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October Volatility

October has been a very turbulent month, as global markets have been seeing a dramatic selloff. From the beginning of the month to yesterday's close, both the TSX and Dow Jones indexes were down over 7%, while the S&P 500 was down 8.5%. On a YTD basis, the American equity market has lost all of it's gains throughout the year and the Canadian market is now down more than 8%. There are many factors contributing to this downturn which include:

- Disappointing forecasts and weak home sales.
- Uncertainty over Brexit.
- Italy's budget issues with the European Commission.
- Political tension with Saudi Arabia over the death of a New York Times journalist.
- Continuing trade tensions between the U.S. and China.
- Tightening monetary policy.

Although some of the issues above are mainly political, they can have a large impact on investor sentiment. In North America, the new USMCA deal still needs to be ratified and approved by lawmakers in each country. Although the negotiations have finished, auto tariffs are still in place and there is the potential that the U.S. mid-term results in November could have an impact on the deal. We've also seen an increase in interest rates in both Canada and the U.S. Since July 2017, the Bank of Canada has increase rates five times to 1.75% and has stated they will no longer take a gradual approach to interest rate increases in the future. A large concern is the level on household debt held by Canadians; in a recent survey, one in three Canadians fear they may be pushed to bankruptcy with increased interest payments. The Bank of Canada has done their own research and believes consumers will be able to bare the increase, as rates remain below the neutral rate of 2.5-3.5%.

Even with the USMCA trade deal, there is still a large amount of uncertainty throughout the global economy. Trade tensions between China and the U.S. have yet to subside, as the U.S. continues to place tariffs on Chinese goods and in return has had retaliatory tariffs placed on their exports to China. The EU is also suffering with continued uncertainty in what has been a turbulent year. In June, the Trump administration placed tariffs on auto imports from the EU, adding to global trade tensions already seen with its other trade partners. There is also a lot of concern from Brexit, the outcome and full impact from which is still unknown. The Italian government's budget has also been rejected by the European Commission, which has increased the yields on Italian bonds. Italy has been given three weeks to table another budget that falls within the guidelines of the EU.

We are always evaluating these concerns and how they may affect your portfolios going forward. Although it is not certain whether we have reached the bottom, we believe that staying invested is the best course of action in order to catch any potential rebound. Over the last 6 months, we have been positioning our portfolios to be well diversified and to be more defensive because we've been expecting a downturn. As always, we are not worried about temporary downturns as the markets go up & down in cycles and they always rebound (even after 2008!) We are continuing to use great funds in each sector with managers that have provided great historic returns. We, along with the fund managers, see these corrections as buying opportunities to deploy cash. Managers welcome these downturns as it allows them to purchase great stocks at a discount.

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