Industrial Alliance
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Economic and Financial Bulletin

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Sébastien Mc Mahon, M.E.Sc., PRM, CFA
Frédéric Gagnon
economics@ia.ca or ia.ca/economy

Fed maintains uncertainty

The U.S. Federal Reserve (the Fed) decided to maintain its current monetary policy in September, primarily because of its apprehensions concerning the international markets which, coupled with the weakness in natural resource prices, has put downward pressure on the outlook for inflation. Considering that the slowdown in China is not a situation that is about to disappear within a few weeks, it is hard to see how a shift on the geopolitical scene could cause a change of course at the committee's next meeting, on October 28. This decision has continued to fuel volatility on the financial markets because it reveals the Fed's reticence to end the ultra-accommodating monetary policy that it began during the Great Recession, now more than six years ago.

Canada: early signs of a manufacturing sector recovery

The effects of the low Canadian dollar are starting to be felt in the Canadian economy. Non-energy exports are bouncing back, influenced by stronger U.S. demand, now accounting for nearly three-quarters of the demand for Canadian exports.

In the job market, however, it is the service sector that is leading the way, having kept the pace of an average 20,000 new jobs each month since the start of the year, compared to losses of more than 5,000 in the goods sector. The service sector's share of employment is now 79%, a historic peak.

United States: the Fed says "no" to a rate hike

The Fed opted for caution on September 17, by keeping the zero lower bound on its key policy rate. In its statement to the press, the committee in charge of U.S. monetary policy highlighted a weakness in exports (caused by the stronger U.S. dollar and global economic weakness) and expressed concern over the fact that inflation remains below its 2% target. Even so, Federal Reserve Chair Janet Yellen believes the U.S. economy is solid enough to merit a first increase in the federal funds rate by the end of this year.

Despite the uncertainty on the international front, the U.S. domestic economy is showing promise. Employment has been robust since the start of the year, with the majority of jobs created being full-time in the private sector, supporting a sustainable expansion of the economy. As well, real estate data continues to be impressive, with new home sales at their highest since 2008.

Europe: more stimulation by the central bank in sight?

Economic growth is improving in Europe, but the medium-term outlook remains below desirable levels. Moreover, with the sharp slowdown in emerging countries and the weakness in commodity prices that could lower the inflation outlook on an international level, the European Central Bank (ECB) has not discarded the idea of further stimulating the continent's economy by prolonging or reinforcing its quantitative easing (QE) program.

World: eyes riveted on Chinese growth

The Chinese stock market's performance is highly reminiscent of that of the NASDAQ in the late 1990s. The Shenzhen index posted a return of 150% in the year preceding its peak in June 2015. Since then, the stock market bubble has deflated just as quickly, having now lost more than 40%, but the decline is probably not over (graph). The financial markets remain anxious about the weaknesses in manufacturing output and the country's level of exports, a situation that could take some time to right itself.

Financial markets: volatility in the air

- September was another difficult month for the S&P/TSX, which was down 3.7%, influenced largely by the health sector, which fell 21.8% during the month. The total return for the Canadian market for the year to date is now -7.0%.

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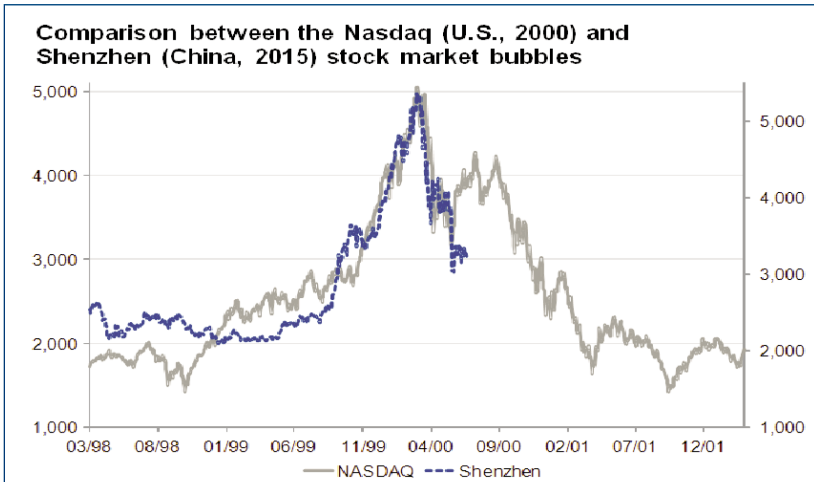
Economic and Financial Statistics

	As at 2015-09-30[1]	As at 2014-12-31
Canada - Unemployment rate	7.0%	6.6%
Canada - CPI (year/year variation)	1.3%	2.0%
Canada - GDP (year/year variation)	0.8%	2.3%
U.S. - Unemployment rate	5.1%	5.8%
U.S. - CPI (year/year variation)	0.2%	1.3%
U.S. - GDP (year/year variation)	2.7%	2.7%
2-year Canada Bonds	0.52%	1.01%
10-year Canada Bonds	1.43%	1.79%
Oil (West Texas) ($US)	45.2	53.8
Gold ($US)	1,114.3	1,186.3
CRB Commodities Index ($US)	193.8	230.0
Exchange rate $CA/$US	1.3315	1.1621

Source: IAIM



[1] Most recent data available at such date

Reference indexes[1] - Returns as at September 30, 2015

	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	0.0	0.1	0.5	0.8	0.9	0.9	1.8
FTSE TMX Canada Short Term Bond Index	(0.2)	0.0	2.1	3.0	2.4	2.7	3.8
FTSE TMX Canada Universe Bond Index	(0.3)	0.1	2.5	5.3	3.4	4.5	5.0
S&P/TSX Capped Income Trusts (Total Return)	1.7	(2.1)	1.1	4.0	4.6	12.2	8.5
SB - World Government Bonds (Can. $)	2.1	9.2	12.7	14.9	7.7	5.2	4.9
INDEXES RELATED TO CANADIAN EQUITY FUNDS							
S&P/TSX 60	(3.5)	(6.7)	(6.2)	(6.5)	6.9	4.9	5.1
S&P/TSX Completion Index	(4.3)	(11.2)	(9.6)	(13.8)	2.3	3.2	4.3
S&P/TSX Composite Index	(3.7)	(7.9)	(7.0)	(8.4)	5.7	4.5	4.8
S&P/TSX Capped Composite Index	(3.7)	(7.9)	(7.0)	(8.4)	5.7	4.5	4.8
S&P/TSX SmallCap Index	(6.8)	(15.2)	(14.3)	(21.8)	(4.1)	(2.7)	0.1
INDEXES RELATED TO U.S. & INTERNATIONAL EQUITY FUNDS							
S&P 500 (Can. $)	(1.2)	0.5	9.4	18.8	24.6	19.5	8.3
S&P 500 (Can. $) (Reuters)	(1.7)	0.5	9.6	19.2	24.6	19.6	8.4
MSCI - World (Can. $)	(2.4)	(1.7)	8.5	13.4	20.3	14.1	6.2
MSCI - EAFE (Can. $)	(3.9)	(3.6)	9.4	9.2	17.1	9.6	4.4
MSCI - EAFE (Can. $) (Reuters)	(4.3)	(3.6)	9.6	9.6	17.1	9.7	4.5
MSCI - Europe (Can. $)	(3.4)	(1.9)	10.0	8.9	18.2	10.6	5.4
INDEXES RELATED TO SPECIALTY FUNDS							
MSCI - AC Asian Pacific Free (Can. $)	(3.0)	(8.2)	6.1	8.3	14.2	7.9	5.0
MSCI - Emerging Markets (Can. $)	(1.7)	(11.7)	(2.1)	(3.2)	5.4	2.0	6.1
MSCI - World Health Care (Can. $)	(5.1)	(3.0)	13.8	21.0	28.0	20.5	8.3
NASDAQ 100 (Can. $)	(0.9)	2.1	14.0	23.4	26.7	22.2	11.7
S&P/TSX Capped REIT Index	1.7	(3.5)	(1.1)	0.3	1.3	7.5	7.7

	Variation			Compound annual variation			
	1 month %	3 months %	YTD %	1 year %	3 years %	5 years %	10 years %
EXCHANGE RATE (Can. $ / US $) As at September 30, 2015: 1.3394	1.3	7.4	15.5	19.5	10.8	5.4	1.4
EXCHANGE RATE (US $ / Can. $) As at September 30, 2015: 0.7466	(1.3)	(6.9)	(13.4)	(16.3)	(9.8)	(5.1)	(1.4)

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- The U.S. S&P 500 was down 2.5% (-1.2% in Canadian dollars) during the month. The sectors that fared the worst were materials and energy, losing 7.6% and 6.8% respectively. However, with the loonie's 13.4% depreciation against the U.S. dollar in 2015, the U.S. market's total return for the year to date is still attractive for Canadian investors, at 9.4%, despite a decline of 5.3% in local currency.
- World indices MSCI - EAFE and MSCI - World were down 4.8% and 3.5% respectively (-3.9% and -2.4% in Canadian dollars). The emerging markets, measured by the MSCI - Emerging Markets Index, were down 1.7% (-1.7% in Canadian dollars). For the year to date, total returns for the MSCI - EAFE, MSCI - World and MSCI - Emerging Markets are respectively, in local currency, -0.9%, -3.9% and -6.9% (9.4%, 8.5% and -2.1% in Canadian dollars).
- The Canadian bond market, measured by the FTSE TMX Canada Universe Bond Index, was down slightly by 0.3%. The return for the year to date is 2.5%.

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