Highlights

- Capital markets faced heightened volatility.
- Bond yields rose, with the FTSE Universe Bond Index overall yield sitting above 3% for the first time since 2011.
- Global equity markets were deeply in the red, with all major markets entering correction territory (-10% or more) on an intra-day basis.
- Most global equity markets outside of the US are down by single digits for the year, US markets erased much of their YTD gains.

Market Summary

Canadian Fixed Income[1]	Month	YTD
FTSE Canada Universe Bond Index	-0.6%	-1.0%
FTSE Canada All Corporate Bond Index	-0.6%	-0.4%

Canadian Equities[2]	Month	YTD
S&P/TSX Composite	-6.5%	-7.3%

	Month		YTD	
Global Equities[2]	Local	CAD	Local	CAD
S&P 500	-6.9%	-5.4%	1.4%	6.5%
MSCI EAFE	-6.6%	-6.5%	-7.6%	-7.0%
MSCI Emerging Markets	-7.8%	-7.2%	-12.3%	-13.3%

Currencies and Commodities (in USD)	Level	Month	YTD
CDN $	0.760	-1.9%	-4.5%
Oil (West Texas)	65.31	-10.8%	8.1%
Gold	1,213.33	1.7%	-6.9%
Reuters/Jeffries CRB Index	190.97	-2.1%	-1.5%

Canadian Sector Performance[2]	Month	YTD
Energy	-9.2%	-12.8%
Materials	-4.6%	-15.1%
Industrials	-5.9%	4.8%
Cons. Disc.	-6.4%	-12.3%
Info Tech	-8.1%	15.4%
Health Care	-17.7%	6.3%
Financials	-6.9%	-7.2%
Cons. Staples	-0.8%	-5.3%
Comm. Services	-2.1%	-8.0%
Utilities	-2.8%	-13.6%
Real Estate	-3.3%	2.0%

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

October's stock markets: Quite the thriller.

No need to hunt for the 'Red October'…it was hard to miss. Market returns were a sea of red as volatility returned in spades, hitting both equity and fixed income markets, with significant drawdowns for stock markets around the world. All major global equity markets lost significant ground in October. All but the U.S. market fully erased 2018 year-to-date gains (the S&P 500 remains ahead year-to-date, but not by much anymore).

There were many ghosts, goblins and political leaders to blame (think Saudi tensions, Italian fiscal concerns, Brexit struggles and mid-term U.S. elections), but at the heart of this market correction were rising interest rates and concerns over the outlook for corporate earnings. The current high growth rate for U.S. corporate earnings is not sustainable. Furthermore, in a rising interest rate environment, future earnings are worth less when they are discounted back to the present, the basis for company share equity valuation. The resulting re-evaluation of stock valuations meant some of the highest-flying sectors carried the brunt of the re-adjustment (e.g. Information Technology and Health Care sectors).

The "income" is coming back to fixed income

For longer than most expected, interest rates remained at low and ultra-low levels – the result of a largely global synchronized effort by central banks to spark and support the decade-long economic recovery from the great financial crisis. October marks the first month since June of 2011 where the overall yield on the FTSE Canada Universe Bond Index sits above 3%, up nearly double the all-time low of 1.64% in January 2015.

While rising rates and the accompanying headwind to bond returns are troubling for fixed income investors, the volatility mitigating qualities of fixed income remain solid. It's worthwhile putting October's Canadian fixed income performance into context. The -0.6% return on the month for the Canadian fixed income benchmark index pales in comparison to the beating equity investors took as the S&P/TSX Composite Index fell ten-times more than bonds. For balanced investors, the nearly 6% outperformance of Canadian bonds meant significantly less volatility and drawdown (i.e. more capital preservation) than experienced by an equity-only investor during the month. Furthermore, as yields rise to higher absolute levels, so too does the strength of a bonds' income-generating abilities to offset the headwinds of rising rates.

The good news for bond investors is that the bond market is slowly putting the "income" back into fixed income.

The steadily rising yield environment, while painful through its process like 'diet and exercise', is leading fixed income investors to a better place. After nearly four years of 'diet and exercise' on rising yields, balanced investors can begin to see reason to welcome today's 'healthier' bond environment.

Brent Joyce, CFA, Chief Investment Strategist, GLC

Market corrections are normal, but not fun.

We continue to believe that this market correction is not yet the beginning of a full-blown bear market. While many market challenges are being watched closely (such as the U.S. mid-term elections, Brexit, and China-U.S. trade tensions), we see the underlying reasons for the recent market pullback as normal and justified. We see the move up in bond yields (particularly in the U.S.) as wholly appropriate given the underlying strength in the U.S. economy. While some movement to higher Canadian yields is also appropriate (given the trade-tensions relief from the signing of the USMCA agreement, above-expectation economic growth and stable inflation), we do not feel the Bank of Canada rate needs to move as aggressively, or as high as the U.S.

Likewise, market corrections tend to add, not detract, clarity to market conditions. Periods like we are experiencing right now help to stave off full-blown bear markets by pushing equity metrics back into more reasonable territory. For example, stock valuations (price-earnings ratios) for the S&P 500 had soared in the past twelve months and were not sustainable in an environment where the U.S. Federal Reserve was signalling rate hikes. Today, post-October's market correction, that is no longer the case. U.S. price-earnings ratios have been brought down to below or near their lowest levels since early 2016 – not necessarily 'cheap', but most certainly 'cheaper' and more realistic for future earnings expectations for corporate America.

October's notoriety

Historically, October is notorious for equity market corrections - but corrections are frequent and normal, and do not equate to 'bear' markets. We see the current equity market pullback as a normal-course correction; but just because it's 'normal' doesn't mean it doesn't hurt, or test one's discipline. We continue to hold the view that a neutral stance between equities and fixed income remains appropriate.

Christine Wellenreiter, CM
VP Marketing and Communications, has more than 15 years of investment industry experience and has been writing the monthly Market Matters for over 10 years.