

THE ECONOMY AT A GLANCE

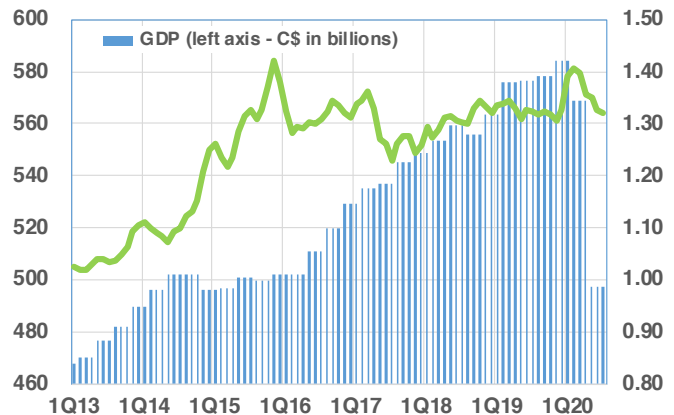
ECONOMIC HIGHLIGHTS

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CANADIAN ECONOMIC REBOUND CONTINUES

Widespread lockdowns in April took their toll on the Canadian economy, with GDP contracting at an annualized 39% rate in the second quarter. July GDP showed a 3% rebound, with even better 6% growth for the manufacturing segment. With Energy a dominant sector in the Canadian economy, low oil prices hindered the recovery. Still, with help from stimulus measures, the Canadian stock market has trailed the S&P 500 only modestly. Much of that trailing performance can be attributed to the outsized weighting in the Financial Services and Energy sectors, where low interest rates and oil prices, respectively, have taken a toll. We continue to like Canadian company exposure for diversification.

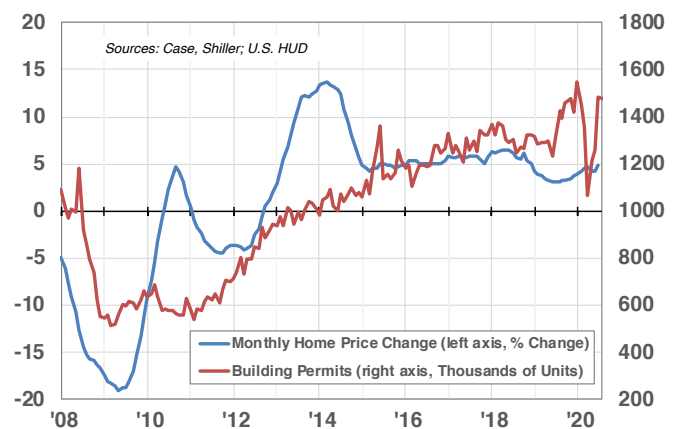
CANADA ECONOMIC TRENDS



HOUSING PRICES TICK HIGHER

The housing market is starting to rebound after a slump related to the onset of the pandemic. Building permits, which are a leading indicator for the industry, peaked in January at 1.55 million units and are down 5% (through August). But they are up 39% from April's lows. Existing home sales, which were down 32% in May from January, have started to rise and were up 2% month-to-month in August. Prices have held up as well, and inventory levels are tight. On the other side of the pandemic, we expect that demand for homes -- with yards between neighbors and no elevator buttons to press -- will remain strong.

HOUSING MARKET TRENDS



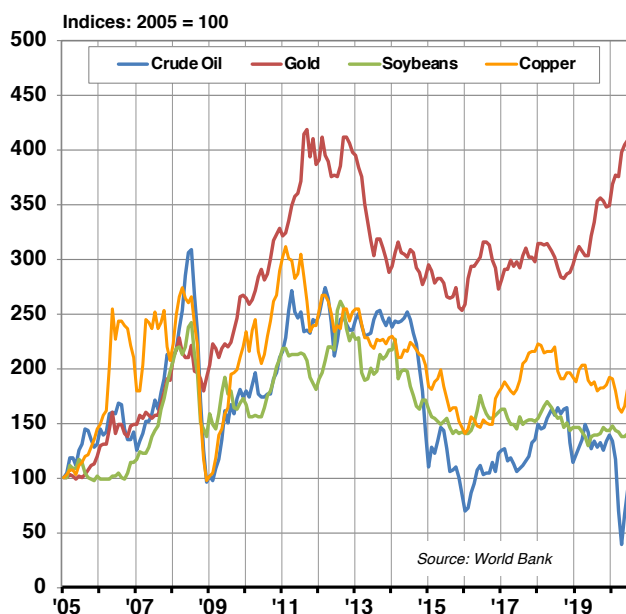
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ECONOMIC HIGHLIGHTS (CONTINUED)

COMMODITY PRICES START TO RECOVER

Trade issues hammered commodities in 2018-2019, and then the coronavirus piled on. Copper prices were down 28% in April from their 2018 highs as construction stalled, but they have since recovered 33%. Oil prices plunged 75%, but have more than doubled from their historic lows. Meanwhile, soybean prices have remained relatively steady and the price of gold has surged. Commodity investors are accustomed to volatility. The last time the commodities market bottomed was in January 2016, when oil prices were below \$30 per barrel and copper was below \$4,500 per metric ton. But recoveries tend to be sharp. We think underlying long-term economic fundamentals are favorable for most commodities (except oil), but expect continued volatility. A stable or falling dollar would help. Yet with the virus still spreading, risk remains high and our sector recommendation for Basic Materials is Market-Weight. The current market weighting of the sector is 2.6%, and we think investors should consider exposure of 2%-3% in diversified portfolios. We recommend well-managed, financially strong industry leaders that are able to take market share during challenging periods.

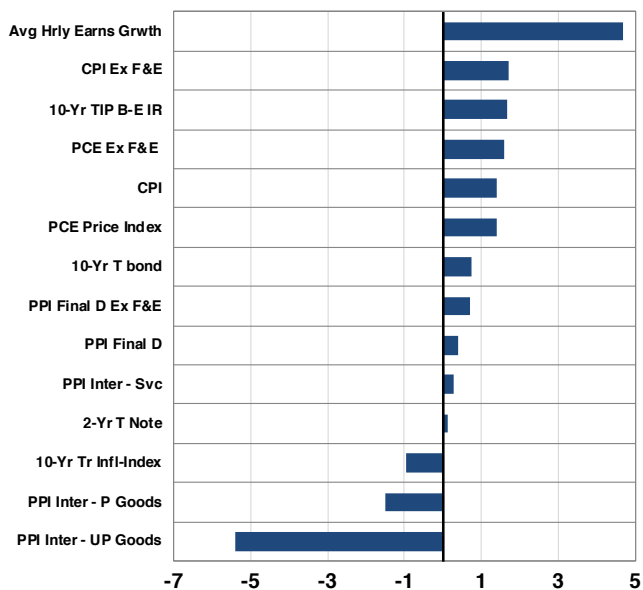
COMMODITY PRICE TRENDS



INFLATION MOVING HIGHER

Core prices are starting to increase, though we don't think the U.S. Federal Reserve is too worried. Currently, the central bank is busy backstopping mortgage markets, money-market mutual funds, small businesses, mid-sized businesses, corporate debt, and some state and local governments. The total bill? Ultimately, the central bank is likely to more than double the \$4.1 trillion in assets that were on its balance sheet at year-end 2019 (the current total is \$7.1 trillion). Meanwhile, most inflation measures remain below the Fed's target of 2.0%, though on average they are up month-over-month. We track 14 inflation measures on a monthly basis. On average, they indicate that prices are rising at a 0.95% rate, ahead of last month's reading, which was 0.70%. Looking at core inflation -- which we obtain by averaging Core CPI, market-based PCE Ex-Food & Energy, and the 10-year TIPs Break-Even Interest Rate -- our reading is 1.7%, steady month-to-month and still low. With this inflation backdrop, we expect the Federal Reserve to focus on other issues and keep short-term rates close to zero until at least 2022.

INFLATION MEASURES (% CHANGE Y/Y)

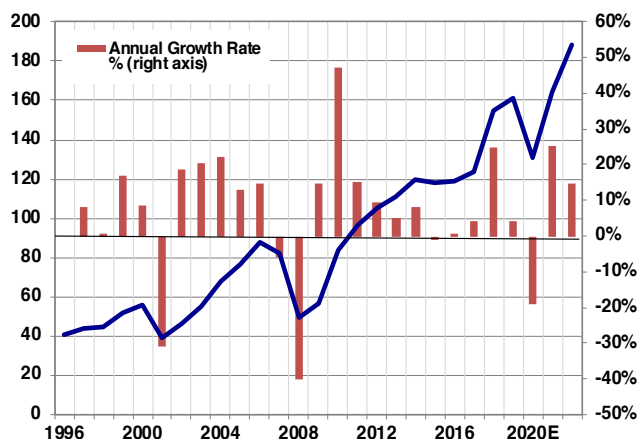


FINANCIAL MARKET HIGHLIGHTS

3Q EPS SEASON

The second-quarter earnings season was historically bad, but slightly better than abysmal expectations. Specifically, the second-quarter decline for S&P 500 earnings from continuing operations was about 34%. Our model assumes a 22% decline in 3Q20. We had been looking for flatish earnings in 4Q20, but now expect a mid-single-digit decline. We have reduced our 2020 estimate for S&P 500 earnings from continuing operations to \$131 from a prior \$133. On the other hand, we have boosted our forecast for 2021 EPS from continuing operations to \$164 from \$161. Our revised estimates imply a high-teens percentage decline in 2020, followed by 25% growth in 2021. Finally, we have raised our preliminary EPS forecast for 2022 to \$188 from \$183. Our 2022 estimate assumes 15% EPS growth.

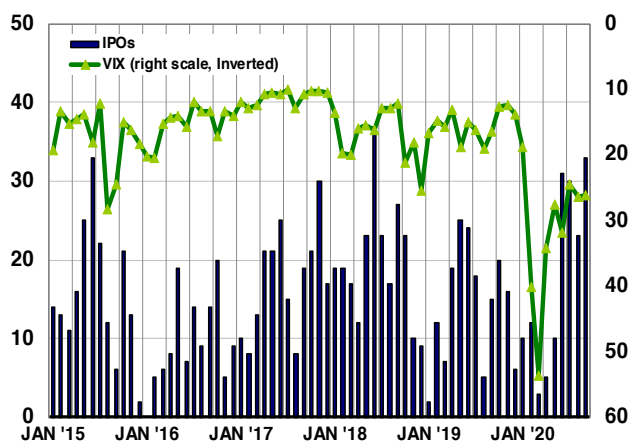
S&P 500 EPS TRENDS & ESTIMATES



IPO ACTIVITY REMAINS HOT

The IPO market built on 2Q momentum and completed its best quarter in at least five years in 3Q20. Quarter-to-quarter, IPO activity jumped 87% in 3Q. By the numbers, 86 companies raised funds through IPOs in 3Q20, up from 46 in 2Q and 38 a year earlier. Secondary offerings also rose 34% year-over-year in 3Q20. High-quality companies went public in 3Q, and investors snapped them up. Investors favored industries that appear well positioned to thrive on the other side of the pandemic, such as biotech and cloud-based connecting platforms. The ratio of positive issue-opens to negative issue-opens was 2.5:1 in 3Q, down from 5:1 in 2Q but up from 2:1 in previous quarters. Looking into 4Q20, we think the market for IPOs will remain strong, though seasonal factors typically emerge late in the quarter.

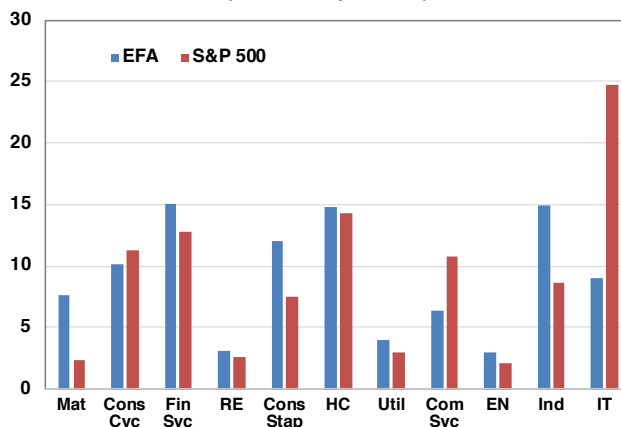
IPO ISSUANCE TRENDS



GLOBAL DIVIDEND INVESTING

In our view, investing in international income stocks is one way to increase diversification while reducing sensitivity to the Fed's head fakes on rate policy. Investing in overseas stocks carries its own set of risks, but there are also positives in this asset class for U.S. investors. For example, global dividend investing offers a more robust selection of high-quality names. By our count, there were only about 210 U.S. common stocks with annual yields exceeding 5%. By comparison, according to data from Bloomberg, there were more than 3,200 non-U.S. stocks with yields of 5% or more, as yields tend to be higher in overseas markets. The MSCI EAFE Index is also diversified into different sectors than the S&P 500, offering further diversification potential.

SECTOR DIVERSIFICATION DIFFERENCES (% OF INDEX CAPITALIZATION)



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
26-Oct	New Home Sales	September	994K	1030K	1028K	959K
27-Oct	Durable Goods Orders	September	0.4%	0.4%	0.3%	1.9%
	Consumer Confidence	October	101.3	101	102.3	100.9
28-Oct	Wholesale Inventories	September	0.4%	0.6%	NA	NA
29-Oct	Real GDP	3Q	-31.4%	31.0%	32.8%	NA
	GDP Price Index	3Q	-1.8%	2.3%	2.6%	NA
30-Oct	Personal Income	September	-2.7%	0.0%	0.3%	NA
	Personal Spending	September	1.0%	1.0%	1.0%	NA
	Chicago PMI	October	62.4	58	59	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
12-Nov	Consumer Price Index	October	0.2%	NA	NA	NA
	CPI ex-Food & Energy	October	0.2%	NA	NA	NA
13-Nov	PPI Final Demand	October	0.4%	NA	NA	NA
	PPI ex-Food & Energy	October	0.4%	NA	NA	NA
	U. of Michigan Sentiment	November	NA	NA	NA	NA

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