



September 22, 2023

In focus

Major global equity markets finished with negative returns for the week, although Chinese equities managed to post modest gains due to a sharp rebound on Friday.

Markets were choppy at the start for the week, with investors in a “watch and wait” mode ahead of the interest rate decision from the Federal Reserve (the Fed) on Wednesday. The market sold off sharply on Thursday after the Fed kept its key interest rate unchanged, as expected, in the range of 5.25% to 5.5%. The updated quarterly Summary of Economic Projections and dot plot, however, indicated a potential 25-basis-point rate hike this year, and investors now expect fewer rate cuts in 2024, after Fed Chair Jerome Powell implied that the rates would stay higher for longer until inflation comes down firmly toward the Fed's 2.0% target.

Crude oil prices posted modest gains amid renewed oil supply concerns, after Russia's ban on gas and diesel exports.

Concerns about the Fed's hawkish signal of higher-for-longer interest rates continued to weigh on the prices of U.S. Treasury yields, which increased over most maturities.

| Indexes | Close | Weekly | MTD | YTD |
|-----------------------|-----------|--------|--------|--------|
| S&P/TSX | 19,779.97 | -4.08% | -2.53% | 2.04% |
| S&P500 | 4,320.06 | -2.93% | -4.16% | 12.52% |
| NASDAQ | 13,211.81 | -3.62% | -5.87% | 26.23% |
| DJIA | 33,963.84 | -1.89% | -2.18% | 2.46% |
| Russell 2000 | 1,776.50 | -3.82% | -6.48% | 0.87% |
| FTSE 100 | 7,683.91 | -0.36% | 3.29% | 3.12% |
| Euro Stoxx 50 | 4,207.16 | -2.05% | -2.09% | 10.90% |
| Nikkei 225 | 32,402.41 | -3.37% | -0.67% | 24.17% |
| Hang Seng | 18,057.45 | -0.69% | -1.77% | -8.72% |
| Shanghai Comp. | 3,132.43 | 0.47% | 0.40% | 1.40% |
| MSCI ACWI | 663.14 | -2.67% | -3.35% | 9.54% |
| MSCI EM | 964.24 | -2.11% | -1.64% | 0.82% |
| MSCI ACWI ESG Leaders | 2,399.86 | -3.01% | -3.72% | 11.53% |

| Fixed income | Close | Weekly | MTD | YTD |
|------------------|----------|--------|--------|--------|
| FISE Canada Uni. | 1,041.95 | -1.05% | -2.04% | -0.88% |
| BBG Global Agg. | 440.17 | -0.49% | -2.01% | -1.29% |
| TSX Pref | 1,551.08 | -0.30% | -0.15% | -2.83% |

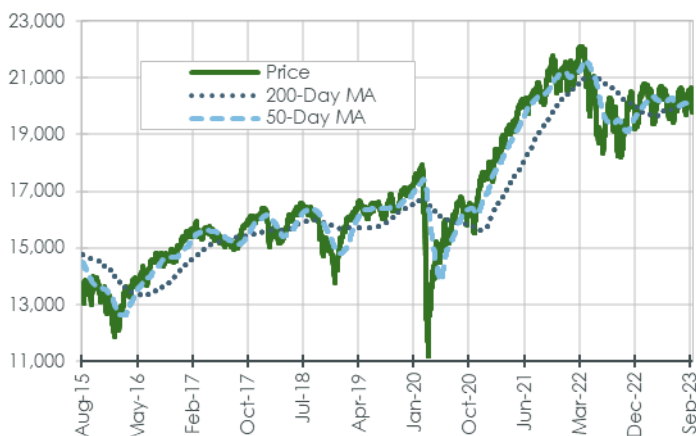
| Bond yields | Close | bps chg Weekly | bps chg MTD | bps chg YTD |
|--------------------|-------|----------------|-------------|-------------|
| 10 yr Canada Govt. | 3.91% | 17.3 | 35.0 | 61.4 |
| 10 yr U.S. Govt. | 4.43% | 10.1 | 32.6 | 55.9 |
| 30 yr Canada Govt. | 3.69% | 12.3 | 30.6 | 41.5 |
| 30 yr U.S. Govt. | 4.52% | 10.7 | 31.4 | 56.2 |

| Commodities | Close | Weekly | MTD | YTD |
|-------------|----------|--------|--------|---------|
| Oil | 90.03 | 0.01% | 8.52% | 15.70% |
| Natural gas | 2.64 | -0.26% | -4.73% | -36.82% |
| Gold | 1,925.23 | 0.07% | -0.77% | 5.55% |
| Silver | 23.56 | 2.28% | -3.61% | -1.64% |
| Copper | 369.60 | -2.76% | -3.30% | -2.99% |

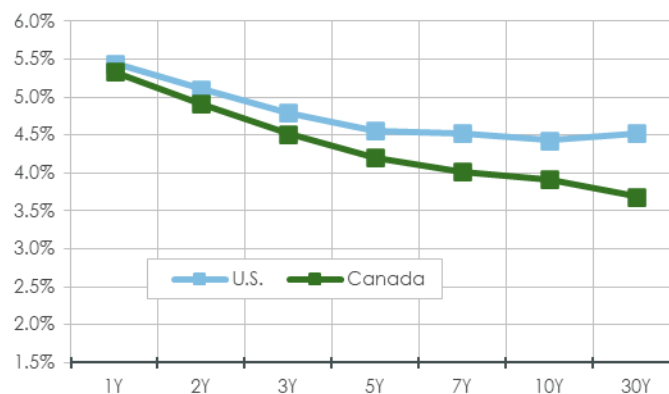
| Currencies | Close | Weekly | MTD | YTD |
|------------|----------|--------|--------|---------|
| CAD/USD | 0.7417 | 0.31% | 0.19% | 0.53% |
| USD/EUR | 0.9387 | 0.04% | 1.79% | 0.49% |
| CAD/EUR | 0.6967 | 0.46% | 2.05% | 1.06% |
| USD/JPY | 148.3700 | 0.35% | 1.94% | 13.16% |
| USD/CNY | 7.2990 | 0.32% | 0.55% | 5.80% |
| USD/MXN | 17.2014 | 0.72% | 0.96% | -11.79% |
| GBP/CAD | 1.6502 | -1.47% | -3.60% | 0.65% |
| GBP/USD | 1.2241 | -1.15% | -3.41% | 1.31% |

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

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 | Aug | 3.8% | 4.0% | 3.3% |
| Canada housing starts | Aug | 250k | 253k | 255k |
| U.S. initial jobless claims | 16-Sep | 225k | 201k | 221k |
| U.S. S&P Global manufacturing PMI | Sep | 48.2 | 48.9 | 47.9 |
| U.S. housing starts | Aug | 1439k | 1283k | 1447k |
| U.S. existing home sales | Aug | 4.1m | 4.0m | 4.1m |

Canada

Canadian equities fell over the week to the biggest weekly decline since September 2022, due to investor worries about elevated borrowing costs and hawkish comments from the Fed.

All sectors participated in the decline, with information technology, materials and health care falling the most.

U.S.

All three U.S. indexes finished sharply lower over the week after Fed signalled one more rate hike. Sentiment weakened further after the number of initial jobless claims for unemployment benefits fell last week more than expected, to 201,000, the lowest level since late January. The data indicate that the labour market remains at historically tight levels, and added pressure on the Fed to maintain its restrictive monetary policy. Meanwhile, investors were also concerned about a looming government shutdown if Congress fails to pass a temporary funding bill by September 30.

All the S&P sectors posted losses, with the rate-sensitive and high-growth consumer discretionary, communication services and information technology sectors faring the worst. Defensive sectors such as consumer staples, utilities and health care held up relatively better.

Among individual stocks, mega-cap growth stocks took a hard hit: NVIDIA, Alphabet, Microsoft and Apple all sank over the week, weighing heavily on the NASDAQ Index. Activision Blizzard gained over the week, however, after the U.K.'s antitrust regulator gave preliminary approval for Microsoft to proceed with its restructured acquisition of the video gaming giant.

In other economic news, the S&P Global U.S. manufacturing PMI increased to 48.9 in September, from

47.9 in August, beating forecasts of 48 based on preliminary estimates. The reading points to an ongoing contraction in manufacturing sector and a slowing pace for business activity.

Rest of the world

European stocks posted heavy weekly losses against the prospect of a prolonged monetary policy tightening cycle, along with worries about an economic downturn in the eurozone. Hawkish comments from European Central Bank officials and higher oil prices that added to inflation pressure also dented investor sentiment.

On the monetary policy front, the Bank of England and the Swiss National Bank kept their policy interest rates unchanged, saying their restrictive monetary policies had taken effect in containing inflationary pressures. However, Sweden's and Norway's central banks raised their key policy rates by 25 basis points.

Among economic data, the annual consumer inflation rate in the eurozone was lowered to 5.2% in August, showing marked progress in the easing of inflationary pressures over the past year. Elsewhere, the flash HCOB eurozone composite PMI output index came in at 47.1, up from 46.7 in August; the biggest drag was the manufacturing sector, which dipped to 43.4 from 43.5, signalling continued contraction amid waning demand.

Chinese equities gained for the week. The People's Bank of China maintained its one-year and five-year loan prime rates at 3.45% and 4.2%, respectively, after August data showed signs of economic improvement in China's factory output and retail sales. Market sentiment improved further after China announced it was considering relaxing rules that cap foreign ownership in domestic publicly traded companies, as part of an effort to open the market and boost trading.

Looking ahead

| Economic indicators | Period | Survey | Prior period |
|-------------------------------------------|--------|--------|--------------|
| Canada GDP YoY | Jul | 1.1% | 1.1% |
| U.S. initial jobless claims | 23-Sep | 215k | 201k |
| U.S. GDP annualized QoQ | Q2 | 2.2% | 2.1% |
| U.S. University of Michigan sentiment | Sep | 67.7 | 67.7 |
| U.S. Conference Board consumer confidence | Sep | 105.5 | 106.1 |
| U.S. durable goods orders | Aug | -0.5% | -5.2% |

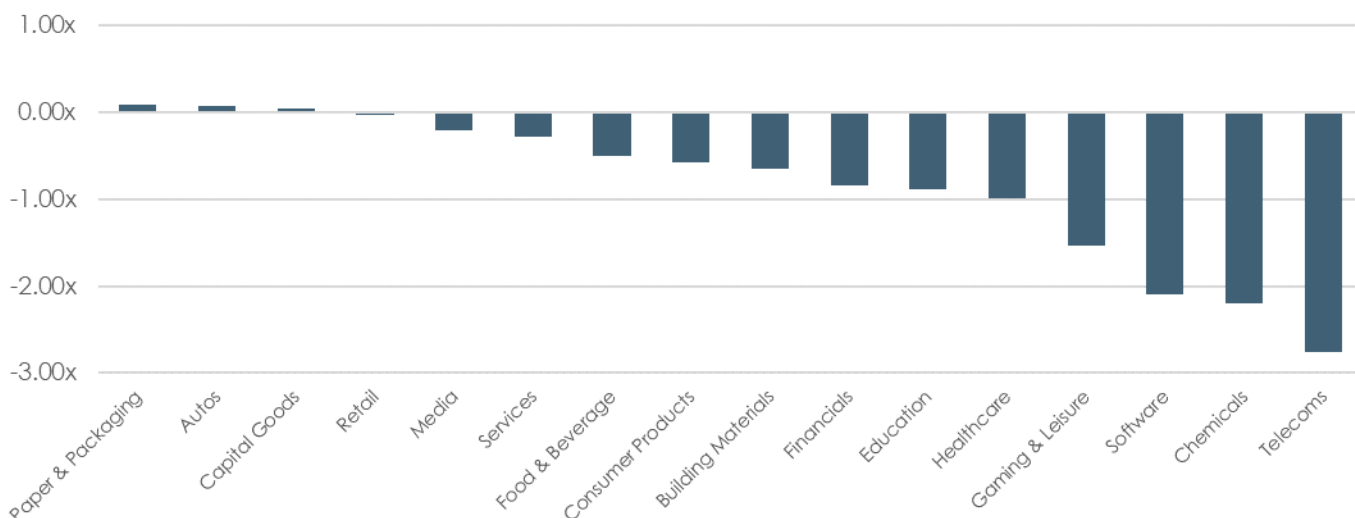
| Central bank meetings | | | |
|-------------------------------|-----------|-----------------------|--------------|
| Central banks | Date | Probability of change | Current rate |
| Bank of Canada | 25-Oct-23 | 43.30% | 5.00% |
| European Central Bank | 26-Oct-23 | 6.90% | 4.50% |
| Bank of Japan | 31-Oct-23 | 5.70% | -0.10% |
| Federal Open Market Committee | 1-Nov-23 | 20.70% | 5.50% |
| Bank of England | 2-Nov-23 | 34.30% | 5.25% |

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

Leveraged borrowers feel the squeeze as debt costs rise.

With rising rates pushing financing costs higher, even as profits stagnate, leveraged companies in Europe are finding the relative costs of servicing their debts climbing to increasingly difficult levels. According to our internal number crunching, we expect the cost of debt servicing to account for 36% of earnings (EBDITA) in the full year of 2023, up 13% from 2021. The stresses in the leveraged finance space will rise further. The market tends to place more leverage on borrowers in traditionally stable sectors, such as health care, telecoms and software, so these are some of the industries that are seeing their interest coverage ratios fall most markedly in the current environment (offset by strong visibility on revenues). We are also seeing the metrics shift for borrowers from the chemicals industry, where earnings are falling as part of the cycle.



Source: Fidelity International, June 2023.

Appendix

| Global markets (Returns in Canadian dollar terms) | | | | |
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| NASDAQ | 13,211.81 | -3.96% | -6.39% | 25.68% |
| DJIA | 33,963.84 | -2.24% | -2.72% | 2.02% |
| Russell 2000 | 1,776.50 | -4.16% | -7.00% | 0.43% |
| FTSE 100 | 7,683.91 | -1.90% | -0.62% | 3.97% |
| Euro Stoxx 50 | 4,207.16 | -2.54% | -4.28% | 9.85% |
| Nikkei 225 | 32,402.41 | -3.99% | -3.07% | 9.23% |
| Hang Seng | 18,057.45 | -0.96% | -2.03% | -9.34% |
| Shanghai Comp. | 3,132.43 | -0.21% | -0.70% | -4.58% |
| MSCI ACWI | 663.14 | -3.02% | -3.89% | 9.06% |
| MSCI EM | 964.24 | -2.45% | -2.19% | 0.38% |
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| Commodities | Close | Weekly | MTD | YTD |
| Oil | 121.38 | -0.30% | 8.32% | 15.10% |
| Natural gas | 3.56 | -0.57% | -4.91% | -37.16% |
| Gold | 2,595.70 | -0.23% | -0.96% | 5.02% |
| Silver | 31.76 | 1.96% | -3.79% | -2.15% |
| Copper | 498.31 | -3.06% | -3.48% | -3.50% |
| Currencies | Close | Weekly | MTD | YTD |
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