



October 7, 2022

In focus

Global equities gained over the week as investors hoped for a more dovish tone from the U.S. Federal Reserve (the Fed). Despite the week's sharp gains, the market ended on a down note after strong job data from the U.S. dampened hopes for a policy shift. Against this backdrop, Fed Governor Lisa Cook pointed out that current inflation is still far above target, and warned that a failure to restore price stability can be more harmful than the pain a restrictive monetary policy can bring. Echoing those comments, Chicago Fed President Charles Evans indicated Fed's policy rate could be pushed as high as 4.75% by early next year in a bid to tame stubborn inflation.

Concerns about the global economy also grew after chipmakers Samsung and AMD revealed a drop in demand, blaming it on inflation, higher interest rates and the impact of Russia's invasion of Ukraine. In addition, weak German industrial production and retail sales in August implied that the country's economic slowdown may be deepening. Elsewhere, the new U.K. government abruptly dropped a plan to implement tax cuts and spending increases funded by borrowing.

In commodities, oil prices rose after the OPEC+ group of oil exporters agreed to tighten global supply, with a deal to cut production targets by two million barrels per day.

In fixed income, the strong jobs report and the likelihood of more hefty U.S. interest rate hikes pushed the ten-year U.S. Treasury note yield higher for the week.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	18,583.13	0.75%	0.75%	-12.44%
S&P500	3,639.66	1.51%	1.51%	-23.64%
NASDAQ	10,652.40	0.73%	0.73%	-31.91%
DJIA	29,296.79	1.99%	1.99%	-19.38%
Russell 2000	1,702.15	2.25%	2.25%	-24.19%
FTSE 100	6,991.09	1.41%	1.41%	-5.33%
Euro Stoxx 50	3,375.46	1.73%	1.73%	-21.47%
Nikkei 225	27,116.11	4.55%	4.55%	-5.82%
Hang Seng	17,740.05	3.00%	3.00%	-24.18%
Shanghai Comp.	3,024.39	0.00%	0.00%	-16.91%
MSCI ACWI	563.00	1.74%	1.74%	-25.41%
MSCI EM	897.74	2.51%	2.51%	-27.13%
MSCI ACWI ESG Leaders	1,976.27	1.28%	1.28%	-26.49%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,035.88	-1.35%	-1.35%	-12.97%
BBG Global Agg.	424.83	-0.39%	-0.39%	-20.21%
TSX Pref	1,649.77	0.01%	0.01%	-15.33%

Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	3.39%	21.2	21.2	195.9
10 yr U.S. Govt.	3.88%	5.3	5.3	237.1
30 yr Canada Govt.	3.25%	15.3	15.3	157.0
30 yr U.S. Govt.	3.84%	6.6	6.6	193.9

Commodities	Close	Weekly	MTD	YTD
Oil	92.64	16.54%	16.54%	31.63%
Natural gas	6.75	-0.27%	-0.27%	78.24%
Gold	1,694.82	2.06%	2.06%	-7.35%
Silver	20.13	5.80%	5.80%	-13.63%
Copper	338.65	-0.76%	-0.76%	-23.20%

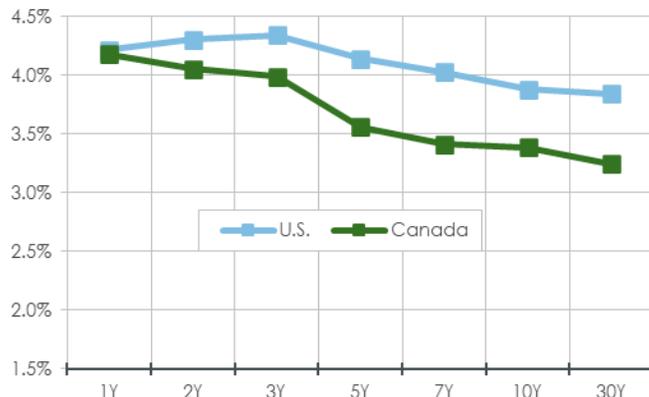
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7279	0.66%	0.66%	-8.00%
USD/EUR	1.0262	0.59%	0.59%	16.71%
CAD/EUR	0.7478	1.38%	1.38%	7.54%
USD/JPY	145.2500	0.35%	0.35%	26.22%
USD/CNY	7.1160	0.00%	0.00%	11.96%
USD/MXN	20.0405	-0.49%	-0.49%	-2.38%
GBP/CAD	1.5240	-1.40%	-1.40%	-10.91%
GBP/USD	1.1086	-0.75%	-0.75%	-18.08%

*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



Treasury yield curves



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

Economic indicators	Period	Survey	Actual	Prior period
Canada unemployment rate	Sep	5.4%	5.2%	5.4%
U.S. change in non-farm payrolls	Sep	255K	263K	315K
U.S. initial jobless claims	Oct-1	204K	219K	193k
U.S. durable goods orders	Aug	-0.2%	-0.2%	-0.2%
U.S. unemployment rate	Sep	3.7%	3.5%	3.7%
Caixin China services PMI	Sep	54.4	49.3	55.0

Canada

Canadian equities managed to end the week higher, with the prospect of further aggressive tightening by the Fed overshadowing a boost to energy companies from higher oil prices. On Thursday, Bank of Canada Governor Tiff Macklem made it clear that the Bank will not yet be pivoting away from its hawkish stance.

In economic developments, Canada added net 21,100 jobs in September, although mostly in part-time work, while the jobless rate dropped to 5.2% and wage growth remained solid.

U.S.

U.S. equities ended the week higher, but surrendered most of their earlier gains as investors eased back on bets that the Fed would slow the pace of monetary tightening, following a slew of resilient economic data.

Stocks rallied on Monday and Tuesday on an encouraging ISM report that its manufacturing PMI had dropped to 50.9 in September. A decline in job openings further calmed inflation fears. However, inflation worries resurfaced in the latter half of the week on indications of strong labour market. On Friday, data showed that the economy had added 263,000 jobs in September, while the unemployment rate slipped unexpectedly to 3.5%.

Among sectors, real estate and utilities fared the worst, while energy held up best. Energy companies gained after the oil price benefited from the OPEC+ decision to slash output. Among stocks, Tesla sank as investors worried that its chief executive officer Elon Musk might sell more of his stake in the electric car maker to finance buying Twitter, after he revived his offer to acquire the social media giant for US\$44 billion.

On the economic front, there were some signs of loosening in labour market conditions. The number of

Americans filing new claims for unemployment benefits rose more than expected last week, while U.S.-based firms announced plans in September to cut the most jobs in three months, suggesting hiring is slowing and downsizing starting to occur.

Rest of the world

European equity markets concluded the week with positive returns, on anticipation that central banks would start to curtail their interest rate hikes. However, sentiment remained clouded by a dismal global economic outlook, ongoing inflationary pressures and the prospect of aggressive monetary policy.

The European Central Bank's latest policy meeting minutes revealed that decision-makers were worried that inflation would remain high for a long time and had reaffirmed the need to keep raising interest rates. On the economic front, the eurozone manufacturing sector contracted at its fastest pace ever, due to further slides in output and new orders. The final manufacturing PMI fell to 48.4 in September, from 49.6 in August. Fresh PMIs for some European countries pointed to a worsening business situation in both services and the private sector in September. In August, retail sales in the eurozone dropped for the third consecutive month as high inflation continued squeezing consumers' purchasing power.

In Asia, Japanese stocks ended the week with gains, in line with their global peers. The Bank of Japan's index for large manufacturers' sentiment edged lower amid cost pressures, weakness in the yen and China's strict COVID-19 curbs. China's stock markets were closed for the week due to national holidays.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada manufacturing sales MoM	Aug	-1.8%	-0.9%
U.S. initial jobless claims	08-Oct	225K	219K
U.S. CPI MoM	Sep	0.2%	0.1%
U.S. University of Michigan sentiment	Oct	59.0	58.6
China CPI YoY	Sep	2.8%	2.5%
China PPI YoY	Sep	1.0%	2.3%

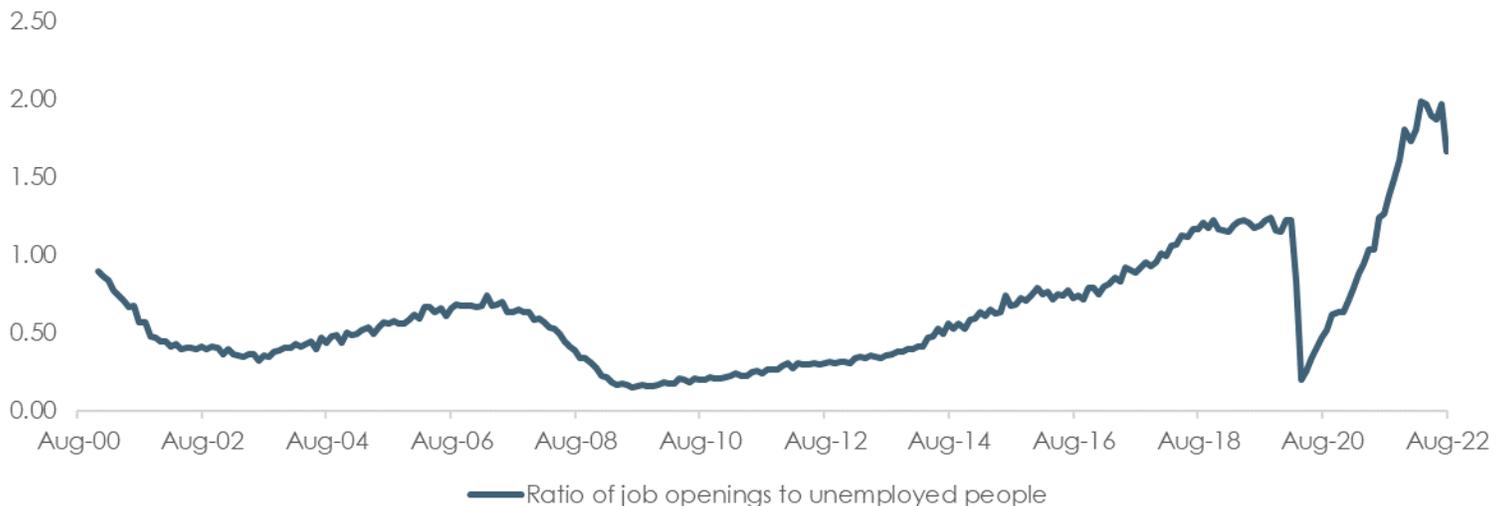
Central bank meetings			
Central banks	Date	Probability of change	Current rate
Bank of Canada	26-Oct-22	228.6%	3.25%
European Central Bank	27-Oct-22	298.4%	1.25%
Bank of Japan	28-Oct-22	5.7%	-0.10%
Federal Open Market Committee	2-Nov-22	290.8%	3.25%
Bank of England	3-Nov-22	407.9%	2.25%

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

Early indications of a relaxation in labour market tightness

The chart below shows that the ratio of job openings to unemployed people fell sharply in August. Despite a strong September jobs report, which bolstered the case for a 0.75% hike at the November FOMC meeting, there are signs that the labour market is cooling as the economy struggles with higher interest rates aimed at containing inflation. The number of job openings fell by 10.0% in August, the most since April 2020, and there were 1.67 unemployed Americans for every job opening, down from 1.97 in July. A drop of this magnitude usually indicates a recession. Although the unemployment rate fell in September, companies are slowing hiring before laying off workers.



Source: Bloomberg Intelligence, August 2022.

Appendix

Global markets (Returns in Canadian dollar terms)				
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Commodities	Close	Weekly	MTD	YTD
Oil	127.27	15.77%	15.77%	43.08%
Natural gas	9.27	-0.92%	-0.92%	93.74%
Gold	2,327.89	1.34%	1.34%	0.62%
Silver	27.64	5.04%	5.04%	-6.13%
Copper	465.24	-1.42%	-1.42%	-16.52%
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