WEEK IN REVIEW

September 1, 2023

In focus

Global equity markets advanced over the week amid signs of a softening U.S. labour market. The U.S. Labor Department's payrolls report showed that the economy gained more jobs in August than expected. However, rising unemployment and participation rates, combined with cooling average hourly wage growth, reinforced expectations that the Federal Reserve (the Fed) will let key interest rates stand in September. Investors also welcomed China's latest measures to boost its markets and economy.

The unemployment rate in the U.S. climbed to 3.8% in August to reach its highest point since February 2022. Meanwhile, the job openings and labour turnover survey (JOLTS) showed the number of U.S. job openings fell unexpectedly in July by 338,000, sinking to the lowest level since March 2021. Average hourly earnings rose by only 0.2% for the month, a tick below expectations. Elsewhere, Japan's unemployment rate rose unexpectedly in July to 2.7%.

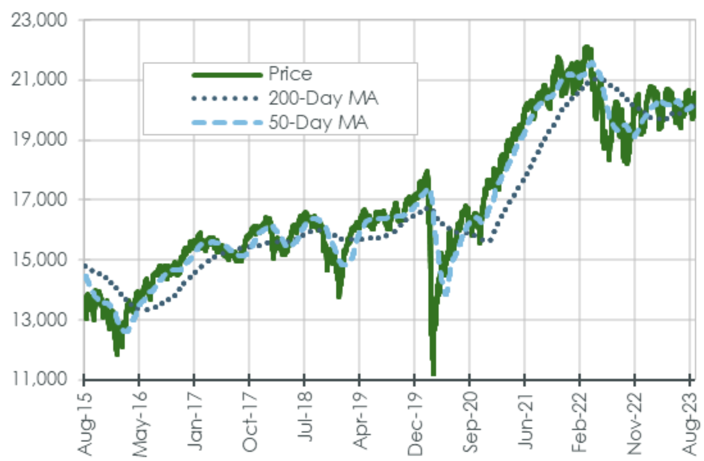
In commodities, crude oil prices rose, boosted by expectations of tightening supplies.

In fixed income, the ten-year U.S. Treasury yields fell on toned-down expectations of a rise in interest rates later this year. European government bond yields edged lower as core inflation data and comments from policy makers suggested that the European Central Bank could be nearing the end of its monetary policy tightening cycle.

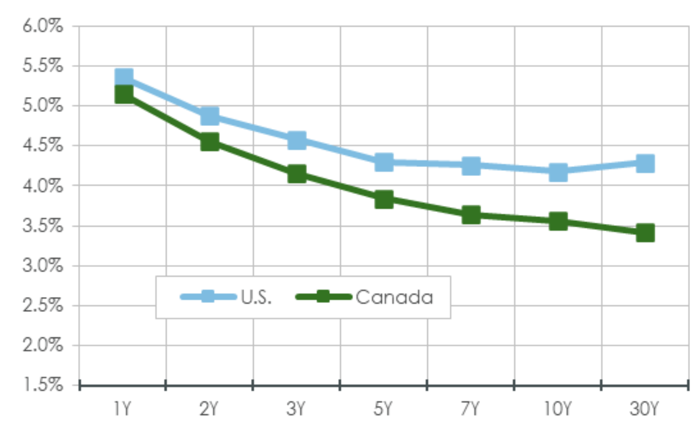
Indexes	Close	Weekly	MTD	YTD
S&P/TSX	20,545.36	3.58%	1.25%	5.99%
S&P500	4,515.77	2.50%	0.18%	17.61%
NASDAQ	14,031.81	3.25%	-0.02%	34.06%
DJIA	34,837.71	1.43%	0.33%	5.10%
Russell 2000	1,920.83	3.63%	1.11%	9.06%
FTSE 100	7,464.54	1.72%	0.34%	0.17%
Euro Stoxx 50	4,282.64	1.10%	-0.34%	12.89%
Nikkei 225	32,710.62	3.44%	0.28%	25.35%
Hang Seng	18,382.06	2.37%	0.00%	-7.07%
Shanghai Comp.	3,133.25	2.26%	0.43%	1.42%
MSCI ACWI	687.26	2.54%	0.16%	13.53%
MSCI EM	985.68	1.51%	0.55%	3.06%
MSCI ACWI ESG Leaders	2,494.61	2.46%	0.08%	15.94%
Fixed income	**Close**	**Weekly**	**MTD**	**YTD**
FTSE Canada Uni.	1,064.20	1.09%	0.05%	1.24%
BBG Global Agg.	447.33	0.58%	-0.42%	0.32%
TSX Pref	1,561.16	0.26%	0.50%	-2.20%
Bond yields	**Close**	**bps chg Weekly**	**bps chg MTD**	**bps chg YTD**
10 yr Canada Govt.	3.56%	-14.1	-0.1	26.3
10 yr U.S. Govt.	4.18%	-5.7	7.1	30.4
30 yr Canada Govt.	3.41%	-9.1	2.7	13.6
30 yr U.S. Govt.	4.29%	1.0	8.3	33.1
Commodities	**Close**	**Weekly**	**MTD**	**YTD**
Oil	85.55	7.17%	2.30%	9.23%
Natural gas	2.77	4.06%	-0.11%	-33.76%
Gold	1,940.06	1.31%	-0.01%	6.36%
Silver	24.19	-0.16%	-1.04%	0.97%
Copper	385.20	1.80%	0.78%	1.10%
Currencies	**Close**	**Weekly**	**MTD**	**YTD**
CAD/USD	0.7357	0.07%	-0.62%	-0.28%
USD/EUR	0.9277	0.15%	0.60%	-0.69%
CAD/EUR	0.6826	0.25%	-0.01%	-0.99%
USD/JPY	146.2200	-0.15%	0.47%	11.52%
USD/CNY	7.2663	-0.29%	0.10%	5.33%
USD/MXN	17.0892	2.04%	0.30%	-12.36%
GBP/CAD	1.7111	-0.01%	-0.05%	4.37%
GBP/USD	1.2590	0.10%	-0.65%	4.20%

*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 GDP YoY	Jun	1.4%	1.1%	1.9%
Canada current account balance	Q2	-$11.45bn	-$6.63bn	-$3.17bn
U.S. initial jobless claims	26-Aug	235k	228k	232k
U.S. GDP annualized QoQ	Q2	2.4%	2.1%	2.4%
U.S. ISM manufacturing PMI	Aug	47.0	47.6	46.4
U.S. Conference Board consumer confidence	Aug	116.0	106.1	114.0

Canada

Canadian equities rose over the week. All sectors closed higher, with information technology, health care and energy in the lead.

Domestic data raised investor hopes that the Bank of Canada could pause its interest rate hiking campaign. Canada's economy contracted unexpectedly in the second quarter, posting an annualized rate of 0.2%, and growth was likely flat in July, supporting expectations of an end to the monetary tightening cycle.

U.S.

U.S. equity markets advanced over the week amid rising expectations that the Fed will pause its interest rate hikes in September. Signs of cooling economic activity in the U.S. supported this view.

According to the U.S. Commerce Department, the core personal consumption expenditures (PCE) price index, a measure of inflation closely watched by the Fed, ticked up in July by 0.2% month-on-month and 4.2% year-on-year, aligning with market expectations. The most recent GDP readings showed that the U.S. economy grew at an annualized rate of 2.1% in the second quarter, slower than initially estimated.

Most of the S&P Index sectors closed higher, led by gains in information technology, energy and materials, although utilities and consumer staples declined.

In economic news, job quits, considered by some to be a more reliable indicator of the strength of the labour market, fell considerably. A separate report from the U.S. Labor Department showed that initial claims for unemployment benefits dropped last week more than expected. This figure pointed to labour market resilience and capped some of the momentum in the markets. Meanwhile, a report from the Conference Board showed consumer confidence in the U.S. fell in August more than expected.

Rest of the world

European equities posted weekly gains on hopes that interest rates would soon peak and that a recession, while possible, would likely prove to be shallow and short-lived. Stocks also appeared to receive a lift from China's efforts to bolster its economy.

On the economic data front, a preliminary estimate showed that the annual inflation rate in the eurozone held steady at 5.3% in August, above market expectations. However, the core inflation rate, which excludes volatile food and energy prices, eased, as expected, falling to 5.3%. The eurozone seasonally adjusted unemployment rate remained at a record low of 6.4% in July, in line with market forecasts. The final readings showed the eurozone manufacturing sector remained deep in contraction in August, with demand weakening to its lowest in almost a year. Elsewhere, data showed that German consumer price inflation moderated in August to 6.1% year-over-year. Retail sales in Germany fell by 0.8% in July.

In Asia, Chinese equities ended the week on a high, lifted by favourable policy announcements, which included measures to revitalize capital markets and steps to ease mortgage curbs in several major cities. Investors also cheered the Caixin manufacturing PMI surveys, which showed Chinese factory activity had expanded surprisingly in August, posting the strongest pace of growth since February.

In Japan, the Bank of Japan announced that it would conduct bond-buying operations one day before its auction of ten-year notes in the week beginning September 4, which weighed on yields.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada unemployment rate	Aug	5.6%	5.5%
Canada net change in employment	Aug	15.0k	-6.4k
U.S. initial jobless claims	02-Sep	234k	228k
U.S. factory orders	Jul	-2.5%	2.3%
U.S. ISM services index	Aug	52.5	52.7
China CPI YoY	Aug	0.1%	-0.3%

Central bank meetings			
Central banks	**Date**	**Probability of change**	**Current rate**
Bank of Canada	6-Sep-23	5.00%	5.00%
European Central Bank	14-Sep-23	22.30%	4.25%
Federal Open Market Committee	20-Sep-23	6.80%	5.50%
Bank of England	21-Sep-23	78.70%	5.25%
Bank of Japan	22-Sep-23	21.20%	-0.10%

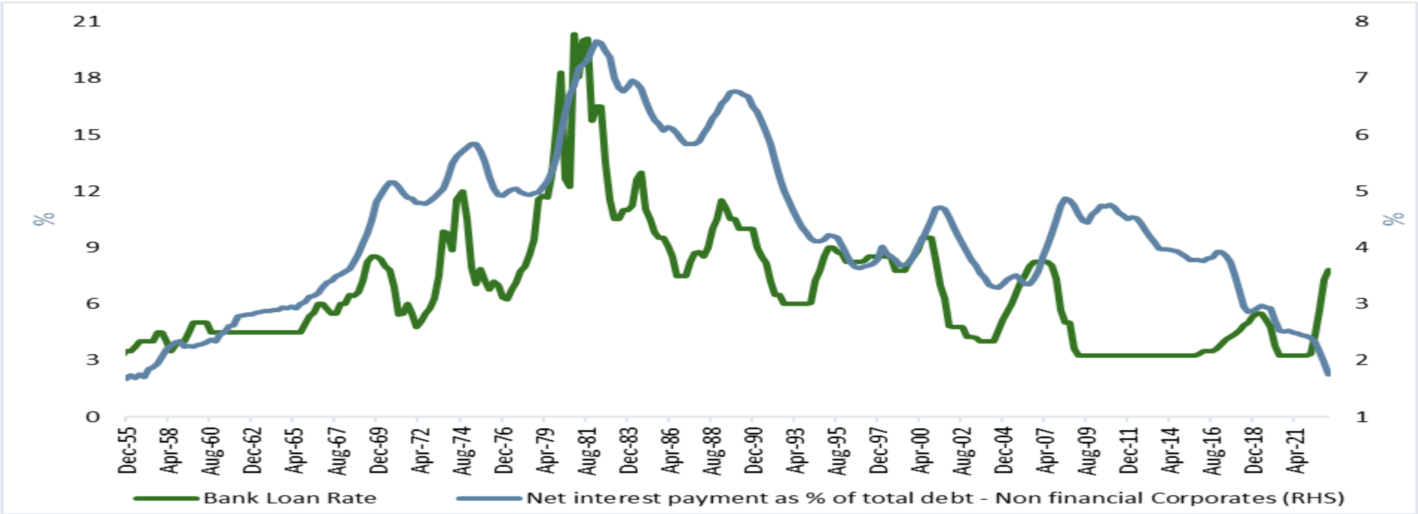
Source: Bloomberg. Probability of change implies the possibility of a central bank hiking interest rates during their upcoming meeting. A negative number in this case means chances of a rate cut rather than a hike.

Spotlight

Net interest payments have been falling even as interest rates have risen.

The chart below shows that while the Fed has been pushing interest rates to decade highs, net interest payments as a percentage of total debt for U.S. corporate borrowers have fallen to near all-time lows. In fact, payments have fallen almost directly in line with rising rates, flipping the previously positive correlation between the two trends, which had dominated for the past seventy years.

One explanation for the inversion is that corporations may be capitalizing on a surplus of cheap liquidity borrowed at low fixed rates during the COVID-19 pandemic. This has provided them with a beneficial carry trade, providing them with a spread on the interest-free cash remaining from the pandemic period, as well as interest income on today's floating rate assets.



Source: Fidelity Investments Canada ULC, BE and Haver Analytics, August 2023.

Appendix

Global markets (Returns in Canadian dollar terms)				
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Silver	32.88	-0.22%	-0.41%	1.29%
Copper	523.58	1.73%	1.42%	1.39%
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