



September 16, 2022

In focus

Global equities declined for the week amid heightened concerns about the outlook for the global economy as central banks worldwide announced higher interest rates to combat rising inflation. A profit warning from FedEx, along with a higher-than-expected rise in U.S. inflation, also dampened investor confidence.

Adding to the downbeat mood, European Central Bank Vice President Luis de Guindos, in an interview with Portuguese newspaper *Expresso*, indicated more interest rate hikes ahead, to maintain price stability. The U.K.'s annual inflation rate fell unexpectedly to 9.9% in August, due to a monthly decline in the price of gasoline and diesel, but markets still expect the Bank of England to raise its interest rate by 75 basis points later this month. Elsewhere, the annual inflation rate in the eurozone was confirmed at a record high of 9.1% in August.

In commodities, oil prices continued to decline over the week, with concern about tight supply outweighed by escalating fears of falling demand. The International Energy Agency's outlook for almost zero growth in oil demand in the fourth quarter, due to a weaker demand outlook for China, also weighed on oil prices.

In fixed income, the yield on the benchmark ten-year U.S. Treasury continued to push higher as disappointing inflation data and a further decline in jobless claims reinforced investors' expectations of an interest rate hike at the next meeting of the Federal Reserve (the Fed).

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	19,385.88	-1.96%	0.28%	-8.66%
S&P500	3,873.33	-4.77%	-2.06%	-18.73%
NASDAQ	11,448.40	-5.48%	-3.11%	-26.82%
DJIA	30,822.42	-4.13%	-2.18%	-15.18%
Russell 2000	1,798.19	-4.50%	-2.49%	-19.91%
FTSE 100	7,236.68	-1.56%	-0.65%	-2.00%
Euro Stoxx 50	3,500.41	-1.95%	-0.48%	-18.57%
Nikkei 225	27,567.65	-2.29%	-1.86%	-4.25%
Hang Seng	18,761.69	-3.10%	-5.98%	-19.81%
Shanghai Comp.	3,126.40	-4.16%	-2.37%	-14.10%
MSCI ACWI	597.59	-4.07%	-2.53%	-20.83%
MSCI EM	944.12	-2.70%	-5.03%	-23.37%
MSCI ACWI ESG Leaders	2,099.33	-4.31%	-2.79%	-21.91%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,053.40	0.06%	-0.21%	-11.50%
BBG Global Agg.	440.35	-0.90%	-2.06%	-17.29%
TSX Pref	1,725.47	-1.75%	-2.60%	-11.45%

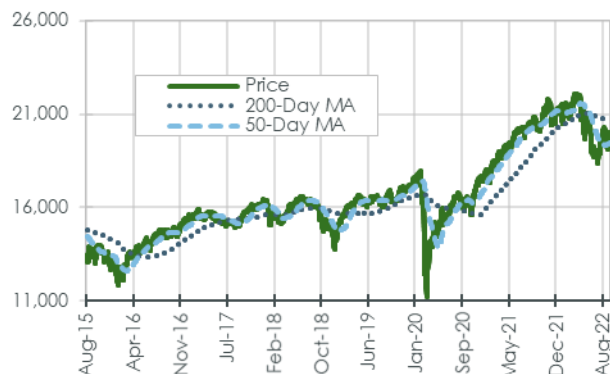
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	3.14%	0.6	2.1	171.3
10 yr U.S. Govt.	3.45%	14.0	25.7	193.9
30 yr Canada Govt.	3.07%	-7.5	4.2	139.4
30 yr U.S. Govt.	3.51%	6.6	22.1	161.0

Commodities	Close	Weekly	MTD	YTD
Oil	85.11	-1.94%	-4.96%	19.92%
Natural gas	7.76	-2.90%	-14.93%	111.21%
Gold	1,675.06	-2.43%	-2.10%	-8.43%
Silver	19.59	3.88%	8.88%	-15.95%
Copper	351.65	-1.44%	-0.06%	-20.25%

Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7539	-1.76%	-1.01%	-4.71%
USD/EUR	0.9984	0.25%	0.37%	13.54%
CAD/EUR	0.7527	-1.49%	-0.65%	8.24%
USD/JPY	142.9200	0.32%	2.85%	24.19%
USD/CNY	6.9870	0.87%	1.40%	9.93%
USD/MXN	20.0368	0.70%	-0.50%	-2.40%
GBP/CAD	1.5141	0.21%	-0.79%	-11.49%
GBP/USD	1.1420	-1.46%	-1.74%	-15.61%

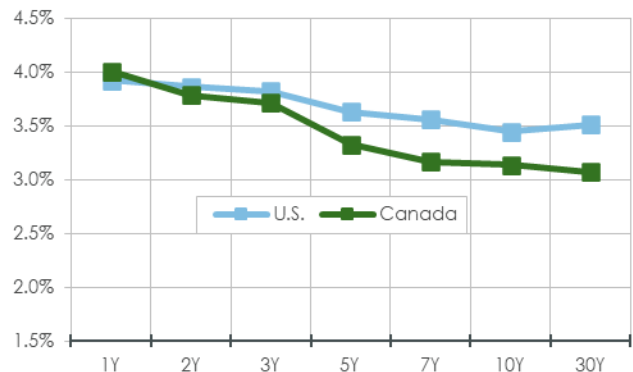
*Please refer to the Appendix for the above table in Canadian dollar terms. Natural gas prices subject to change post-settlement.

S&P/TSX Composite Index



Source: Bloomberg and Refinitiv DataStream. Index returns are in local currency. All equity indexes are price returns and do not include dividends.

Treasury yield curves



Economic indicators	Period	Survey	Actual	Prior period
Canada housing starts	Aug	266.5k	267.4k	275.2k
Canada manufacturing sales MoM	Jul	-0.9%	-0.9%	-0.1%
U.S. initial jobless claims	10-Sep	227k	213k	218k
U.S. CPI MoM	Aug	-0.1%	0.1%	0.0%
U.S. industrial production MoM	Aug	0.0%	-0.2%	0.5%
U.S. CPI YoY	Aug	8.1%	8.3%	8.5%

Canada

Canadian equities ended the week posting negative returns as investors grew cautious ahead of domestic inflation data and the Fed interest rate decision due next week. In economic data, the unemployment rate rose to 5.4% in August, according to Statistics Canada, showing signs of weakness in a historically tight job market.

U.S.

U.S. equity markets declined over the week. The defining event of the week turned out to be the Consumer Price Index (CPI) report, which came in above expectations, and dimmed hopes for some investors that the economy had moved beyond “peak inflation.” The Labor Department’s CPI report showed that inflation had slowed less than expected in August, to only 8.3% on an annual basis, while remaining flat, at 0.1%, on a monthly basis, and still near a four-decade high, pushed by the cost of natural gas and electricity. Core annual inflation, excluding energy and food prices, rose to 6.3%, topping estimates and hitting the highest level since March.

All sectors ended with losses; technology and growth stocks, whose valuations are more sensitive to changes in interest rates, led the decline. Energy stocks tracked oil prices lower amid concerns about slowing demand.

Among companies, FedEx declined sharply after the shipping giant reported downbeat quarterly earnings and full-year forecasts, while announcing cost-cutting measures due to weakening global demand.

Economic data were mixed but did not change expectations that the Fed will continue its aggressive monetary tightening. The number of people filing new claims for unemployment benefits decreased unexpectedly last week, reaffirming labor market tightness, which would give the Fed more room for steep interest rate hikes. Although retail sales rose surprisingly in August, industrial production contracted, and export and import prices both fell. Elsewhere, preliminary data showed that consumer sentiment

improved to a five-month high in September, with both one-year and five-year inflation expectations falling to the lowest levels in one year as energy prices continued to ease. However, the figure was slightly below expectations and remained historically low.

Rest of the world

European equity markets declined over the week, echoing a broad sell-off in the U.S. after a stronger-than-expected inflation print reinforced expectations that the Fed will retain its hawkish stance. Meanwhile, investors fretted about the economic outlook, underscored by downbeat economic sentiment readings. Investors also kept an eye on the energy crisis in the region. The E.U. executive outlined plans for raising and redistributing 140 billion euros by tapping the windfall profits from some energy companies to help consumers and businesses pay surging gas and electricity bills. On the economic data front, the jobless rate in the U.K. dropped to 3.6% in the three months to July, reaching the lowest since 1974, while employment slowed.

In Asia, China’s equity markets fell as currency weakness and downbeat property data overshadowed surprisingly strong factory output and retail sales indicators.

Japanese stock markets also declined over the week, mirroring weak sentiment among U.S. peers over concerns about tighter monetary policy. Meanwhile, trade data for August showed that Japan’s exports had grown by 22.1% from August 2021, building on a 19% annual increase in July. Japan’s top export market was the U.S.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada CPI YoY	Aug	7.3%	7.6%
Canada retail sales MoM	Jul	-2.0%	1.1%
U.S. initial jobless claims	17-Sep	216k	213k
U.S. S&P Global manufacturing PMI	Sep	51.2	51.5
U.S. housing starts	Aug	1450k	1446k
U.S. existing home sales	Aug	4.70m	4.81m

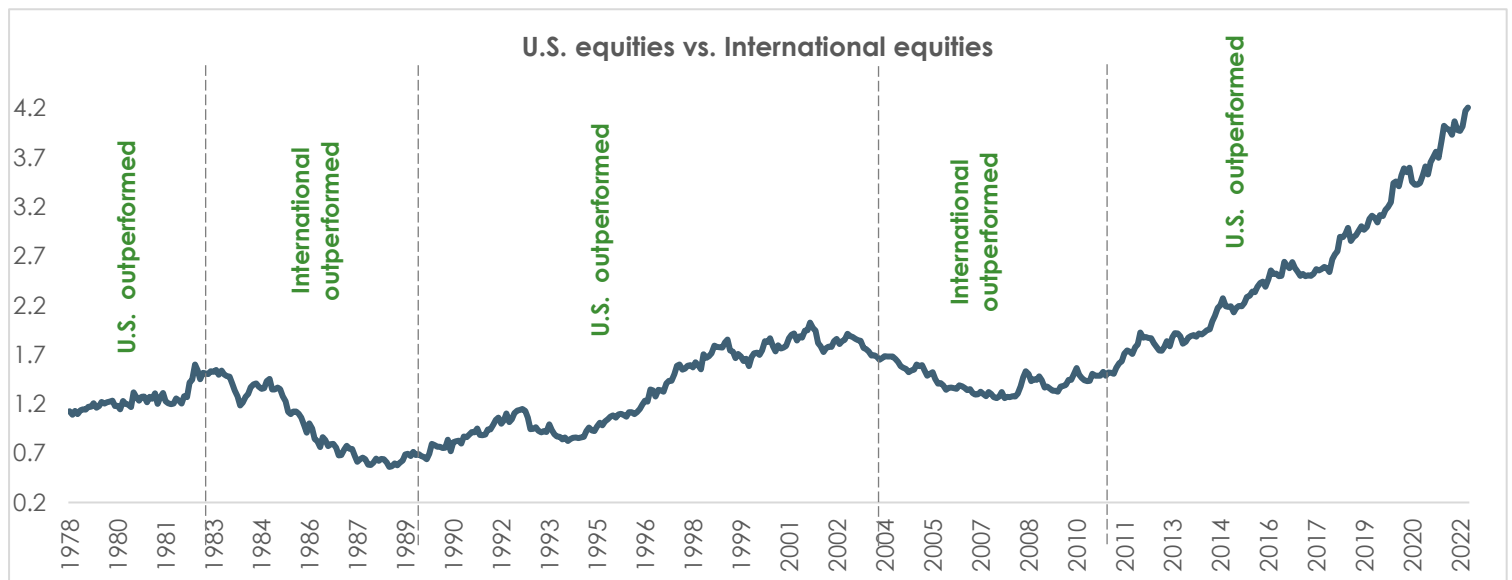
Central bank meetings			
Central banks	Date	Probability of change	Current rate
Federal Open Market Committee	21-Sep-22	321.4%	2.50%
Bank of England	22-Sep-22	319.2%	1.75%
Bank of Japan	22-Sep-22	6.4%	-0.10%
Bank of Canada	26-Oct-22	204.4%	3.25%
European Central Bank	27-Oct-22	284.3%	1.25%

Source: Bloomberg. Probability of change implies the possibility of a central bank hiking interest rates during their upcoming meeting. A negative number in this case means chances of a rate cut rather than a hike.

Spotlight

Why international diversification matters

The chart below shows the benefits of geographic diversification in international equities. Historically, there have been times when international equities, as represented by the MSCI EAFE Index, outperformed U.S. equities, as represented by S&P 500 Index. Owning international equities not only provides exposure to unique investment opportunities offered by international companies but also helps to diversify the political and economic risks associated with overreliance on one market.



Source: Refinitiv, as at August 2022. Past performance is no guarantee of future returns. U.S. equities are represented by the S&P 500 Index, and International equities are represented by the MSCI EAFE Index. Price returns are in US\$.

Appendix

Global markets (Returns in Canadian dollar terms)				
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Oil	112.89	-0.18%	-3.99%	25.86%
Natural gas	10.30	-1.16%	-14.06%	121.66%
Gold	2,222.21	-0.66%	-1.10%	-3.95%
Silver	25.97	5.80%	9.89%	-11.80%
Copper	466.44	0.32%	0.96%	-16.31%
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