North America

US markets were dominated by a pair of key economic readings. First, on Tuesday, the release of the ISM manufacturing index sparked fears of an impending recession by registered the lowest readings since Jun. 2009 (47.8%). This also marks back-to-back months of contractionary levels. In addition, new export orders fell to the lowest level since Mar. 2009 (41%), highlighting the drag on exports from the ongoing US-China trade war. This was followed by a sanguine job report released on Friday, which showed the unemployment rate dropping by 0.2% to 3.5%, the lowest since 1969. On the other hand, average hourly wages failed to growth in Sept. and was only up 2.9% for the year, causing concerns about the uneven distribution of economic gains over the current economic cycle.

The mix of weak manufacturing data coupled with an emerging political crisis around impeachment hearings is rapidly weakening Trump's negotiating position vis-à-vis China. There are signs that the Chinese delegates will push for a scope reduction by removing long-held American demands for reforming Chinese industries and subsidy policies off the table when trade talks resume this week. **Juxtaposed with Trump's repeated insistence that the deal must be "100% for us", the Chinese move is designed to force Trump's hands as he decides whether to drop one of his central demands in exchange for striking a trade deal before the 2020 election cycle**.

Equities

The end of the week saw equity markets take a U-turn on the back of a negative surprise in the ISM manufacturing data, and positive employment data. For the week, equity markets finished modestly lower, which S&P shedding 0.3% and TSX down 1.5%. In the short term, the markets will continue to be supported by the "goldilocks" jobs report, which was not strong enough to diminish the prospects of a Oct. rate cut, but not weak enough to suggest a fault in the labor market, which is pivotal for sustaining consumer spending. **However, as Fed's dry powder continues to be drawn down with each rate cut, attention will increasingly shift to fiscal policy as a potential mitigant of economic slowdown.** However, in light of the political gridlock in Washington over impeachment proceedings, the risks of political standstill leading to policy paralysis remains a real source of risk for equity markets in the intermediate term.

Fixed Income

Last week, yields on 3-month and 2-year U.S. government bonds decreased by 9 bps and 23 bps, while longer-term yields on 10-year and 30-year U.S. government bonds decreased by 17 bps and 12 bps respectively. September witnessed a big pullback in the U.S. non-manufacturing ISM index and a deterioration in services PMI data in the Europe and UK, raising doubts about resilience of the service sector given manufacturing data continued to soften. Last Friday, Fed Chairman Jerome Powell said U.S. economy is in a "good place" but faces risks, giving no clear signal whether the Fed will deliver another rate cut this year. At the September FOMC meeting, only 7 of 17 officers expected another rate cut following the latest rate cut in September. Meanwhile, given manufacturing weakness, lackluster services and employment reports, slowing global economy and U.S.-China trade war, markets have priced in another rate reduction in October.

Canadian yield curve has further inverted as long-term Canadian government-bond yields plummeted alongside other markets. The 3-month bills, which is tied to the Bank of Canada benchmark rate, was 40 basis points higher than the 10-year government bonds. While major global central banks either lowered interest rates or implemented monetary stimulus, Bank of Canada seems to hold back as Canadian economic data remained resilient against intensifying global risks. Even though domestic debt burdens remained an issue, Canadian manufacturing data looked soft but better than other regions, credit growth started to reaccelerate and housing sector steadily improved. Benchmark interest rate is forecasted to remain unchanged in October, but will likely witness a 25 bps decrease over the next 12 months from 1.75% to 1.50%. Canadian investors posted the best currency-hedged bond returns in five years, primarily due to slower global growth and lack of commitment to free trade leading investors to seek safety in government bonds and boosting the demand for the asset class.

Europe

UK's services PMI fell to a six-month low of 49.5, worse than market expectations. Combined with even weaker manufacturing and construction surveys this week, UK's all-sector PMI in September plunged to 48.8 from 49.7. The figures show that the UK's economy shrank by 0.1% in the three months to September, according to IHS Markit. **Britain's economy shrank by 0.2% in the three months to June - the first decline since 2012 - and a second quarterly contraction would meet the recession definition used in Europe.** On the news, British government bond yields fell slightly, adding to speculation that the Bank of England might cut interest rates.

On Wednesday, Prime Minister Boris Johnson delivered new Brexit proposals to the EU including plans to replace the Irish backstop. **The plan would see Northern Ireland stay in the European single market for goods, but leave the customs union** - resulting in new customs checks. Johnson also addressed that unless the bloc compromised, Britain would leave without a deal at the end of this month. The European Commission said there had been progress but "problems" remained.

Asia

The Reserve Bank of Australia slashed interest rates for the third time since June amid growing concerns about a slowdown in the economy. The official cash rate was cut by 25 bps to 0.75%, the lowest level on record. A combination of low growth rates (1.4% in the year to June), rising unemployment rate (5 to 5.3% through Aug.) and tamed inflation rates has led to expectations of one more cut to .50% by years end followed by another in early 2020. However, aggressive monetary easing is also facing growing skepticism, notably from former RBA governor Ian MacFarlane who assessed that the impact of further rate cuts is fast diminishing. **As the central bank's ammunition quickly runs dry, all eyes will swift to fiscal policies, where stimulative effects of income tax cuts that began on Jul. 1st and an infrastructure package is expected to percolate into next quarter's growth figures.**

Japan's business confidence slipped for the third straight quarter as firms remain cautious about the current economic environment. The reading for the quarter ending Sept. dipped from 7 to 5 among manufacturing firms (but beat market expectations of 1) and from 23 to 21 for non-manufacturers. The primary risk factors continue to be the US-China trade war, which affects a large portion of the Japanese export chain, and the recent sales tax hike from 8 to 10%.

Commodities

Last week, global benchmark Brent settled 5.7% lower at $58.37 a barrel, while U.S. West Texas Intermediate (WTI) crude ended the week at $52.81 a barrel, a 5.5% decrease from prior week. The sharp decline was attributed to a series of lackluster economic reports, including a plunge in September manufacturing activity and a sharp slowdown in services industry growth. The deterioration in manufacturing sector appears to have spilled over into the services sector, reducing the demand for the commodity. On the supply side, Saudi Arabia's energy minister stated that the country had fully restored oil production after last month's attacks on its facilities. Meanwhile, U.S. energy companies this week reduced the number of oil rigs operating for a seventh week in a row, bringing the total oil rigs down to 710, the lowest since May 2017. This week, the outcome of the meeting between U.S. and Chinese officials on October 10-11 will be closely watched by markets and will pull a heavy weight on future oil demand.

Gold price continued to appreciate in turbulent times, supported by a higher demand for the safe haven asset, a falling U.S. dollar and rising bond prices (as falling bond yield is boosting the attractiveness of non-interest-bearing assets like gold and silver). In addition, Fed Chairman Jerome Powell's implication that the Fed might cut rates again to stop inflation from falling helped boost the bullion price firmly above its $1,500 level.

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Key Rates

	Levels (%)			
	Current Level	Last Week	Last Month	Last Year
Canada				
Overnight	1.75	1.75	1.75	1.50
2Y Treasury	1.39	1.57	1.33	2.31
10Y Treasury	1.23	1.36	1.13	2.56
30Y Treasury	1.42	1.55	1.41	2.54
3M CDOR *	1.97	1.97	1.95	2.06
USA				
Fed Funds	1.83	1.83	2.13	2.18
2Y Treasury	1.40	1.63	1.43	2.87
10Y Treasury	1.52	1.69	1.47	3.19
30Y Treasury	2.01	2.13	1.97	3.35
3M LIBOR	2.03	2.10	2.11	2.41

Currencies and Commodities

	Return (%)			
	Current Level	1 Week	1 Month	1 Year
CAD	1.3325	0.8	0.5	3.4
Oil	52.81	(5.5)	(6.1)	(26.2)
Gold	1,512.90	0.4	(2.6)	22.9

Major Indices

		Index Return (%)			
	Current Level	1 Week	QTD	YTD	1 Year
TSX Composite	16,449.35	(1.5)	(1.3)	14.8	2.8
S&P500	2,952.01	(0.3)	(0.8)	17.8	1.7
DJIA	26,573.72	(0.9)	(1.3)	13.9	(0.2)
Nasdaq	7,982.47	0.5	(0.2)	20.3	1.3
Russell Growth	1,602.57	0.6	(0.2)	21.9	3.8
Russell Value	1,244.70	(1.2)	(1.5)	13.8	(0.6)
STOXX 600 EUR	380.22	(3.0)	(3.3)	12.6	0.1
German DAX	12,012.81	(3.0)	(3.3)	13.8	(1.9)
FTSE 100	7,155.38	(3.6)	(3.4)	6.4	(3.5)
Nikkei 225	21,410.20	(2.1)	(1.6)	7.0	(10.7)
Hang Seng	25,821.03	(0.5)	(1.0)	(0.1)	(3.0)

Major Economic Events

Day	Events	Est.	Previous
Mon	US Fed Chair Powell Speaks		
Tue	US PPI (MoM) (Sep)	0.10%	0.10%
	US Fed Chair Powell Speaks		
Wed	US JOLTs Job Openings (Aug)		7.217M
	US Crude Oil Inventories	1.567M	3.100M
	FOMC Meeting Minutes		
Thu	UK GDP (MoM)		0.30%
	UK Manufacturing Production (MoM) (Aug)	-0.10%	0.30%
	US Core CPI (MoM) (Sep)	0.20%	0.30%
Fri	CA Employment Change (Sep)	7.5K	81.1K

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