



September 9, 2022

In focus

Global equities gained for the week. Investors sought to buy stocks following a sell-off amid rising uncertainty about inflation and aggressive interest rate hikes by the Federal Reserve (the Fed). On Friday, Fed Governor Christopher Waller said the Fed should continue to be aggressive with rate hikes while the economy "can take a punch," and Kansas City Fed President Esther George said taming inflation could be a tough task.

The European energy crisis deepened after Russia announced an indefinite halt to gas supplies to Europe via a major pipeline. China's stock markets rose over the week, with tame inflation data and expectations of further policy support prompting buying.

In commodity markets, oil prices fell, with the global fuel demand outlook overshadowed by COVID-19 restrictions in China and the potential for further interest rate hikes in the U.S. and Europe.

In fixed income, the yield on the benchmark ten-year U.S. Treasury note jumped to its highest level since mid-June, following the European Central Bank's record rate hike and heavier issuance of U.S. corporate bonds. (Bond prices and yields move in opposite directions.)

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	19,773.34	2.61%	2.29%	-6.83%
S&P500	4,067.36	3.65%	2.84%	-14.66%
NASDAQ	12,112.31	4.14%	2.51%	-22.58%
DJIA	32,151.71	2.66%	2.04%	-11.52%
Russell 2000	1,882.85	4.04%	2.10%	-16.14%
FTSE 100	7,351.07	0.96%	0.92%	-0.45%
Euro Stoxx 50	3,570.04	0.72%	1.50%	-16.95%
Nikkei 225	28,214.75	2.04%	0.44%	-2.00%
Hang Seng	19,362.25	-0.46%	-2.97%	-17.25%
Shanghai Comp.	3,262.05	2.37%	1.87%	-10.38%
MSCI ACWI	622.92	2.63%	1.60%	-17.48%
MSCI EM	970.29	-0.18%	-2.40%	-21.24%
MSCI ACWI ESG Leaders	2,193.85	2.68%	1.59%	-18.39%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,052.76	-0.39%	-0.27%	-11.55%
BBG Global Agg.	444.38	-0.78%	-1.17%	-16.54%
TSX Pref	1,756.12	-0.54%	-0.87%	-9.87%

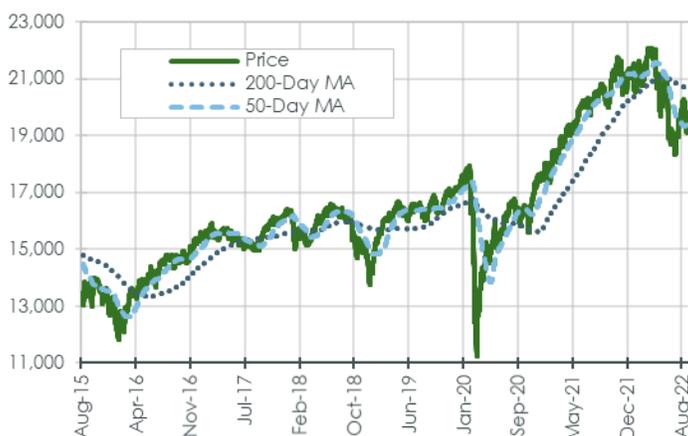
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	3.13%	4.4	1.5	170.7
10 yr U.S. Govt.	3.31%	12.0	11.7	180.0
30 yr Canada Govt.	3.15%	11.1	11.7	146.9
30 yr U.S. Govt.	3.45%	10.4	15.5	154.4

Commodities	Close	Weekly	MTD	YTD
Oil	86.79	-0.09%	-3.08%	22.29%
Natural gas	8.00	-8.99%	-12.39%	117.52%
Gold	1,716.83	0.27%	0.34%	-6.14%
Silver	18.86	4.53%	4.82%	-19.09%
Copper	356.80	4.53%	1.41%	-19.08%

Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7674	0.79%	0.76%	-3.01%
USD/EUR	0.9959	-0.88%	0.12%	13.26%
CAD/EUR	0.7641	-0.14%	0.86%	9.88%
USD/JPY	142.4700	1.62%	2.53%	23.80%
USD/CNY	6.9265	0.38%	0.52%	8.97%
USD/MXN	19.8975	-0.24%	-1.20%	-3.08%
GBP/CAD	1.5110	-0.03%	-0.99%	-11.67%
GBP/USD	1.1589	0.70%	-0.28%	-14.36%

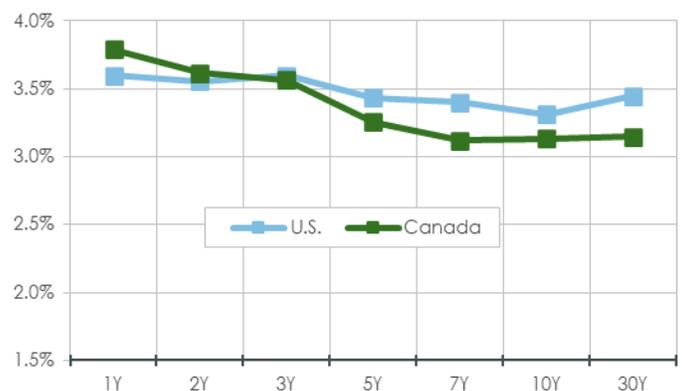
*Please refer to the Appendix for the above table in Canadian dollar terms. Natural gas prices subject to change post-settlement.

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 unemployment rate	Aug	5.0%	5.4%	4.9%
Canada net change in employment	Aug	15.0k	-39.7k	-30.6k
U.S. initial jobless claims	03-Sep	235k	222k	228k
U.S. wholesale inventories MoM	Jul	0.8%	0.6%	0.8%
U.S. ISM services index	Aug	55.3	56.9	56.7
China CPI YoY	Aug	2.8%	2.5%	2.7%

Canada

Canadian equity markets ended the week posting positive returns. Resource shares led broad-based gains, supported by higher commodity prices. The Bank of Canada (BoC) hiked its policy rate to 3.25%, a 14-year high, and warned that more tightening would be required. The BoC has so far delivered 300 basis points of hikes in six months, including four outsized increases, outpacing its peers in advanced economies.

On the economic data front, government data showed Canada shed jobs for a third straight month in August, and the jobless rate jumped unexpectedly to 5.4% as the central bank raised interest rates to tame inflation.

U.S.

U.S. equity markets gained over the holiday-shortened week; investors went on a buying spree, shrugging off concerns about the economic outlook. The gains followed a sharp sell-off that began in mid-August, triggered by concerns about the impact of tighter monetary policies and signs of an economic slowdown in Europe and China.

As expected, Fed officials maintained their tightening bias. Richmond Fed President Thomas Barkin said that the central bank needs to tighten its monetary policy and maintain it until a convincing drop in inflation is observed. Cleveland Fed President Loretta Mester said that she doesn't expect the economy to tip into a recession, but flagged rising risks of an economic downturn. Fed Vice Chair Lael Brainard reiterated the Fed's commitment to get inflation back under control with more interest rate hikes, which will be data dependent.

Economic data show that the U.S. economy is resilient. According to the Institute of Supply Management's non-manufacturing PMI, services activity grew unexpectedly in August at the fastest pace in four

months. Together with last week's solid jobs report, this reinforced expectations that the Fed will continue its aggressive tightening. Wholesale inventories in the U.S. advanced in July by 0.6% from a month earlier, to \$900.7 billion, slightly below an initial estimate of a 0.8% rise and after a downwardly revised 1.8% increase in the previous month.

Rest of the world

European equity markets ended the week with positive returns, after some countries announced plans to deal with the energy crisis and boost their economies. The European Central Bank (ECB) raised its three key interest rates by 75 basis points, as widely expected, and signalled further data-dependent rate hikes in a bid to return record-high inflation to its 2% medium-term target. At a press conference after the central bank's monetary policy decision, ECB President Christine Lagarde said inflationary pressures continued to strengthen, driven by surging prices for energy and food, which continued to dampen economic activity. On the economic data front, factory orders in Germany declined in July more than expected, pointing to a sixth straight month of shrinking manufacturing orders, amid stubbornly high inflation and long-lasting supply chain disruptions.

Most Asian markets advanced over the week as investors digested hawkish remarks from Fed policy makers and the ECB's biggest-ever interest rate hike. Chinese equities advanced in view of modest inflation data and expectations of further policy support. Japanese equities also ended the week with positive returns. In Australia, the Reserve Bank of Australia increased its key interest rate by 50 basis points, to a seven-year high of 2.35%, and suggested further hikes ahead in a bid to return inflation to the 2%-3% range over time.

Looking Ahead

Economic indicators	Period	Survey	Prior period
Canada housing starts	Aug	265.0k	275.3k
Canada manufacturing sales MoM	Jul	-1.0%	-0.8%
U.S. initial jobless claims	10-Sep	226k	222k
U.S. CPI MoM	Aug	-0.1%	0.0%
U.S. industrial production MoM	Aug	0.1%	0.6%
U.S. CPI YoY	Aug	8.0%	8.5%

Central bank meetings			
Central banks	Date	Probability of change	Current rate
Federal Open Market Committee	21-Sep-22	290.7%	2.50%
Bank of England	22-Sep-22	275.8%	1.75%
Bank of Japan	22-Sep-22	1.8%	-0.10%
Bank of Canada	26-Oct-22	158.6%	3.25%
European Central Bank	27-Oct-22	291.9%	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

An uncertain outlook for inflation

The chart below shows the year-on-year rise in inflation since August 1972. U.S. CPI data surprised on the downside in July, showing a deceleration in the rate of inflation. Energy prices fell by 4.6% (up 7.5% previously), while the core index (which strips out food and energy prices) rose 5.9% year-over-year as travel-related goods and services slowed down. Shelter costs rose, showing that U.S. housing inflation was still running hot, due to relatively limited housing supply and a surging demand for rentals. Producer prices also eased somewhat in July, mainly due to a fall in gasoline prices. The strength in shelter, wages, deglobalization, aging populations and the need to decarbonize the economy remain some of the longer-term drivers contributing to an uncertain outlook for inflation.



Source: Bloomberg, July 2022.

Appendix

Global markets (Returns in Canadian dollar terms)				
Indexes	Close	Weekly	MTD	YTD
S&P/TSX	19,773.34	2.61%	2.29%	-6.83%
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30 yr Canada Govt.	3.15%	11.1	11.7	146.9
30 yr U.S. Govt.	3.45%	10.4	15.5	154.4
Commodities	Close	Weekly	MTD	YTD
Oil	113.10	-0.87%	-3.81%	26.08%
Natural gas	10.42	-9.70%	-13.05%	124.27%
Gold	2,236.88	-0.48%	-0.45%	-3.31%
Silver	24.55	3.57%	3.86%	-16.64%
Copper	464.95	3.71%	0.64%	-16.57%
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