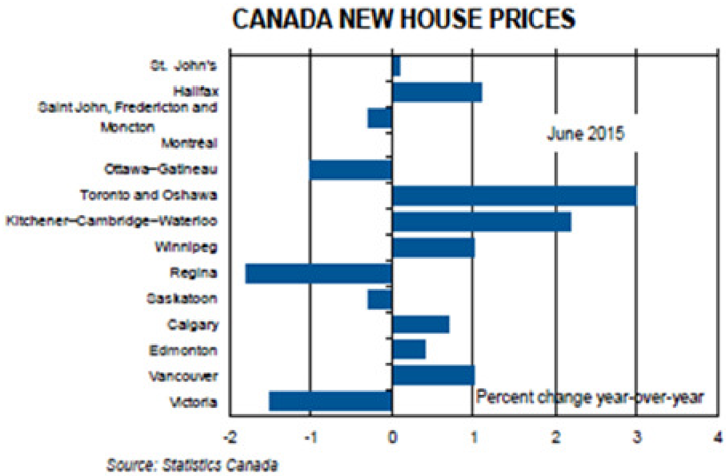



***Source: GlobeInvestorgold***

**Financial market performance has continued to be weak in the face of event risk with the latest being the upcoming U.S. interest rate decision. Below average market liquidity and trading volumes through the summer period have contributed to the market volatility.**

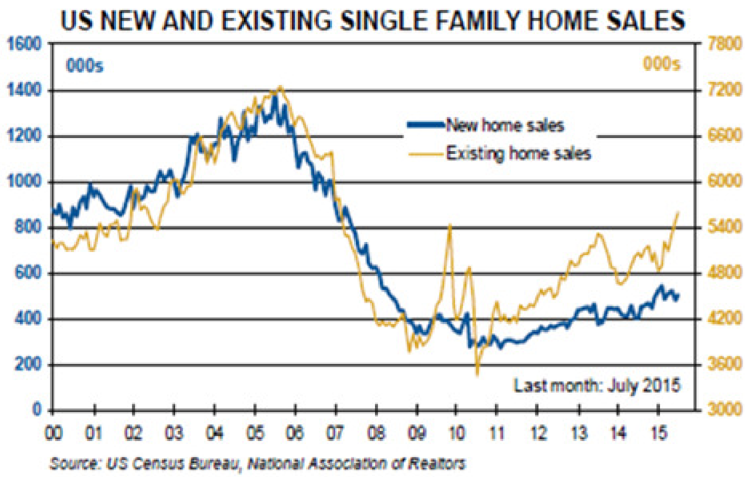
***(Please note for those less familiar with market indicators: The Dow Jones Composite Index is being used to indicate trend. This is not the Dow Jones Industrial Index which represents the narrower industrial sector and not the broader market.)***

**REAL ESTATE**



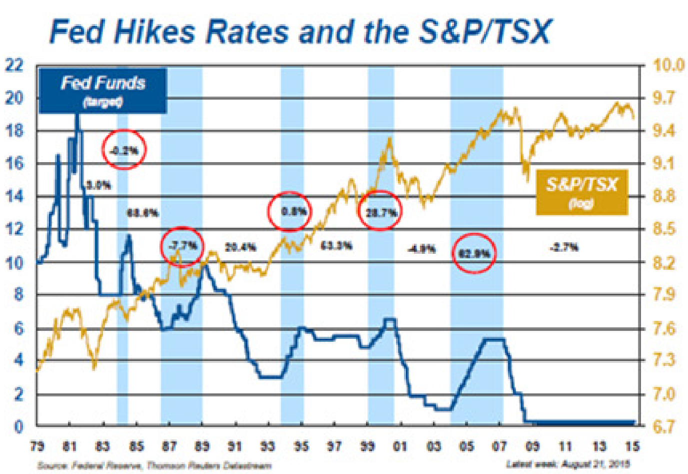

The aggregate Canadian real estate market has begun to demonstrate price moderation which should reduce the risk of a market bubble and threat of higher rates. However, regional differences remain pronounced.

The U.S. housing market activity continues to recover from previous lows.




## TIMELY ITEMS

**CANADIAN FINANCIAL MARKETS**




Historical performance indicates U.S. interest rate increases have had only a moderate impact on Canadian financial market performance and, in fact, the TSX benefited during a number of these occasions. This is likely due to the fact that some of these rate increases came in response to stronger U.S. economic activity which also benefited Canadian companies.

## QUOTES FROM THIS MONTH'S MONITOR

| | |
|---|---|
| **On interest rate expectations** | The **BANK OF CANADA** is forecast to cut rates again – in January 2016, although a cut before year-end cannot be ruled out. |
| **On Canadian currency expectations** | We have a significant negative bias toward the **CANADIAN DOLLAR**; we expect commodity prices to eventually firm (in the second half of next year – if not a little sooner), which should help support the Loonie further out. |
| **Global Market Perspective** | **Bottom Line:** It's not the Fed markets should worry about. China will be the dominant factor for equities over the next few quarters. |
| *Regards*<br>**Ermes Monaco, CIM**<br>**Investment Advisor**<br>**Portfolio Manager**<br>**416-412-4254**<br><br>**MonacoAdvisorTeam**<br><br>HollisWealth | ***The Economic Monitor is available through the HollisWealth website.*** |
| ***This newsletter was prepared solely by Ermes Monaco who is a registered representative of HollisWealthTM (a division of Scotia Capital Inc., a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada). The views and opinions, including any recommendations, expressed in this newsletter are those of Ermes Monaco alone and not those of HollisWealth. TM Trademark of The Bank of Nova Scotia, used under license. MonacoAdvisorTeam is a personal trade name of Cathy and Ermes Monaco.***<br><br>***This email may be privileged and/or confidential, and the sender does not waive any related rights and obligations. Any distribution, use or copying of this email or the information it contains by other than an intended recipient is unauthorized. If you received this email in error, please advise Ermes Monaco (by return email or otherwise) immediately.*** | |