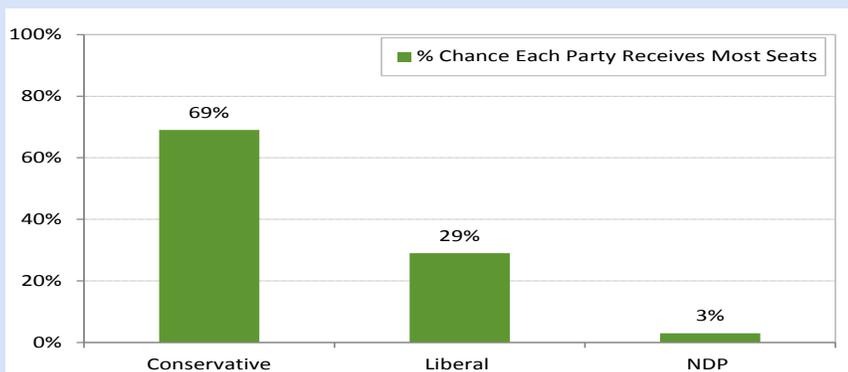


Implications of TPP and Canadian Election

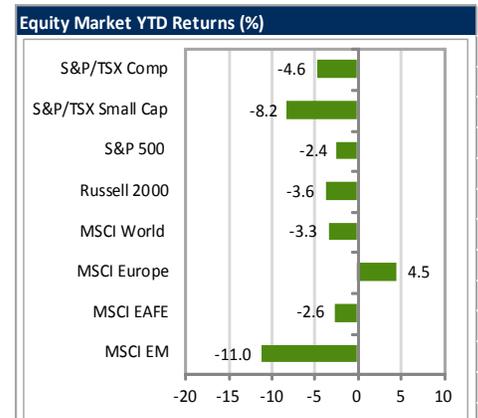
- Following years of negotiations a historic trade deal was reached this week. Known as the Trans-Pacific Partnership (TPP), it represents the largest trade agreement signed in decades, between 12 countries which account for 40% of the global economy.
- The main thrust of the agreement is that it reduces trade barriers and tariffs and opens previously closed or protected markets to the 12 countries. Trade negotiators estimate that the TPP will add \$220 billion to the global economy by 2025, accounting for 1% of global GDP. With Canada being a large export nation this should provide a boost to our economy in the years ahead.
- However, as with life, there is always some give and take with some Canadian industries being negatively impacted by this agreement. These include the dairy and automotive industries.
- We believe this agreement will be a net positive for Canada, and according to recent polls, for the Conservative government. Recent polls by The Globe and Mail (G&M) have the Conservative Party pulling away from the pack, and currently leading (see Chart of the Week).
- Our take on this election is to expect significant policy changes should the Liberals or NDP win or status quo if the Conservatives win their fourth term. From a market perspective, we believe the equity markets and Canadian dollar could gain on a Conservative win, particularly if a majority win. Investors like stability, and that's what they would perceive if the Conservatives win. On a Liberal win, we could see a short term decline in the markets on concerns of higher debt levels due to infrastructure spending.

Chart of the Week

G&M Poll Has The Conservatives In The Lead Ahead Of October 19 Election

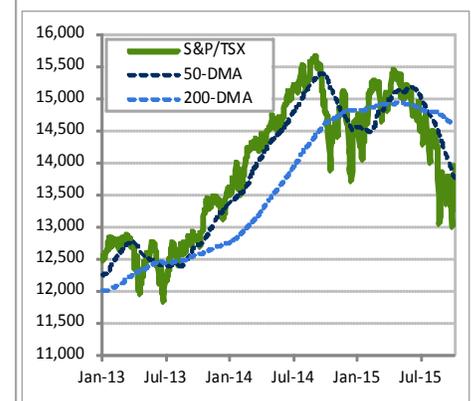


Source: Globe And Mail. As of October 8, 2015



Canadian Sector	TSX Weight	Recommendation
Consumer Discretionary	6.9	Overweight
Consumer Staples	4.2	Market weight
Energy	20.2	Market weight
Financials	36.2	Market weight
Health Care	4.4	Market weight
Industrials	8.3	Overweight
Information Technology	2.7	Overweight
Materials	9.6	Underweight
Telecom	5.3	Market weight
Utilities	2.2	Underweight

Technical Considerations	Level	Reading
S&P/TSX Composite	13,957.7	
50-DMA	13,762.4	Uptrend
200-DMA	14,603.2	Downtrend
RSI (14-day)	58.4	Neutral



Source: Bloomberg, Raymond James Ltd.

Please read domestic and foreign disclosure/risk information beginning on page 4

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Implications of TPP and Canadian Election

Following years of negotiations a historic trade deal was reached this week. Known as the Trans-Pacific Partnership (TPP), it represents the largest trade agreement signed in decades, between 12 countries which account for 40% of the global economy. This week we examine the implications of the agreement which comes at a propitious time (for the Conservatives) with the election just around corner.

The main thrust of the agreement is that it reduces trade barriers and tariffs and opens previously closed or protected markets to the 12 countries. For example, Canada will, once ratified, now be able to sell more of its goods to countries like Japan, the third largest economy in the world. Japan, among others, with its high standard of living and need for natural resources, will likely consume more of our resources and manufactured goods as a result of the agreement. While difficult to quantify these trade deals as the benefits accrue over many years, the trade negotiators estimate that the TPP will add \$220 billion to the global economy by 2025, accounting for 1% of global GDP. With Canada being a large export nation this should provide a boost to our economy in the years ahead. However, as with life, there is always some give and take with some Canadian industries being negatively impacted by this agreement. These include the dairy and automotive industries.

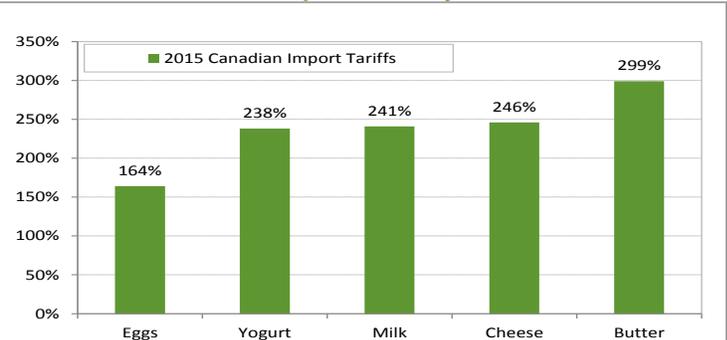
The Canadian dairy industry is likely most at risk, as the agreement will reduce the tariffs on imported milk products, which will significantly erode the 90% market share of domestic producers. This was a critical issue for New Zealand, who wants access to the dairy markets in the US, Canada and Japan. To help offset the expected hit to Canadian dairy farmers, the Conservative government has pledged a \$4.3 billion fund to help the dairy industry over the next 15 years. Similarly, the Canadian automotive industry will also be impacted from the phasing out of the 6.1% tariff on auto imports and the reduction of regional content in North American autos. The required North American content for automobiles, as outlined in the NAFTA agreement, will decline from 62.5% to 45%. It's no wonder then, why Unifor (Canada's largest private sector union) was strongly against this agreement. It was also likely a factor in Democratic presidential candidate, Hillary Clinton, opposing the agreement, in stark contrast to her old boss, President Obama.

Being a Windsor, Ontario native, and growing up in a pro-union family, this analyst understands the real economic hit to the auto industry. However, as part of a dynamic and evolving global economy, Canada has to be at the table of these trade agreements, with benefits likely to be spread across many parts of our economy. In summary, we believe this agreement will be a net positive for Canada, and according to recent polls, for the Conservative government.

Countries Included In The TPP

Country	Amount of GDP (in billions US\$)	% of Global GDP
US	16,768	22.2%
Japan	4,919	6.5%
Canada	1,838	2.4%
Australia	1,501	2.0%
Mexico	1,262	1.7%
Malaysia	313	0.4%
Singapore	302	0.4%
Chile	276	0.4%
Peru	202	0.3%
New Zealand	184	0.2%
Vietnam	170	0.2%
Brunei	16	0.0%
Global GDP (2013)	75,470	

Canadian Tariffs On Imported Dairy Products



Source: World Trade Organization, The World Bank, Raymond James Ltd.

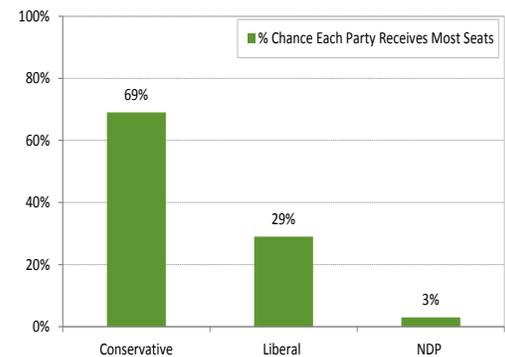
Canadian Election

According to recent polls by The Globe and Mail, they have the Conservative Party pulling away from the pack, and currently leading. As of October 8, 69% of respondents said that the Conservatives would win the most seats, followed by the Liberals at 29%. The NDP party, which was leading in the polls for much of September, has fallen dramatically over the last few weeks. The recent uptick in support for the Conservatives has coincided with the announcement of the TPP. Some have claimed that Steven Harper and the Conservatives have not done enough for the economy, or have relied too heavily on resources. This historic trade deal helps to address some of these concerns and is likely a factor in the improvement. With the Canadian election just a few weeks away we wanted to provide a summary of key policies from each party, to help any of those still on the fence.

- Conservatives:** The Conservative’s platform can be summarized as status quo. There are few significant policy announcements, with the party basically resting on their record. For example, they will make no changes to personal or corporate tax rates. They will maintain the increased Universal Child Care benefit, the higher TSFA limit, the increased OAS retirement age limit, and the income splitting policy. From our perspective, low taxes, balanced budgets, and limited government spending defines their platform.
- Liberals:** The Liberal platform is where we see the most significant differences and new policy initiatives. This includes lower taxes for the middle class, higher taxes for higher income families, rolling back the TSFA and OAS old age limit, replacing the Universal Child Care benefit, and making a huge investment in infrastructure spending. As a result, this would push out a balanced budget till 2019-2020.
- NDP:** The focus of the NDP platform is for a dramatic increase in corporate taxes to help fund their ambitious national child care program and other spending initiatives. Interestingly, the NDP Party will keep personal tax rates unchanged, but, similar to the Liberals, would cancel or rollback many of the recent Conservative policies such as income splitting.

Our take is to expect significant policy changes should the Liberals or NDP win or the status quo if the Conservatives win their fourth term. From a market perspective, we believe the equity markets and Canadian dollar could gain on a Conservative win, particularly if a majority win. Investors like stability, and that’s what they would perceive if the Conservatives win. On a Liberal win, we could see a short term decline in the markets on concerns of higher debt levels due to infrastructure spending.

The G&M Polls Have The Conservatives In the Lead



Source: The Globe and Mail. As of October 8, 2015

Summary Of The Different Parties Platforms

Policy	Conservative	Liberal	NDP
Taxes			
Personal Income Tax	No change	Decrease to 20.5% for income \$44k to \$89K; New bracket of 33% for income above \$200k	No change
Corporate Tax	No change at 15%	No change at 15%	Increase to pre Conservative rate of 22%
Small Business Tax	Cut from 11% to 9% by 2019	Cut from 11% to 9%	Cut from 11% to 9%
Benefits			
TSFA Limits	Increased to \$10k for 2015	Rollback to \$5.5k	Rollback to \$5.5k
Universal Child Care	Maintain at \$160/month	Replace with Canada Child Benefit	Maintain at \$160/month
OAS Retirement Age	Increased from 65 to 67	Rollback to 65	Rollback to 65
Income Splitting	No change to \$50k income splitting	Cancel income splitting	Cancel income splitting
Budget	Balance in 2015	Balance by 2019-2020	Balance in 2016
Other	Status quo - keep taxes and spending low	Double infrastructure spending to \$125 bln	Create national daycare program

Source: Liberal, Conservative, NDP Platforms, Raymond James Ltd.

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