MARKET PERSPECTIVE | *October 2016*

MANDEVILLE PRIVATE CLIENT INC.

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MARKET SUMMARY— Volatility in the financial markets picked up during the month of September and continued into October after relatively smooth sailing throughout August. There wasn't too much excitement when it came to equity market returns. The S&P/TSX Composite delivered a total return of +0.62% for October while the S&P/TSX Venture had a negative performance, taking back -3.42% from investors.

U.S. equity markets also had a slow month. The large cap Dow Jones Industrial average had a negative return of -0.79% and the S&P500 returned -1.82% to investors. The NASDAQ was not able to perform any better, delivering another disappointing negative total return of -2.26%.

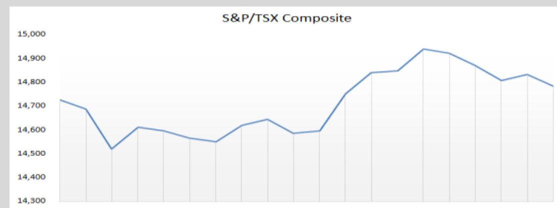
Overseas, European equity indices fared better than their North American counterparts with the FTSE 100 returning +1.03% while the EURO STOXX 50 had a total return of +1.89% for October. The bright spot in the global equities market was Tokyo's Nikkei index, which returned a total of +4.51% for the month. The MSCI EAFE was down - 2.05% for October, while the MSCI Emerging Markets index closed out the month with a slightly positive gain of +0.24%.

CANADA—Economic performance in Canada remains highly diverse by region. Alberta and other oil-dependent provinces remain economically challenged, while export-driven Ontario, British Columbia and Quebec have benefited from the weaker Canadian dollar and resilience in U.S. consumer demand. Overall, Canada continues to be subdued by the remnants of the global oil shock. The problem is not the level of oil production – this remains at healthy levels (after adjustment for the Fort McMurray wild fires), but rather the price of oil has not rebounded sufficiently for energy sector capital expenditures to normalize. Lower energy related investment across western Canada and associated effects on the consumer sector, housing and other related industries, has had a dampening influence on national GDP which remains constrained by upwards of almost 1%.

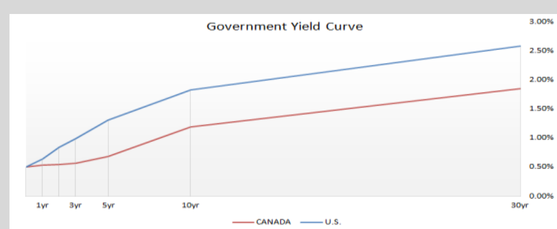
Canada's housing sector is also looking more vulnerable as some of the more overbought metropolitan centers such as Vancouver have now begun to unwind on the government's introduction of policies aimed at curbing housing demand. Mortgage affordability formulas and CMHC insurance availability, in conjunction with foreign ownership penalties, have been introduced to curb excesses that had the potential to implode the hotbed centers of housing inflation.

MARKET DIARY -- *MONTH AT A GLANCE*

Equities	Close Oct. 31	MoM TotRet	YTD TotRet
S&P/TSX Composite	15,162.50	0.62%	16.55%
S&P/TSX Venture	774.98	-3.42%	47.43%
Dow Jones	18,533.95	-0.79%	6.36%
S&P500	2,163.89	-1.82%	5.87%
NASDAQ	5,244.54	-2.26%	4.74%
FTSE 100	7,245.96	1.03%	15.38%
EURO STOXX 50	3,168.51	1.89%	-3.03%
Nikkei 225	17,757.68	4.51%	-6.70%
MSCI EAFE	4,812.15	-2.05%	-0.35%
MSCI Emerging Markets	397.29	0.24%	16.30%



Fixed Income	Yield	MoM Chg	YTD Chg
BoC Overnight Rate	0.50%	n/c	n/c
3mos Canada T-Bill	0.46%	-6 bps	-3.8 bps
2yr Canada	0.55%	2.7 bps	6.7 bps
10yr Canada	1.19%	20 bps	-19.9 bps
30yr Canada	1.85%	18.9 bps	-30 bps
Fed Funds Rate	0.50%	n/c	n/c
90d U.S. T-Bill	0.34%	2 bps	n/a
2yr UST	0.84%	7.9 bps	-20.68 bps
10yr UST	1.83%	23.11 bps	-44.39 bps
30yr UST	2.58%	26.44 bps	-43.60 bps



Currencies	Oct. 31	MoM Chg	YTD Chg
CAD/USD	0.75	-2.10%	3.20%
USD/CAD	1.34	2.15%	-3.11%
CAD/EUR	0.68	0.24%	2.04%
CAD/JPY	78.17	1.23%	-10.01%
CAD/GPB	0.61	3.78%	24.23%

Market Factors	Oct. 31	MoM Chg	YTD Chg
Volatility Meter – VIX	17.06	0.28 bps	-0.06 bps
Advance/Decline – TSX	0.91	0.25 bps	0.36 bps

Source: Bloomberg

But apart from the housing sector in a handful of urban centers, inflation has remained contained within the guidance range established by the central bank, and the Bank of Canada appears likely to remain on the sidelines for the foreseeable future.

The consumer price index release in October (September numbers) confirmed that inflation is not a concern by any means but also that the deflationary panic of 2015 is certainly abating. Expectations are generally that core CPI (ex-food & energy) in Canada will remain stable at about 1.8%. U.S. inflation data is slightly higher than Canada and excluding food and energy the market is expecting CPI to be around the 2.3% level. It's further worth noting that a significant factor in the higher U.S. data is attributed to increases in the cost of shelter.

In the United States, near term expectations for a U.S. rate hike, likely in December, will lead to further pressure and depreciation of the Canadian dollar but also provide an impetus for further growth in Canadian exports. With oil prices still relatively low, but higher today versus a year ago, reverberations from the oil shock should increasingly become less impactful on the economic trajectory.

The current expansion in North America is now longer than the average business cycle, suggesting that the economy may be increasing vulnerability to mean reversion. The precise duration of the current leg is not as significant an issue as the fact that sufficient time has elapsed for the majority of U.S. economic slack to have dissipated. The U.S. Federal Reserve appears to be reacting to this fact and commencement of Fed tightening cycles generally have preceded the subsequent downturn by an average of two years. While this is a generalization based on historic averages, applying this thinking suggests that the U.S. economy should be heading for recession by late 2017.

Another indicator of rising risk for recession is the flattening of the yield curve. The credit cycle also continues to age, with its own potential implications for the broader economic cycle. Whereas credit spreads have narrowed recently, default rates are moving somewhat higher and sovereign debt downgrades have now outpaced upgrades for the past six consecutive years.

On a more optimistic note, a number of other gauges of the business cycle have recently become somewhat less concerning:

1. Corporate earnings growth appears now to be leveling after a prolonged period of decline
2. Temporary employment levels in the U.S. labour force have stabilized following a negative drop last quarter which traditionally has been a leading indicator of the broader employment trend
3. Resurgence of global trade appears to be taking root after a long period of stagnation

While business-cycle risks remain a concern, there appear to be factors that justify an extension of the average cycle duration that are dampening the time element as a specific risk factor.

UNITED STATES—The U.S. economy has followed a path of stable positive growth since late August, supported by the strength of the U.S. labour market and governed by only modest pressures on wages. The economic and financial environment has been mostly positive—and continuation of this trend is corroborated by the most recent Beige book economic survey, with most Federal Reserve districts indicating an expectation for moderate expansion.

Over the last quarter, U.S. economic growth has accelerated, expanding at an annual rate of 2.9% supported by a strong consumer sector and improved performance in global trade. The Commerce Department's report on national GDP was the second to last snapshot for the overall economy before American voters go to the polls on November 8. The final aggregate gauge will be the monthly employment report released on November 4. The tight labor market has yet to push inflation past the Fed's 2% target level. Price growth has been modest as manufacturers in the

Midwest reported lower prices for finished goods and the hospitality industry on the West Coast saw modest price gains.

While the pace of economic growth during Q3/16 has fallen short of previous achievements, the latest data represented a significant improvement from the first half of 2016 and the best quarterly advance in two years. With these gains providing sound reassurance, Fed officials will need to assess advancement against their goals of maximum employment and low inflation as they determine whether to increase rates at the next FOMC meeting in December.

GLOBAL—The European Central Bank's move to embark on quantitative easing was intended as an exceptional effort to stimulate economic growth and stave off deflation. Similarly, ECB's stimulative monetary environment was intended to weaken the euro and support a sluggish economy by making exports cheaper and boosting consumer prices. After an extended period of monetary and fiscal stimulus, the Eurozone economy now appears to be slowing. There has also been some evidence of tightening credit conditions which pose an ongoing risk to growth if this trend continues.

With the Euro at near term lows and expectations that the currency will remain under continued pressure, stronger export growth can be expected to partially offset general economic weakness. And with geopolitical pressures gradually fading, including lower migrant inflows to Europe, recent polls suggest that the shock of Brexit has actually reduced separatist support among EU member countries, despite the presence of European political risks continuing to be significant and impactful.

BONDS—Yields on U.S. long bonds declined as the ECB left interest rates unchanged and maintained asset purchases at 80 billion euros a month. The central bank confirmed that an abrupt ending to quantitative easing remains unlikely in the foreseeable future.

U.S. 30-year yields fell two basis points, or 0.02 percentage point, to 2.49 percent, according to Bloomberg Bond Trader data. The gap between yields on 5 and 30-year notes, a gauge of the yield curve, flattened to about 1.25%.

KEY ECONOMIC INDICATORS – CANADA

Event	Date	Consensus Est.	Prior
RBC Canadian Manufacturing PMI (Sep)	Oct. 3	(A 50.3)	51.1
Int'l Merchandise Trade (Aug)	Oct. 5	-2.45Bil (A-1.94Bil)	-2.49Bil (R -2.19Bil)
Building Permits MoM (Aug)	Oct. 6	1.00% (A 10.40%)	0.80% (R 3.40%)
Unemployment Rate (Sep)	Oct. 7	7.00% (A 7.00%)	7.00%
Net Change in Employment (Sep)	Oct. 7	7.5k (67.2k)	26.2k
Participation Rate (Sep)	Oct. 7	65.5 (A 65.7)	65.5
Housing Starts (Sep)	Oct. 11	190.0k (A 220.6k)	182.7k (R 184.2k)
New Housing Price Index MoM (Aug)	Oct. 13	0.30% (A 0.20%)	0.40%
New Housing Price Index YoY (Aug)	Oct. 13	2.80% (A 2.70%)	2.80%
Existing Home Sales MoM (Sep)	Oct. 14	(A 0.80%)	-3.10%
International Securities Transactions (Aug)	Oct. 17	(A 12.74Bil)	5.23Bil (R 9.10Bil)
Bloomberg Nanos Condfidence (Oct 14)	Oct. 17	(A 56.8)	57.1
Manufacturing Sales MoM (Aug)	Oct. 18	0.30% (A 0.90%)	0.10% (R 0.00%)
Bank of Canada Rate Decision (Oct 19)	Oct. 19	0.50% (A 0.50%)	0.50%
Retail Sales Ex Auto MoM (Aug)	Oct. 21	0.30% (A 0.00%)	-0.10% (R -0.20%)
CPI Core MoM (Sep)	Oct. 21	0.20% (A 0.20%)	0.00%
CPI Core YoY (Sep)	Oct. 21	1.80% (A 1.80%)	1.80%
Wholesale Trade Sales MoM (Aug)	Oct. 24	0.60% (A 0.80%)	0.30% (R 0.10%)
Industrial Product Price MoM (Sep)	Oct. 31	0.40% (A 0.40%)	-0.50% (R -0.40%)
Raw Materials Price Index MoM (Sep)	Oct. 31	0.50% (-0.10%)	-0.70%

A=actual; R=revised *Source: Bloomberg*

KEY ECONOMIC INDICATORS – U.S.

Event	Date	Consensus Est.	Prior
Markit US Manufacturing PMI (Sep F)	Oct. 3	51.4 (A 51.5)	52 (R 51.5)
Construction Spending MoM (Sep)	Oct. 3	0.30% (A -0.70%)	0.00% (R -0.50%)
ISM Manufacturing (Sep)	Oct. 3	50.4 (A 51.5)	49.4
Wards Domestic Vehicle Sales (Sep)	Oct. 3	13.33Mil (A 13.87Mil)	13.13Mil
Trade Balance (Aug)	Oct. 5	-$39.2Bil (A -$40.7Bil)	-$39.5Bil
ISM Non-Manf. Composite (Sep)	Oct. 5	53 (A 57.1)	51.4
Factory Orders (Aug)	Oct. 5	-0.20% (A 0.20%)	1.90% (R 1.40%)
Durable Goods Orders (Aug F)	Oct. 5	0.00% (A 0.10%)	0.00% (R 0.20%)
Durable Goods Orders Ex Trans (Aug F)	Oct. 5	(A -0.20%)	-0.40% (R 0.00%)
Initial Jobless Claims (Oct 1)	Oct. 6	256k (A 249k)	254k
Change in Nonfarm Payrolls (Aug)	Oct. 7	172k (A 156k)	151k (R 167k)
Unemployment Rate (Sep)	Oct. 7	4.90% (A 5.00%)	4.90%
Labor Force Participation Rate (Sep)	Oct. 7	(A 62.90%)	62.80%
Wholesale Inventories MoM (Aug F)	Oct. 7	-0.10% (A -0.20%)	-0.10%
Wholesale Trade Sales MoM (Aug)	Oct. 7	0.10% (A 0.70%)	-0.40% (R -0.60%)
Consumer Credit (Aug)	Oct. 7	$16.50Bil (A $25.873Bil)	$17.713Bil (R $17.779Bil)
Import Price Index YoY (Sep)	Oct. 13	-1.00% (-1.10%)	-2.20%
Retail Sales Advance MoM (Sep)	Oct. 14	0.60% (A 0.60%)	-0.30% (R -0.20%)
Retail Sales Ex Auto MoM (Sep)	Oct. 14	0.50% (A 0.50%)	-0.10% (R -0.20%)
Business Inventories (Aug)	Oct. 14	0.10% (A 0.20%)	0.00%
Capacity Utilization (Sep)	Oct. 17	75.60% (A 75.40%)	75.50% (R 75.30%)
CPI YoY (Sep)	Oct. 18	1.50% (A 1.50%)	1.10%
CPI Ex Food and Energy YoY (Sep)	Oct. 18	2.30% (A 2.20%)	2.30%
Housing Starts (Sep)	Oct. 19	1175k (A 1047k)	1142k (A 1150k)
Housing Starts MoM (Sep)	Oct. 19	2.90% (A -9.00%)	-5.80% (R -5.60%)
Building Permits (Sep)	Oct. 19	1165k (A 1225k)	1139k (R 1152k)
Building Permits MoM (Sep)	Oct. 19	1.10% (A 6.30%)	-0.40% (R 0.70%)
Philly Fed Business Outlook (Oct)	Oct. 20	5 (A 9.7)	12.8
Existing Home Sales (Sep)	Oct. 20	5.35Mil (A 5.47Mil)	5.33Mil (R 5.30Mil)
Existing Home Sales MoM (Sep)	Oct. 20	0.40% (A 3.20%)	-0.90% (R -1.50%)

Markit US Manufacturing PMI (Oct P)	Oct 24	51.5	51.5
S&P/Case-Shiller US HPI YoY (Aug)	Oct. 25	(A 5.32%)	5.10% (R 5.02%)
Consumer Confidence Index (Oct)	Oct. 25	101.5 (A 98.6)	104.1 (R 103.1)
New Home Sales (Sep)	Oct. 26	600k (A 593k)	609k (R 575k)
New Home Sales MoM (Sep)	Oct. 26	-1.50% (A 3.10%)	-7.60% (R -8.60%)
GDP Annualized QoQ (3Q A)	Oct. 28	2.60% (A 2.90%)	1.40%
University of Michigan Sentiment (Oct F)	Oct. 28	88.2 (A 87.2)	87.9
Personal Income (Sep)	Oct. 31	0.40% (A 0.30%)	0.20%
Personal Spending (Sep)	Oct. 31	0.40% (A 0.50%)	0.00% (R -0.10%)
Real Personal Spending (Sep)	Oct. 31	0.20% (A 0.30%)	-0.10% (R -0.20%)
Chicago Purchasing Manager (Oct)	Oct. 31	54 (A 50.6)	54.2

A=actual; R=revised *Source: Bloomberg*

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