



December 09, 2022

## In focus

Global equities ended mostly lower for the week. Investors in the U.S. worried that a higher-than-expected rise in monthly producer prices would prompt the Federal Reserve (the Fed) to keep interest rates higher for longer. Equities in China, Japan and emerging markets, however, advanced. The significant relaxation of China's stringent COVID restrictions boosted investor confidence that the economy would strengthen and help restore global supply chains.

The U.S. producer price index (PPI) rose unexpectedly to 0.3% on a monthly basis in November, primarily driven by the rising cost of services, suggesting inflation remains sticky. However, the PPI eased to 7.4% on an annual basis. Meanwhile, the European Central Bank (ECB) said that eurozone banks were set to repay early another 447.5 billion euros in multi-year loans from the ECB as part of the central bank's plan to tighten financing conditions.

In the commodities market, oil prices fell over the week, with worries about a weak economic outlook in China, Europe and the U.S. weighing on oil demand.

In fixed income, ten-year U.S. Treasury yields rose for the week, owing to higher headline inflation and improving consumer sentiment.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	19,947.07	-2.63%	-2.47%	-6.01%
S&P500	3,934.38	-3.37%	-3.57%	-17.45%
NASDAQ	11,004.62	-3.99%	-4.04%	-29.66%
DJIA	33,476.46	-2.77%	-3.22%	-7.88%
Russell 2000	1,796.66	-5.08%	-4.77%	-19.98%
FTSE 100	7,476.63	-1.05%	-1.27%	1.25%
Euro Stoxx 50	3,942.62	-0.89%	-0.56%	-8.28%
Nikkei 225	27,901.01	0.44%	-0.24%	-3.09%
Hang Seng	19,900.87	6.56%	7.01%	-14.95%
Shanghai Comp.	3,206.95	1.61%	1.76%	-11.89%
MSCI ACWI	619.36	-2.24%	-1.83%	-17.95%
MSCI EM	978.28	0.45%	0.62%	-20.59%
MSCI ACWI ESG Leaders	2,206.02	-2.10%	-1.50%	-17.94%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,081.39	-0.38%	1.18%	-9.15%
BBG Global Agg.	451.55	-0.07%	1.81%	-15.19%
TSX Pref	1,613.39	-0.91%	-0.69%	-17.20%

Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	2.88%	10.2	-5.6	145.6
10 yr U.S. Govt.	3.58%	9.2	-2.7	206.8
30 yr Canada Govt.	2.84%	3.7	-1.62	115.7
30 yr U.S. Govt.	3.56%	1.1	-17.7	165.6

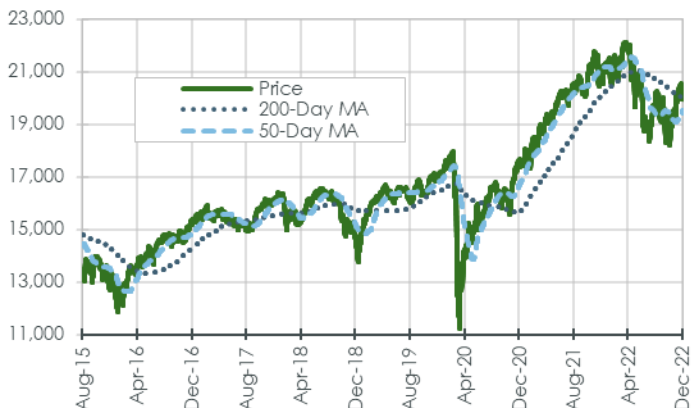
Commodities	Close	Weekly	MTD	YTD
Oil	71.02	-11.20%	-11.83%	2.51%
Natural gas	6.25	-0.57%	-9.88%	52.69%
Gold	1,797.32	-0.02%	1.63%	-1.74%
Silver	23.47	1.44%	5.76%	0.71%
Copper	387.85	0.73%	3.76%	-11.66%

Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7329	-1.29%	-1.70%	-7.38%
USD/EUR	0.9487	-0.05%	-1.27%	7.89%
CAD/EUR	0.6955	-1.24%	-2.92%	-0.01%
USD/JPY	136.5600	1.68%	-1.09%	18.67%
USD/CNY	6.9584	-1.35%	-1.89%	9.48%
USD/MXN	19.7652	1.88%	2.58%	-3.72%
GBP/CAD	1.6712	1.06%	3.32%	-2.25%
GBP/USD	1.2259	-0.17%	1.67%	-9.41%

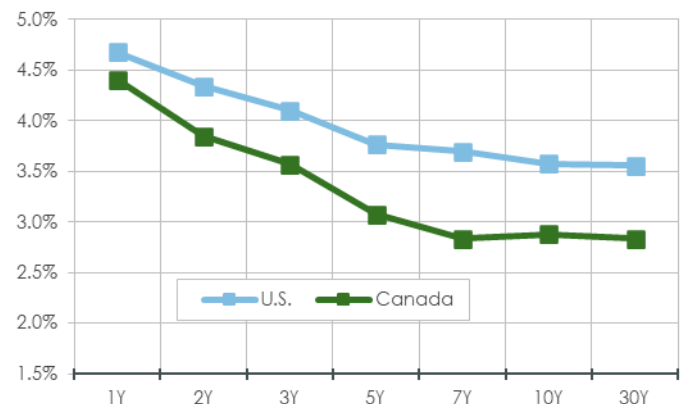
\*Please refer to the Appendix for the above table in Canadian dollar terms. Natural gas prices subject to change post-settlement.

## 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 building permits MoM	Oct	7.9%	-1.4%	-18.2%
U.S. initial jobless claims	03-Dec	230K	230K	226K
U.S. durable goods orders	Oct	1.0%	1.1%	1.0%
U.S. ISM services index	Nov	53.5	56.5	54.4
China CPI YoY	Nov	1.6%	1.6%	2.1%
China PPI YoY	Nov	-1.5%	-1.3%	-1.3%

## Canada

Canadian equities declined during the week; weaker oil prices dragged on energy shares, and investors weighed the risk that central banks might raise interest rates too much for the economy to handle. The Bank of Canada raised its benchmark overnight interest rate by 50 basis points, to 4.25%, on Wednesday.

At a sector level, health care underperformed, weighed down by cannabis stocks, while consumer staples outperformed. Among stocks, shares of Cenovus Energy were down after the company forecast higher capital expenditure and production in 2023; Parkland Corp. gained after the food and fuel retailer posted its 2023 outlook.

## U.S.

U.S. equities finished the week lower as investors digested a slew of economic data. The week started on a negative note, with the Institute for Supply Management's services PMI beating expectations of a small decrease and rising to 56.5. However, sentiment improved after weekly jobless claims data showed tentative signs of cooling in the labour market because of higher interest rates.

Stronger-than-expected producer inflation data released on Friday showed the resilience of the U.S. economy, despite the Fed's efforts to slow it down by raising interest rates; this resulted in a sharp drop in the market.

All sectors finished in the red, with economically sensitive sectors such as energy and communication services leading the losses. Energy stocks came under pressure due to growing concerns over a potential global recession-driven demand downturn. Mega-cap growth stocks remained under pressure as investors weighed the implications of restrictive monetary policy on growth momentum and corporate earnings. On the bright side, U.S.-listed Chinese firms, such as Alibaba Group Holding and JD. Com, performed well amid hopes for a gradual economic reopening in China.

In economic data, the University of Michigan's consumer confidence indicator surprised by improving in December; short-term inflation expectations fell to the lowest level in 15 months.

## Rest of the world

European equities ended the week posting negative returns. A rapid deterioration of the economic outlook amid high inflation and tighter financial conditions overshadowed optimism arising from China's easing of its COVID restrictions.

On the monetary policy front, the ECB's chief economist, Philip Lane, said that inflation is probably close to its peak, but the central bank still needs to remain in its monetary tightening path to ensure inflation returns to the target level. Among economic data, the eurozone's GDP growth slowed less than expected, to 0.3%, in the third quarter, aided primarily by accelerated fixed investment. However, the eurozone's final services PMI data showed that the services sector shrank in November for a fourth consecutive month. Meanwhile, eurozone retail sales fell more than expected in October, reflecting subdued consumer demand amid high inflation and rising borrowing costs.

In Asia, Chinese equities advanced after the announcement of ten measures to further relax strict COVID restrictions. However, investors were disappointed at falling export and import data in November, amid softening global demand and domestic COVID outbreaks. Japanese stocks were positive for the week, bolstered by data indicating that Japan's economy shrank less than initially estimated in the third quarter of 2022.

## Looking ahead

Economic indicators	Period	Survey	Prior period
Canada housing starts	Nov	259.0K	267.1K
Canada manufacturing sales MoM	Oct	2.0%	0.0%
U.S. CPI MoM	Nov	0.3%	0.4%
U.S. industrial production MoM	Nov	0.1%	-0.1%
U.S. continuing claims	03-Dec	1650K	1671K
China industrial production YoY	Nov	3.5%	5.0%

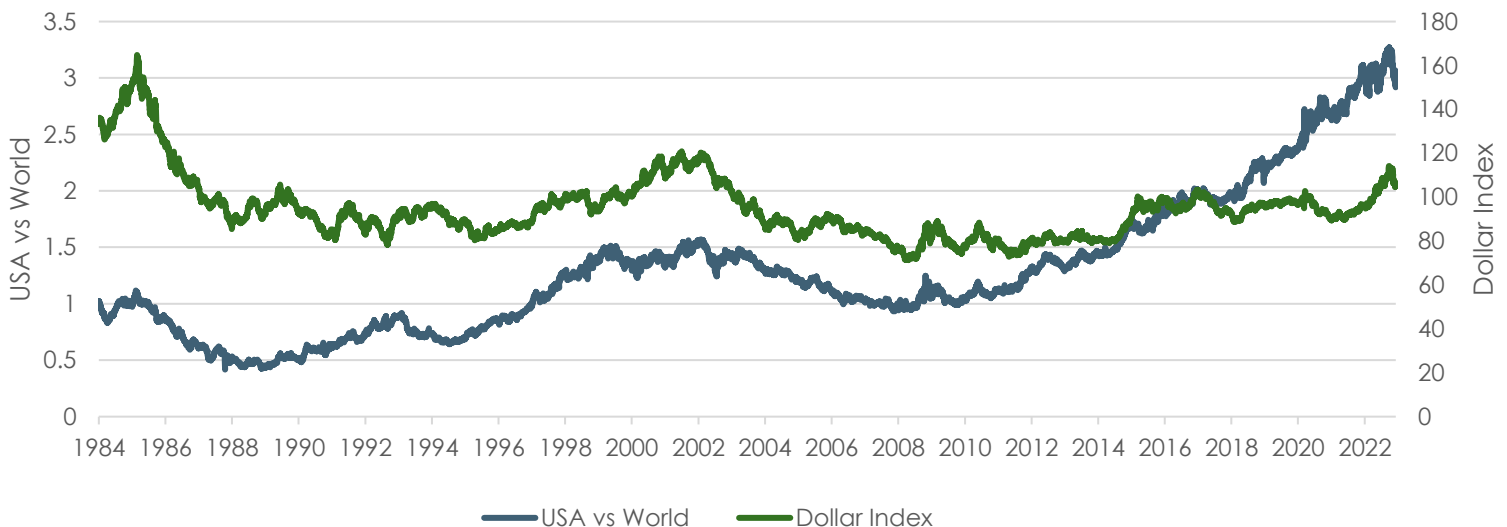
Central bank meetings			
Central banks	Date	Probability of change	Current rate
Federal Open Market Committee	14-Dec-22	209.30%	4.00%
Bank of England	15-Dec-22	224.40%	3.00%
European Central Bank	15-Dec-22	215.90%	2.00%
Bank of Japan	20-Dec-22	8.80%	-0.10%
Bank of Canada	25-Jan-23	70.30%	4.25%

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

### U.S. dollar strength has weighed on the performance of international stocks.

The graph below shows that the relative performance of international stocks is inversely correlated with the trajectory of the U.S. dollar. A “strong dollar” refers to the relative value of dollars compared with another currency or a basket of currencies. The dollar strengthened dramatically over the course of the year as the Fed hiked interest rates to combat sky-high inflation. The U.S. Dollar Index, which measures the greenback against a basket of other currencies, is up more than 17% so far this year. But the strong dollar isn’t just about the Fed. While the U.S. economy may be flirting with a recession, it’s still looking much better than other advanced economies, including those of the U.K., European nations and Japan.



Source: Refinitiv DataStream. Past performance is no guarantee of future returns. U.S. equities are represented by the MSCI USA Index and international equities are represented by MSCI World ex USA. Price returns are in US\$.

## Appendix

Global markets (Returns in Canadian dollar terms)				
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Natural gas	8.52	0.73%	-8.32%	64.86%
Gold	2,453.19	1.31%	3.43%	6.04%
Silver	32.03	2.74%	7.59%	8.77%
Copper	529.20	2.05%	5.56%	-4.62%
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