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A marked desynchronization

The economies of the United States and the euro zone are moving in diametrically opposite directions. While the U.S. Federal Reserve (the Fed) officially announced the end of its quantitative easing program at the FOMC's October 29 meeting, the European Central Bank is resorting, as best it can, to the use of non-traditional monetary stimulus policies. The credit cycle, a vital component for launching and sustaining the economic cycle, is doing rather well south of the border, but continues to contract in Europe. If we add the fact that Germany seems to be sliding into a new recession, it is difficult to think of a time when the major advanced economies last contrasted so sharply.

Canada: Growth stagnating since July

- Economic growth came to a halt in July, as low energy prices curbed the value of oil and gas exports and the annual production break in the auto sector weighed on manufacturing. This weakness in exports pushed the merchandise trade balance back into negative territory.
- Canada's job market continued to yo-yo in September, with a gain of 74,100 jobs. The unemployment rate dropped to 6.8%, its lowest level since 2008. The gains were concentrated in full-time positions (69,300), despite some progress in the part-time segment (4,800). The statistics remain peculiar, with a spectacular rebound of 123,600 jobs in the private sector, following a loss of 111,800 the previous month. No need to mention that this is the highest volatility witnessed in the history of the Labour Force Survey and that it is likely the result of a statistical abnormality...

United States: Job market maintains its course

- Job creation surged above 200,000 again in September, with 248,000 jobs added during the month. As well, data from the month before were revised upward significantly, from 142,000 to 180,000, confirming the strength of the labour market. The unemployment rate fell below 6.0% for the first time since 2008, to 5.9%. This acceleration in employment bodes well, as it should soon lead to a self-sufficient cycle of more income, more consumer spending, and an increase in activity that will translate into more hiring and investment.
- In addition to jobs created and filled, the number of unfilled jobs is currently close to 5 million, the highest level in 13 years (see chart). The impressive gains in hiring should therefore continue in the coming months as these positions are gradually filled. The signs are encouraging, if we are to judge from the number of new applications for unemployment benefits, also at a 13-year record, having reached their lowest level since 2001.
- The initial estimate for third-quarter GDP growth has exceeded expectations, reaching 3.5%, resulting in the best performance over two consecutive quarters since 2003. The beneficial effects of the end of fiscal cutbacks and of the decrease in energy imports have proven to be very strong since the summer, and final demand, which excludes inventory variations, has largely surpassed that measured in the second quarter. With the exception of last winter, the numbers coming from the first world economy are very impressive.

Europe: Germany in recession?

- After having learned that GDP contracted 0.2% in Germany in the second quarter, we have to admit that the weakness in the German statistics since then suggest that Europe's largest economy has probably fallen into recession. Industrial production, for example, plunged 4.0% in August, the sharpest decline since 2009, while observers were expecting a 1.5% increase. All household and business confidence indices are sending the same signal, which is that Germany's overperformance within the old continent is flagging, and that the situation could last for some time.

World: The Bank of Japan creates a surprise

- Facing an inflation rate that remains stubbornly low and a lack of progress in the implementation of major structural reforms, primarily on the labour market, the Bank of Japan (BoJ) has begun resorting to extreme measures and has decided to step up the pace of its printing press. Against all expectations, the BoJ has decided to relax its monetary policy even more, by increasing its asset-purchasing program to 80,000 billion yen per year, instead of the 60,000 to 70,000 billion originally planned. The BoJ will therefore be going against the Fed even more vigorously, which should benefit the U.S. dollar.

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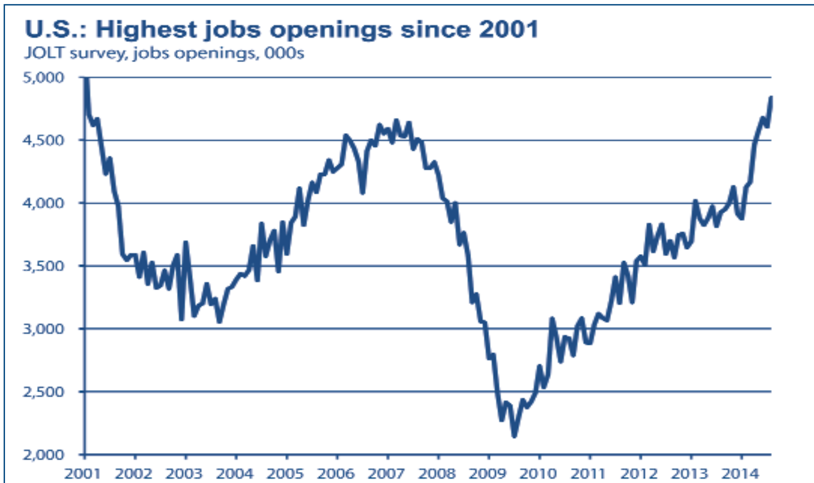
Economic and Financial Statistics

	As at 2014-10-31[1]	As at 2013-12-31
Canada - Unemployment rate	6.8%	6.9%
Canada - CPI (year/year variation)	2.0%	0.9%
Canada - GDP (year/year variation)	2.2%	2.7%
U.S. - Unemployment rate	5.9%	7.0%
U.S. - CPI (year/year variation)	1.7%	1.2%
U.S. - GDP (year/year variation)	2.3%	2.0%
2-year Canada Bonds	1.02%	1.14%
10-year Canada Bonds	2.05%	2.78%
Oil (West Texas) ($US)	81.1	99.2
Gold ($US)	1,165.7	1,207.9
CRB Commodities Index ($US)	272.0	280.2
Exchange rate $CA/$US	1.1267	1.0623

Source: IAIM

[1] Most recent data available at such date



Source: IAIM

Reference indexes[1] - Returns as at October 31, 2014

	Simple returns[2]			Compound annual returns			
	1 month %	3 months %	YTD %	1 year %	3 years %	5 years %	10 years %
INDEXES RELATED TO INCOME FUNDS							
FTSE TMX Canada 91 Day T-Bill Index	0.1	0.3	0.8	0.9	1.0	0.9	2.0
FTSE TMX Canada Short Term Bond Index	0.3	0.5	2.4	2.6	2.3	2.9	3.9
FTSE TMX Canada Universe Bond Index	0.6	1.0	6.5	5.8	3.8	5.0	5.3
S&P/TSX Capped Income Trusts (Total Return)	4.5	5.1	15.1	15.2	11.5	17.3	12.3
SB - World Government Bonds (Can. $)	0.3	0.3	6.8	6.7	3.5	2.4	2.9
INDEXES RELATED TO CANADIAN EQUITY FUNDS							
S&P/TSX 60	(1.4)	(3.3)	11.1	14.0	10.1	8.6	8.3
S&P/TSX Completion Index	(3.9)	(6.2)	6.5	8.7	7.1	10.7	8.0
S&P/TSX Composite Index	(2.1)	(4.0)	9.9	12.6	9.3	9.1	8.0
S&P/TSX Capped Composite Index	(2.1)	(4.0)	9.9	12.6	9.3	9.1	8.0
S&P/TSX SmallCap Index	(8.3)	(14.7)	(1.9)	0.9	(0.2)	5.6	3.3
INDEXES RELATED TO U.S. & INTERNATIONAL EQUITY FUNDS							
S&P 500 (Can. $)	3.1	8.8	17.7	26.8	24.9	17.8	7.4
S&P 500 (Can. $) (Reuters)	3.4	8.8	17.8	26.8	24.9	17.8	7.4
MSCI - World (Can. $)	1.2	3.6	10.8	17.5	19.3	12.4	6.1
MSCI - EAFE (Can. $)	(0.9)	(2.0)	3.0	7.5	14.4	7.5	5.0
MSCI - EAFE (Can. $) (Reuters)	(0.6)	(2.0)	3.1	7.5	14.4	7.5	5.0
MSCI - Europe (Can. $)	(2.1)	(2.5)	1.7	7.4	15.7	8.2	5.7
INDEXES RELATED TO SPECIALTY FUNDS							
MSCI - AC Asian Pacific Free (Can. $)	1.7	(0.6)	9.0	10.7	12.9	7.9	6.3
MSCI - Emerging Markets (Can. $)	1.8	(0.8)	10.2	9.2	8.1	5.9	10.0
MSCI - World Health Care (Can. $)	3.0	10.2	22.9	31.1	27.5	16.9	7.5
NASDAQ 100 (Can. $)	3.3	10.6	22.7	33.1	26.0	21.2	10.0
S&P/TSX Capped REIT Index	4.0	3.1	13.3	13.4	9.5	15.5	10.9

	Variation			Compound annual variation			
	1 month %	3 months %	YTD %	1 year %	3 years %	5 years %	10 years %
EXCHANGE RATE (Can. $ / US $) As at October 31, 2014: 1.1275	0.6	3.5	6.0	8.1	4.3	0.9	(0.8)
EXCHANGE RATE (US $ / Can. $) As at October 31, 2014: 0.8869	(0.6)	(3.4)	(5.7)	(7.5)	(4.1)	(0.9)	0.8

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Financial markets: S&P 500 avoids technical correction, S&P/TSX sinks

- The S&P/TSX Index officially entered a correction phase (defined as a decrease of more than 10% from the peak) in October. The Canadian index reached an intra-session low of 13,646 in mid October, a drop of nearly 13.0% since the peak reached in early September. In the end, the total return for October was -2.1% and 9.9% for the year to date.
- The U.S. S&P 500 Index, however, narrowly avoided the correction, since the intra-session low reached in mid October stopped at a decline of 9.5% from its September peak. The rebound that followed the bearish episode was nothing less than spectacular, as the index hit a new historic peak in the last session of the month. The total return for the month was 2.4% (up 3.1% in Canadian dollars) and 11.0% in local currency (17.7% in Canadian dollars) for the year to date.
- World indices MSCI - EAFE and MSCI - World progressed by -0.3% and 1.1% respectively (-0.9% and 1.2% respectively in Canadian dollars). The emerging markets, measured by the MSCI - Emerging Markets Index, gained 1.4% (1.8% in Canadian dollars).
- The Canadian bond market, measured by the FTSE TMX Universe Bond Index, was up 0.6% for the month and 6.5% since the start of the year.

1 Indexes presented in this document are total return index.
2 The rates for the period are non-annualized.