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The widely expected 2nd half rebound in global GDP and corporate profits, which was widely forecast in July (including in this missive) is not coming to fruition as strongly as expected. U.S. data remains mediocre; growth in China continues to deteriorate; Japan still can't find real traction; and Europe, while positive, is fighting against a legacy of debt and negative demographics.

All of which sounds depressing, but there are many arguments that suggest positive developments are right around the corner which will lift us out of the current malaise. It should be noted that for much of recent history, bad news was good news as it meant more central bank easing, but that rationale has passed its stale date. There is a growing concern that such easing is losing its effectiveness to stimulate the economy (if in fact, it ever was effective). Investors now want to see real improvement in the economy and earningsper-share. If you believe the old adage that the market climbs a "wall of worry", the current state of affairs is made for you.

	Leading Economic Indicators	Purchasing Managers Index September, 2015
U.S.	-0.9	50.2
China	-1.5	49.8
Japan	-0.3	51.0
Europe	-0.1	52.0
Canada	02	48.6

"By the Way"

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In the U.S., consensus estimates for 3rd quarter GDP are around 1½%, about half of what they were in July. The most important causes of the weakness have been the global slowdown, reduced capex in the oil industry, inventories being lowered and the negative effect of the strong U.S. dollar on exports. All four could become neutral to positive very quickly, since the dollar is weaker, oil is higher, and global central banks continue to attempt to promote growth. In addition, the consumer remains strong, housing is a plus, as is government spending. Don't get me started on Washington, it's a mess, and that's not a positive for markets.

Speaking of Washington, the credibility of the Fed is at a new low as it equivocates about raising rates. At the risk of "piling on", grant me a small rant. Trivia question: How many recessions have been predicted by U.S. Federal Reserve? Easy answer: Zero. All that high priced economic talent in Washington and that's what you get. The Fed keeps telling us it is "data dependent" which means policy is being formed by looking in the rearview mirror. I'm sure the Board has a forecast for the economy, but if they are waiting for proof before acting, it may well prove to be too late. Of course the reality is, the outlook for the economy many not even matter, as policy decisions seem to be based on a fear of lower asset prices in both the U.S. and globally.

Recent Chinese economic data has been softer than expected by many, but not severely so. As we have said many times, official releases should be taken with a grain of salt. Nevertheless, real GDP for the 12 months ending September 30th was 6.9%, weakest since 2009. Of concern, nominal GDP was only 6.1%, raising the spectre of deflation. Industrial production was also slowing at 5.7% vs. an August reading of 6.1%. On the positive side, fiscal stimulus is strong with government spending up 12% year-over-year and retail sales were up 10.9%. We believe the government will continue aggressive policies to spur growth; time will tell their effectiveness. A useful report to follow that the government can't tamper with is the Morgan Stanley "MSCI China-Earnings per Share" as compiled by IBES. Corporate earnings are a real reflection of the health of the economy, in this case it is not very pretty, being down 3.6% in the last 12 months, as of August.

Canada has a new government that went to the polls promising more federal deficit spending, most importantly on infrastructure. On the positive side, such fiscal stimulation should be much more effective than the monetary easing we have seen in many other countries. Still, these are not policies that can be implemented that have any effect in the short term. The Canadian economy is currently being buffeted by low oil prices and weakness in our export partners, particularly China and the U.S. Keep an eye on the U.N. Climate Conference, starting November 30th. Global energy policy is on the table and the effect on our oil industry, especially the oil sands, could be very significant.

With all the positive and negative forces in play around the world, it is difficult to be decisive about the direction of markets and economics. If I could be more confident in the outlook, believe me, I would.

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