WEEK IN REVIEW

August 18, 2023

In focus

Global equities declined for the week due to renewed worries about prolonged high interest rates in the U.S. The minutes of the latest meeting of the U.S. Federal Reserve (the Fed) showed that future interest rate hikes remain on the table.

Meanwhile, markets in Asia were overshadowed by more gloomy data from China, where new home prices in 70 major cities fell in July, marking the first monthly drop so far this year. Adding to the blow, one of the major Chinese property developers, Evergrande, filed for U.S. bankruptcy protection. In monetary policy news, the People's Bank of China unexpectedly cut its medium-term lending facility rate by 15 basis points, to 2.5%, the largest reduction since 2020, as the country grapples with weak demand.

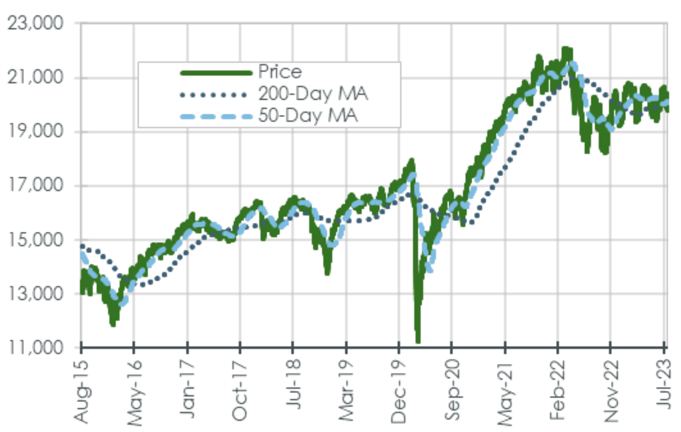
In commodities, crude oil and metal prices fell; traders attributed the setback to weak economic data from China.

In fixed income, the ten-year U.S. Treasury yield briefly eclipsed 4.32% on Thursday, the highest since November 2007, with resilient economic data challenging the view that central banks rates are peaking. However, the yield retreated somewhat on Friday, and ended the week at around 4.25%.

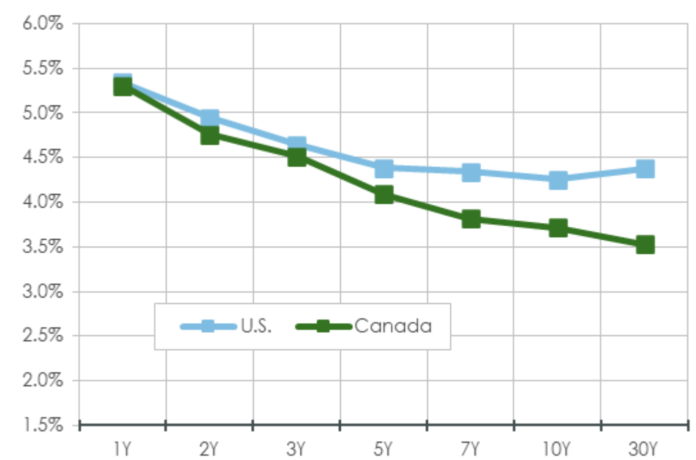
Indexes	Close	Weekly	MTD	YTD
S&P/TSX	19,818.39	-2.89%	-3.92%	2.24%
S&P500	4,369.71	-2.11%	-4.78%	13.81%
NASDAQ	13,290.78	-2.59%	-7.36%	26.98%
DJIA	34,500.66	-2.21%	-2.98%	4.08%
Russell 2000	1,859.42	-3.41%	-7.18%	5.57%
FTSE 100	7,262.43	-3.48%	-5.68%	-2.54%
Euro Stoxx 50	4,212.95	-2.51%	-5.78%	11.05%
Nikkei 225	31,450.76	-3.15%	-5.19%	20.53%
Hang Seng	17,950.85	-5.89%	-10.60%	-9.25%
Shanghai Comp.	3,131.95	-1.80%	-4.83%	1.38%
MSCI ACWI	666.77	-2.62%	-5.70%	10.14%
MSCI EM	964.44	-3.34%	-7.88%	0.84%
MSCI ACWI ESG Leaders	2,415.61	-2.41%	-5.19%	12.27%
Fixed income	**Close**	**Weekly**	**MTD**	**YTD**
FTSE Canada Uni.	1,050.53	-0.43%	-1.42%	-0.06%
BBG Global Agg.	445.14	-0.77%	-2.26%	-0.17%
TSX Pref	1,588.27	-1.45%	-2.07%	-0.50%
Bond yields	**Close**	**bps chg Weekly**	**bps chg MTD**	**bps chg YTD**
10 yr Canada Govt.	3.72%	7.2	21.6	41.6
10 yr U.S. Govt.	4.25%	10.2	29.6	38.0
30 yr Canada Govt.	3.53%	4.4	22.3	25.3
30 yr U.S. Govt.	4.38%	11.4	36.6	41.2
Commodities	**Close**	**Weekly**	**MTD**	**YTD**
Oil	81.25	-2.33%	-0.67%	3.04%
Natural gas	2.55	-7.91%	-3.15%	-37.93%
Gold	1,889.31	-1.28%	-3.86%	3.58%
Silver	22.75	0.28%	-8.07%	-5.03%
Copper	374.05	-0.51%	-7.07%	-1.82%
Currencies	**Close**	**Weekly**	**MTD**	**YTD**
CAD/USD	0.7379	-0.83%	-2.66%	0.01%
USD/EUR	0.9197	0.69%	1.14%	-1.54%
CAD/EUR	0.6787	-0.13%	-1.57%	-1.55%
USD/JPY	145.3900	0.30%	2.18%	10.88%
USD/CNY	7.2845	0.62%	1.98%	5.59%
USD/MXN	17.0559	0.28%	1.87%	-12.53%
GBP/CAD	1.7255	1.13%	1.93%	5.25%
GBP/USD	1.2734	0.30%	-0.79%	5.39%

*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 CPI YoY	Jul	3.0%	3.3%	2.8%
Canada housing starts	Jul	244.0k	255.0k	283.5k
U.S. initial jobless claims	12-Aug	240k	239k	250k
U.S. retail sales advance MoM	Jul	0.4%	0.7%	0.3%
U.S. housing starts	Jul	1450k	1452k	1398k
U.S. Philadelphia Fed business outlook	Aug	-10.4	12.0	-13.5

Canada

Canadian equities declined after recent data signalled persistent inflation and fuelled fears of further interest rate hikes by the Bank of Canada. At a sector level, health care outperformed, while materials lost as base metal prices declined.

In economic data, Canada's annual inflation rate surged in July to 3.3%, more than analysts' expectations, with core measures eyed by the central bank remaining stubbornly high. On monthly basis, the consumer price index rose 0.6%. Canada's producer prices grew by 0.4% in July from June on higher prices for energy and petroleum products.

U.S.

U.S. equity markets fell sharply over the week as robust economic data prompted bets that the Fed may keep interest rates higher for longer.

The most notable economic release of the week appeared to be Tuesday's report from the Commerce Department on July retail sales, which grew 0.7% over the month in July, beating market expectations of a 0.4% gain. The robust retail sales print underscored the resilience of the economy despite inflation and tight financial conditions, adding to investor nervousness about a continued restrictive monetary policy from the Fed.

On Wednesday, the release of the minutes from the Fed's July policy meeting showed that policy makers were divided over the need for further rate increases beyond the one approved at that meeting, with some citing the risk to the economy of pushing hikes too far. Others noted that inflation remains a primary focus, suggesting the potential for more rate hikes.

All the S&P sectors participated in the sell-off, with consumer discretionary, real estate and financials faring the worst. Banks remained under pressure due to the possibility of tighter regulation and more ratings downgrades.

In economic news, the number of initial claims for unemployment benefits fell slightly more than expected last week, pointing to a resilient labour market.

Rest of the world

European equities posted weekly declines. The prospect of a prolonged period of higher European interest rates and China's economic outlook weakened sentiment.

On the economic data front, it was confirmed that the consumer price inflation rate in the eurozone eased slightly in July, to 5.3%, mainly due to a further decline in energy prices. Annual headline consumer inflation in the U.K. eased to 6.8% in July. However, the core rate, excluding prices of energy and food, held steady at 6.9%, well above the Bank of England's 2.0% target. The growth rate of average wages in the U.K. hit a new record high, reinforcing bets that the Bank of England may continue to raise interest rates.

In Asia, Chinese equities ended the week on a negative note. Sentiment remained subdued amid further signs of a faltering economic recovery in China and growing concerns about the ailing real estate sector. Official data revealed that China's industrial output and retail sales had grown at a slower-than-expected pace in July compared with a year earlier.

Meanwhile, Japan's GDP unexpectedly grew by 6.0% on an annual basis in the second quarter of 2023. The growth surge was driven largely by external demand, with net export growth ahead of estimates. Japan's consumer price inflation slowed in July from the previous month, but remained elevated, at 3.1% year-on-year.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada retail sales MoM	Jun	0.0%	0.2%
Canada retail sales ex auto MoM	Jun	0.3%	0.0%
U.S. initial jobless claims	19-Aug	240k	239k
U.S. University of Michian sentiment	Aug	71.2	71.2
U.S. durable goods orders	Jul	-4.0%	4.6%
China industrial profits YoY	Jul	--	-8.3%

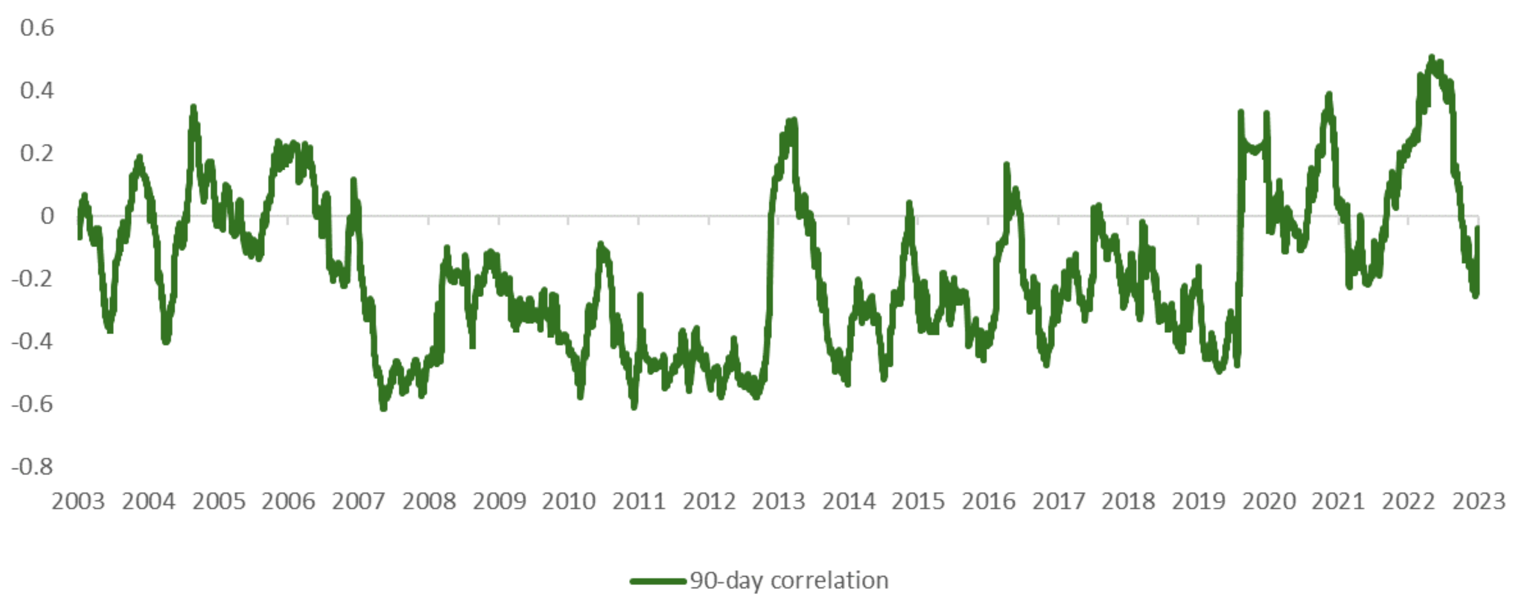
Central bank meetings			
Central banks	**Date**	**Probability of change**	**Current rate**
Bank of Canada	6-Sep-23	33.50%	5.00%
European Central Bank	14-Sep-23	51.30%	4.25%
Federal Open Market Committee	20-Sep-23	10.00%	5.50%
Bank of England	21-Sep-23	126.20%	5.25%
Bank of Japan	22-Sep-23	3.80%	-0.10%

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 historical negative correlation between bonds and equities is showing signs of being restored.

The chart below shows that the 90-day correlation between U.S. equities and investment-grade bonds, which turned positive after the outbreak of COVID, is showing signs that it might be heading back toward a negative reading. That traditionally negative correlation is a key part of the basis for the fabled 60/40 portfolio rule (60% equities, 40% bonds), which holds that investors can reasonably expect positive bond returns to mitigate a bad period for equities.



Source: Fidelity Investments Canada ULC and Bloomberg. U.S. equities represented by S&P 500 Index, U.S. investment-grade bonds represented by ICE BOFA U.S. Large Cap Corporate Index, August 2023.

Appendix

Global markets (Returns in Canadian dollar terms)				
Indexes	**Close**	**Weekly**	**MTD**	**YTD**
S&P/TSX	19,818.39	-2.89%	-3.92%	2.24%
S&P500	4,369.71	-1.44%	-2.09%	13.87%
NASDAQ	13,290.78	-1.92%	-4.74%	27.05%
DJIA	34,500.66	-1.54%	-0.24%	4.14%
Russell 2000	1,859.42	-2.74%	-4.55%	5.63%
FTSE 100	7,262.43	-2.40%	-3.86%	2.72%
Euro Stoxx 50	4,212.95	-2.50%	-4.30%	12.79%
Nikkei 225	31,450.76	-2.71%	-4.49%	8.90%
Hang Seng	17,950.85	-5.41%	-8.46%	-9.55%
Shanghai Comp.	3,131.95	-1.70%	-4.01%	-3.90%
MSCI ACWI	666.77	-1.94%	-3.04%	10.20%
MSCI EM	964.44	-2.67%	-5.27%	0.90%
MSCI ACWI ESG Leaders	2,415.61	-1.73%	-2.51%	12.32%
Fixed income	**Close**	**Weekly**	**MTD**	**YTD**
FTSE Canada Uni.	1,050.53	-0.43%	-1.42%	-0.06%
BBG Global Agg.	445.14	0.06%	0.42%	-0.19%
TSX Pref	1,588.27	-1.45%	-2.07%	-0.50%
Bond yields	**Close**	**bps chg Weekly**	**bps chg MTD**	**bps chg YTD**
10 yr Canada Govt.	3.72%	7.2	21.6	41.6
10 yr U.S. Govt.	4.25%	10.2	29.6	38.0
30 yr Canada Govt.	3.53%	4.4	22.3	25.3
30 yr U.S. Govt.	4.38%	11.4	36.6	41.2
Commodities	**Close**	**Weekly**	**MTD**	**YTD**
Oil	110.11	-1.51%	2.05%	3.03%
Natural gas	3.46	-7.13%	-0.50%	-37.94%
Gold	2,560.36	-0.47%	-1.22%	3.59%
Silver	30.83	1.11%	-5.57%	-5.02%
Copper	506.91	0.33%	-4.52%	-1.84%
Currencies	**Close**	**Weekly**	**MTD**	**YTD**
CAD/USD	0.7379	-0.83%	-2.66%	0.01%
USD/EUR	0.9197	0.69%	1.14%	-1.54%
CAD/EUR	0.6787	-0.13%	-1.57%	-1.55%
USD/JPY	145.3900	0.30%	2.18%	10.88%
USD/CNY	7.2845	0.62%	1.98%	5.59%
USD/MXN	17.0559	0.28%	1.87%	-12.53%
GBP/CAD	1.7255	1.13%	1.93%	5.25%
GBP/USD	1.2734	0.30%	-0.79%	5.39%

Source: Bloomberg, Refinitiv DataStream. All equity indexes returns are price returns and do not include dividends.

Views expressed regarding a particular company, security, industry or market sector are the views only of that individual as of the time expressed and do not necessarily represent the views of Fidelity or any other person in the Fidelity organization. Such views are subject to change at any time, based upon markets and other conditions, and Fidelity disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for a Fidelity Fund are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any Fidelity Fund.

Certain statements in this commentary may contain forward-looking statements ("FLS") that are predictive in nature and may include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates" and similar forward-looking expressions or negative versions thereof. FLS are based on current expectations and projections about future general economic, political and relevant market factors, such as interest, and assuming no changes to applicable tax or other laws or government regulation. Expectations and projections about future events are inherently subject to, among other things, risks and uncertainties, some of which may be unforeseeable and, accordingly, may prove to be incorrect at a future date. FLS are not guarantees of future performance, and actual events could differ materially from those expressed or implied in any FLS. A number of important factors can contribute to these digressions, including, but not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition and catastrophic events. You should avoid placing any undue reliance on FLS. Further, there is no specific intention of updating any FLS, whether as a result of new information, future events or otherwise.