WEEK IN REVIEW

December 2, 2022

In focus

Global equities advanced over the week, amid optimism that the U.S. Federal Reserve (the Fed) and other central banks may hike their benchmark rates of interest at a slower pace than expected. While Fed Chair Jerome Powell signalled some caution about reading too much into it, there were signs of easing inflation in the U.S. and in Europe, supporting investor confidence. The annual inflation rate for the eurozone eased more than expected in November. Expectations of a gradual easing of COVID restrictions in China also added to the broad sense of optimism. Aiding sentiment further, policy relief for China's property sector boosted prices for commodities and related sectors.

Japanese equity markets declined over the week as exporters suffered due to a strong yen. In economic data, Japan's industrial production fell 2.6% month-on-month in October.

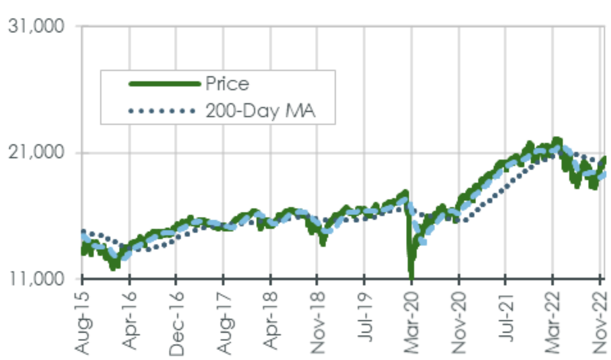
In commodities, oil prices increased over the week after OPEC+, the Organization of the Petroleum Exporting Countries and allies including Russia, together held output targets steady ahead of an E.U. ban and a the introduction of a price cap on Russian crude.

In fixed income, expectations of smaller interest rate hikes drove U.S. Treasury yields lower this week. However, toward the end of the week, yields partially retraced their earlier moves after U.S. employment data showed strong hiring and wage inflation in November. (Bond prices and yields move in opposite directions.)

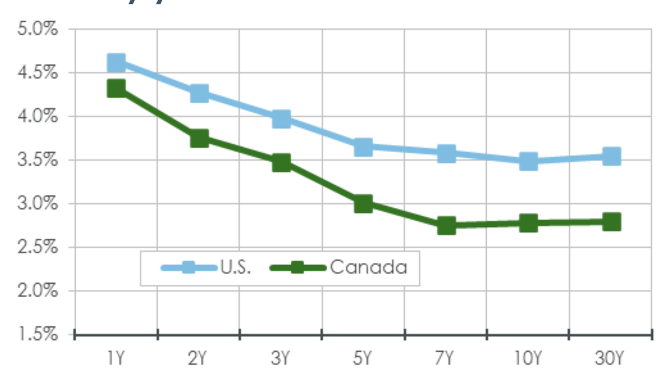
Indexes	Close	Weekly	MTD	YTD
S&P/TSX	20,485.66	0.50%	0.16%	-3.47%
S&P500	4,071.70	1.13%	-0.21%	-14.57%
NASDAQ	11,461.50	2.09%	-0.06%	-26.74%
DJIA	34,429.88	0.24%	-0.46%	-5.25%
Russell 2000	1,892.84	1.27%	0.33%	-15.70%
FTSE 100	7,556.23	0.93%	-0.22%	2.32%
Euro Stoxx 50	3,977.90	0.39%	0.33%	-7.46%
Nikkei 225	27,777.90	-1.79%	-0.68%	-3.52%
Hang Seng	18,675.35	6.27%	0.42%	-20.18%
Shanghai Comp.	3,156.14	1.76%	0.15%	-13.29%
MSCI ACWI	633.54	1.34%	0.42%	-16.07%
MSCI EM	973.85	3.49%	0.16%	-20.95%
MSCI ACWI ESG Leaders	2,253.34	1.69%	0.61%	-16.18%
Fixed income	**Close**	**Weekly**	**MTD**	**YTD**
FTSE Canada Uni.	1,085.53	1.30%	1.56%	-8.80%
BBG Global Agg.	451.88	1.60%	1.88%	-15.13%
TSX Pref	1,628.22	1.85%	0.22%	-16.44%
Bond yields	**Close**	**bps chg Weekly**	**bps chg MTD**	**bps chg YTD**
10 yr Canada Govt.	2.78%	-15.4	-15.8	135.4
10 yr U.S. Govt.	3.49%	-19.1	-11.9	197.6
30 yr Canada Govt.	2.80%	-16.1	-19.9	112.0
30 yr U.S. Govt.	3.55%	-18.5	-18.8	164.5
Commodities	**Close**	**Weekly**	**MTD**	**YTD**
Oil	79.98	4.85%	-0.71%	15.44%
Natural gas	6.28	-14.31%	-9.37%	53.57%
Gold	1,797.63	2.43%	1.65%	-1.73%
Silver	23.14	6.42%	4.26%	-0.72%
Copper	385.05	6.06%	3.01%	-12.30%
Currencies	**Close**	**Weekly**	**MTD**	**YTD**
CAD/USD	0.7425	-0.66%	-0.42%	-6.16%
USD/EUR	0.9492	-1.33%	-1.22%	7.95%
CAD/EUR	0.7042	-2.06%	-1.70%	1.27%
USD/JPY	134.3100	-3.51%	-2.72%	16.71%
USD/CNY	7.0535	-1.56%	-0.55%	10.97%
USD/MXN	19.4001	0.35%	0.68%	-5.50%
GBP/CAD	1.6537	2.16%	2.24%	-3.33%
GBP/USD	1.2280	1.55%	1.84%	-9.25%

*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	Nov	5.3%	5.1%	5.2%
Canada quarterly GDP annualized	3Q	1.5%	2.9%	3.2%
U.S. change in non-farm payrolls	Nov	200K	263K	284K
U.S. initial jobless claims	26-Nov	235K	225K	241K
U.S. ISM manufacturing PMI	Nov	49.7	49.0	50.2
China manufacturing PMI	Nov	49.0	48.0	49.2

Canada

Canadian equities edged higher for the week, tracking gains on Wall Street. At a sector level, the information technology sector surged for the week, with e-commerce platform operator Shopify gaining on a strong rise in shopping traffic over Black Friday and Cyber Monday. The materials sector advanced, in view of rising commodity prices. The health care sector, a relatively smaller component of the index, also rose for the week.

In economic data, Canadian employment increased for a third straight month, adding 10,100 jobs in November, while the unemployment rate dipped to 5.1%.

U.S.

U.S. equity markets ended the week with positive returns amid expectations of a slower pace of rate-hiking by the Fed. Investors also welcomed data pointing to a cooling in the labour market and a resilient economy.

Equities rallied sharply on the final day of November in reaction to a speech Fed Chair Jerome Powell gave at the Brookings Institution, highlighting the risk of relaxing monetary policy too soon and reiterating that the peak interest rate for this tightening cycle is likely to be "somewhat higher" than previously estimated. Rates could also remain higher for longer, according to Powell, who also acknowledged that the central bank is aware that the effects of monetary policy take time to filter through to the economy. In light of this lag, Powell indicated that the Fed could slow the pace of rate increases as early as the FOMC's mid-December 2022 meeting.

Economic data painted a mixed picture, with weak manufacturing data and tight job market figures outweighing a mild easing in inflation and solid consumer spending. The Institute for Supply Management's manufacturing PMI showed factory activity had contracted in November for the first time since May 2020, and more than expected, with higher borrowing costs dampening demand for goods. Meanwhile, the number of initial claims for unemployment benefits fell unexpectedly last week, suggesting the labour market remains somewhat tight. Encouragingly, personal consumption expenditure price inflation slowed in October, while the growth of both personal income and spending accelerated.

Rest of the world

European equities gained over the week as lower inflation spurred hopes that central banks could slow the pace at which they are tightening monetary policy. Signs that China was relaxing some coronavirus restrictions also buoyed sentiment.

On the monetary policy front, European Central Bank Vice President Luis de Guindos said that inflation in the eurozone is expected to stay around current levels before showing clearer signs of a slowdown in the first quarter of the coming year. He added that the central bank needs to continue to lift interest rates to bring inflation down to its mid-term target of 2%, despite a recent slowing in the pace of price growth. However, future rate hikes will depend on the comping economic data.

In economic data, the S&P Global eurozone manufacturing PMI reading was revised slightly lower in November, marking a fifth consecutive month of shrinking factory activity as demand weakens, although at a slower pace.

In Asia, Chinese equities advanced amid optimism about signs that the Fed may adopt a slower pace of rate hikes and easing COVID-19 restrictions. The People's Bank of China also announced a 25-basis-point reduction of the reserve requirement ratio for banks, effective December 5, in a bid to shore up the beleaguered economy.

Looking ahead

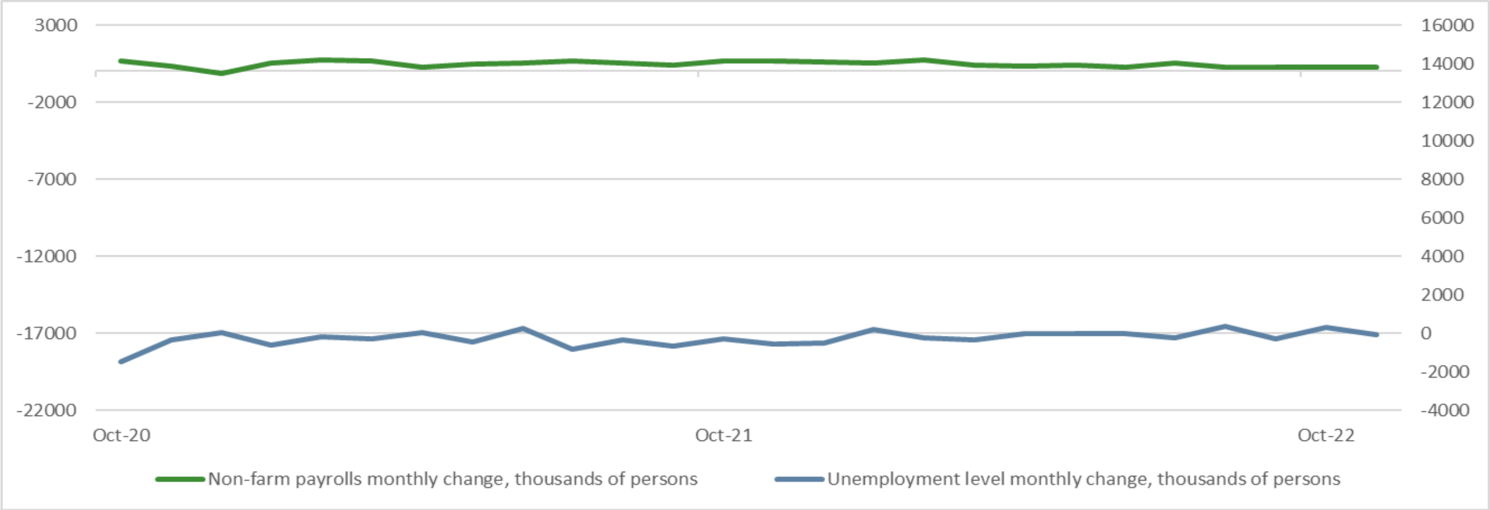
Economic indicators	Period	Survey	Prior period
Canada building permits MoM	Oct	7.9%	-17.5%
U.S. initial jobless claims	03-Dec	230K	225K
U.S. durable goods orders	Oct	1.0%	1.0%
U.S. ISM services index	Nov	53.3	54.4
China CPI YoY	Nov	1.6%	2.1%
China PPI YoY	Nov	-1.5%	-1.3%

Central bank meetings			
Central banks	Date	Probability of change	Current rate
Bank of Canada	7-Dec-22	128.50%	3.75%
Federal Open Market Committee	14-Dec-22	204.80%	4.00%
Bank of England	15-Dec-22	226.80%	3.00%
European Central Bank	15-Dec-22	229.20%	2.00%
Bank of Japan	20-Dec-22	7.10%	-0.10%

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

The current labour market is a mixed blessing.
The graph below shows strong monthly payroll gains in the U.S., at levels that far exceed the gains required to keep unemployment from rising. The U.S. economy added more jobs than expected in November, demonstrating a consistent ongoing trend of labour market strength. Non-farm payrolls increased by 263,000 in November, exceeding expectations of 200,000. The unemployment level fell by 48,000, with the rate remaining at 3.7%. While this strength is good for the economy, it was interpreted negatively by markets, because it implies that the Fed is having little impact on slowing wage growth.



Source: U.S. Bureau of Labor Statistics.

Appendix

Global markets (Returns in Canadian dollar terms)				
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Commodities	**Close**	**Weekly**	**MTD**	**YTD**
Oil	107.72	5.54%	-0.29%	23.02%
Natural gas	8.46	-13.75%	-8.99%	63.64%
Gold	2,421.56	3.14%	2.09%	4.67%
Silver	31.17	7.14%	4.72%	5.87%
Copper	518.59	6.76%	3.44%	-6.55%
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