Highlights

- MSCI Emerging Markets and S&P 500 led equity markets with small increases for the month
- Trade concerns lessened, as did Brexit; Western Canadian discontent increased after federal election results
- U.S. corporate earnings surprised to the upside; year-over-year earnings growth roughly flat
- One year after legalized cannabis, returns are modest with little effect on the broader S&P/TSX Composite Index

Stock markets respond to October's better-than-feared earnings treats

October's stock markets saw more treats than tricks in the month, resulting in modest single-digit gains, led by MSCI Emerging Markets and the U.S. S&P 500. Better-than-feared corporate earnings sweetened investors' views, while trade tensions and Brexit concerns ended up being less scary than had been expected. Markets also felt the proverbial sugar rush of the U.S. Federal Reserve's (Fed) accommodative monetary policy with the announcement of a further 0.25% interest rate cut. The October 17 anniversary of recreational cannabis legalization in Canada marked a thrilling year of highs and lows for investors who jumped in.

Equity markets rose as U.S. corporate earnings impressed

By month's end, more than half of the companies in the U.S. and Europe had reported their third-quarter corporate earnings. After a summer of increasing concerns about slowing global economic growth, U.S. corporate earnings growth was expected to shrink substantially by as much as -5% year over year. So far, U.S. corporate earnings have surprised to the upside, with year-over-year earnings growth coming in roughly flat. These results gave investors good reason for optimism amidst what was otherwise a gloomy outlook. As a result, the S&P 500 was up 2.0% (in local currency, 1.4% in CAD) bringing year-to-date growth to 21.2% (local, 17.1% in CAD). Equity markets also felt a further boost from the Fed cutting rates by 0.25% for the third time this year. The Fed telegraphed an intention to take a pause in the easing cycle, signaling they won't cut rates further unless the economy slows sharply. Bond markets aren't taking them at their word, still pricing in hefty odds of a further rate cut by mid-2020.

Only a handful of Canadian companies reported their earnings in October; those that did failed to impress – notably within the Energy and Communications Services sectors. Materials, Industrials and Financials (typically

Market Summary

Canadian Fixed Income[1]	Month	YTD
FTSE Canada Universe Bond Index	-0.2%	7.6%
FTSE Canada All Corporate Bond Index	0.0%	7.9%

Canadian Equities[2]	Month	YTD
S&P/TSX Composite	-1.1%	15.1%

	Month		YTD	
Global Equities[2]	Local	CAD	Local	CAD
S&P 500	2.0%	1.4%	21.2%	17.1%
MSCI EAFE	1.6%	2.9%	14.4%	9.8%
MSCI Emerging Markets	2.9%	3.5%	8.5%	4.2%

Currencies and Commodities (in USD)	Level	Month	YTD
CDN $	$0.760	0.6%	3.7%
Oil (West Texas)	$54.18	0.2%	19.3%
Gold	$1,512.41	2.8%	18.0%
Reuters/Jeffries CRB Index	$176.89	1.7%	4.2%

Canadian Sector Performance[2]	Month	YTD
Energy	-4.3%	5.0%
Materials	2.9%	17.0%
Industrials	0.8%	19.0%
Cons. Disc.	-4.3%	11.4%
Info Tech	-1.1%	46.0%
Health Care	-4.6%	-10.1%
Financials	-0.1%	16.6%
Cons. Staples	-4.6%	12.4%
Comm. Services	-1.5%	6.7%
Utilities	-1.1%	28.9%
Real Estate	-2.7%	18.3%

Local currency unless otherwise stated.
[1]Total return [2]Price only return
Source: Bloomberg

the cyclical ones) were Canada's top performing sectors. Currency moves, namely Canadian dollar strength, played a role in dampening enthusiasm for equities overall, especially relative to our southern neighbours.

Meanwhile, European companies delivered earnings broadly in line with expectations (-4%). Like Canada, currency moves were a headwind to the exporter-heavy U.K. FTSE 100 Index that fell 2.2% as waning hard-Brexit risks drove Sterling higher by more than 5%.

Fixed-income investors fared less well than equity investors in October. The FTSE Composite Index decreased 0.2% in October, led by long-term bonds. Bond yields retreated in North America before spiking higher later in the month thanks to improvements in trade and Brexit negotiations and softening fears of an imminent recession. Canadian yields rose along with global ones, supported by a very solid Canadian employment report. Canadian 10- and 2-year government bond yields spiked to their highest levels in three months. Despite the recent decline, Canadian fixed-income returns still remain very strong from a year-to-date perspective.

Brexit, Wexit and trade

Two key concerns that had been weighing on investor sentiment throughout much of the year saw a smidgen of progress in October. U.S.-China trade negotiations improved after the two countries agreed on the outline of a mini trade deal. The Brexit situation improved as well after a deal was agreed upon between the UK and the EU (although not without another delay, this time pushing the deadline back to January 2020); however, the country is now headed toward a general election. Meanwhile, Canada's election barely hit the radar of capital markets (perhaps a blessing in disguise as sharp market moves based on the political battles of the day tend not to be welcomed). The contentious (for Canadian standards) campaign, and election results, did unearth many hard feelings between the western and eastern provinces of Canada, with Alberta seeking greater independence from the Federal command centers in Ontario – giving birth to the 'Wexit' term.

One year later, pot stock highs have gone up in smoke

The Canadian Health Care sector suffered more losses in October, driven down largely by Canada's cannabis companies. Cannabis stock performance serves as a good reminder that investing is a marathon, not a sprint. At the one-year anniversary of cannabis legalization, we bear witness to a classic case of "buying the rumour and selling the news". In the year prior to legalization, cannabis-mania drove the S&P/TSX Health Care sector up 102%. In the year since legalization, sector returns have fallen 49%. A year is an unfair timeframe upon which to pass judgement, but the hope for legalization was to challenge the black market and enrich investors. The actual result has been a wild two-year ride and a very modest 6% annualized return. Not only have pot stocks lost half their value, sales are well below expectations and most companies are losing money, while retail prices are nearly double those of the illicit market. Despite the outsized media attention, the wild ride for the stocks hasn't had much of an impact on the broader S&P/TSX Composite. Aside from the brief, heady days of the Valeant Pharmaceuticals saga, the entire Health Care sector (of which cannabis equities now account for ~50%, down from ~70% at the peak) hasn't crested a 3% weight in the broad index in the past ten years.

Still, we know 'interest' in pot stocks won't wane anytime soon. "Do you own cannabis stocks?" remains one of the most common questions GLC's investment experts have received this year from financial advisors and investors alike. The short answer is no. As of the end of October, GLC-managed portfolios do not own cannabis stocks. Why? GLC's equity analyst, Andrew O'Brien, explains in a new GLC Insight piece where he lays out both the bull and bear investment thesis of this exciting, newly emerging industry. You'll find "The Green Rush – Exploring Canada's Cannabis Industry" where you'll find all GLC outlook and insights pieces, on GLC's News and Insights webpage.

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