



October 13, 2023

In focus

Global equities ended the week with mixed results: the Middle East conflict offset upbeat quarterly earnings from major U.S. banks, while a surge in oil prices and inflation expectations also dented market sentiment.

From a sector perspective, energy led the gains as oil prices rose. Defensive sectors such as utilities, consumer staples and health care were also top performers amid a risk-off mood as the Israel-Hamas military clashes continued. Financials also improved after major lenders JPMorgan Chase, Wells Fargo and Citigroup reported better-than-expected quarterly profits, helped by higher interest rates. Information technology, consumer discretionary and communication services took the hardest hit.

A retreat in Treasury yields provided some relief to stock markets, with dovish comments from officials at the Federal Reserve (the Fed) adding to expectations that interest rates will likely remain unchanged until the end of the year.

Crude oil prices surged 5.92% over the week, posting their highest weekly gain since February, and gold prices posted their biggest weekly gain since March, on safe-haven buying driven by the escalating Middle East conflict, which could tighten oil supply.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	19,462.86	1.13%	-0.40%	0.40%
S&P500	4,327.78	0.45%	0.93%	12.72%
NASDAQ	13,407.23	-0.18%	1.42%	28.10%
DJIA	33,670.29	0.79%	0.49%	1.58%
Russell 2000	1,719.71	-1.48%	-3.66%	-2.36%
FTSE 100	7,599.60	1.40%	-0.11%	1.98%
Euro Stoxx 50	4,136.12	-0.20%	-0.92%	9.03%
Nikkei 225	32,315.99	4.26%	1.44%	23.84%
Hang Seng	17,813.45	1.87%	0.02%	-9.95%
Shanghai Comp.	3,088.10	-0.72%	-0.72%	-0.04%
MSCI ACWI	658.54	0.69%	0.26%	8.78%
MSCI EM	951.31	1.49%	-0.15%	-0.53%
MSCI ACWI ESG Leaders	2,392.55	0.60%	0.53%	11.19%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,041.83	1.16%	0.58%	-0.89%
BBG Global Agg.	434.59	0.69%	-0.34%	-2.54%
TSX Pref	1,560.46	0.19%	-0.97%	-2.24%

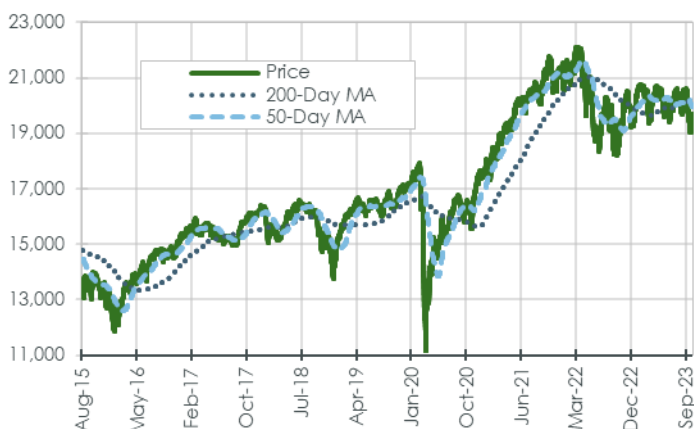
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	3.97%	-18.6	-5.6	67.0
10 yr U.S. Govt.	4.61%	-18.9	4.1	73.8
30 yr Canada Govt.	3.70%	-19.9	-10.7	42.5
30 yr U.S. Govt.	4.75%	-21.4	5.4	79.0

Commodities	Close	Weekly	MTD	YTD
Oil	87.69	5.92%	-3.41%	12.70%
Natural gas	3.24	-3.06%	10.48%	-27.83%
Gold	1,932.82	5.45%	4.55%	5.96%
Silver	22.72	5.17%	2.44%	-5.15%
Copper	357.10	-1.56%	-4.45%	-6.27%

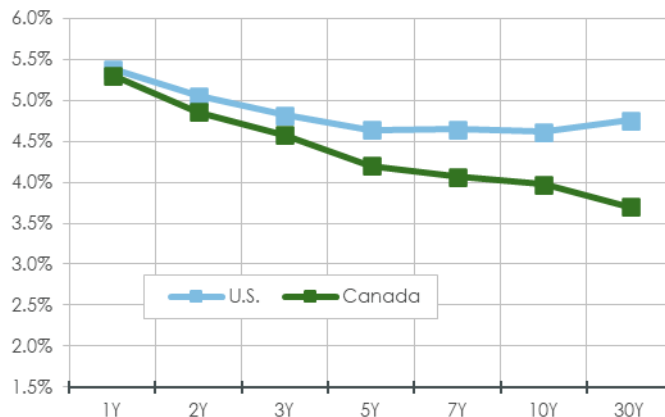
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7321	0.01%	-0.60%	-0.77%
USD/EUR	0.9515	0.73%	0.60%	1.86%
CAD/EUR	0.6968	0.75%	0.01%	1.07%
USD/JPY	149.5700	0.17%	0.13%	14.07%
USD/CNY	7.3050	0.10%	0.10%	5.89%
USD/MXN	18.0895	-0.42%	3.83%	-7.23%
GBP/CAD	1.6574	-0.86%	0.07%	1.09%
GBP/USD	1.2143	-0.77%	-0.46%	0.50%

*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 building permits MoM	Aug	1.4%	3.4%	-3.8%
U.S. initial jobless claims	7-Oct	210k	209k	209k
U.S. CPI YoY	Sep	3.6%	3.7%	3.7%
U.S. University of Michigan sentiment	Oct	67.0	63.0	68.1
U.S. CPI (ex food and energy) YoY	Sep	4.1%	4.1%	4.3%
U.S. NFIB small business optimism	Sep	91.0	90.8	91.3

Canada

Canadian equities rose over the week, ending a streak of three straight weekly declines. Energy was the best-performing sector, with oil prices rising after the U.S. tightened its sanctions against Russian crude exports. Stocks in the materials and communication services sectors also increased after the price of gold benefited from safe-haven demand. In contrast, the real estate sector declined; domestic home sales fell 1.9% in September, the third consecutive monthly decline.

U.S.

U.S. equity markets ended with mixed results as the third-quarter earnings season took off, with banking giants posting positive results as a result of higher interest rates. However, rising oil prices and geopolitical tensions kept market participants cautious. The prospect of a widening war in the Middle East following last weekend's Hamas attacks against Israel boosted energy shares and defence stocks, while weighing on airlines and cruise operators.

On the economic data front, a survey from the University of Michigan showed consumer sentiment deteriorated in October; the index came in at 63.0, compared with 68.1 in September, suggesting that households are expecting higher inflation over the next year. One-year inflation expectations rose to a five-month high of 3.8%, while the five-year forecast edged up to 3.0%.

Core consumer prices, which exclude volatile items such as food and energy, rose by 0.3%, in line with market expectations. The annual inflation rate held steady at 3.7%, while the core inflation rate slowed to 4.1%. Last week's initial claims for unemployment benefits were reported to be the same as in the previous week, remaining close to the seven-month low in September. The data pointed to a persistently tight labour market and added to expectations that the Fed would hold its policy rate at restrictive levels for some time.

Among sectors, energy led the gains as oil prices rose, and defensive sectors such as utilities and consumer staples also advanced, contributing to an overall gain for the index. Consumer discretionary was the worst-performing sector, along with materials and informational technology, as deteriorating consumer sentiment data and the Middle East conflict soured investors on riskier bets.

In corporate developments, asset manager BlackRock fell 1.3% after posting a sharp drop in quarterly net inflows. JPMorgan Chase and Wells Fargo reported higher profits in the third quarter; the U.S. lenders benefited from higher interest on loans, while Citigroup also topped estimates on surging investment banking fees. UnitedHealth advanced 2.6% after beating third-quarter profit estimates.

Rest of the world

European equities declined over the week. Minutes from the European Central Bank's September meeting showed divided views among policy makers on the interest rate decision. The minutes also highlighted upward revisions to the headline inflation forecasts for 2023 and 2024, which implied the possibility of one more rate hike by the end of the year. Among sectors, real estate, consumer staples and utilities fell the most, while health care and energy held up best. On the economic data front, the U.K. GDP expanded in August, as expected, by 0.2% month-over-month, recovering from a revised 0.6% contraction in July. A rebound in services output offset weakness in manufacturing and construction.

Asian equities built on gains and ended with positive returns for the week. Sentiment was boosted by news that a state fund, Central Huijin Investment, had raised its stakes in four major state-owned banks for the first time in eight years. The Shanghai index dropped 0.72%: exports and imports both shrank by 6.2% year-on-year in September, as demand remained weak at home and abroad.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada CPI YoY	Sep	4.0%	4.0%
Canada housing starts	Sep	240.0k	252.8k
U.S. initial jobless claims	14-Oct	212k	209k
U.S. housing starts	Sep	1380k	1283k
U.S. retail sales advance MoM	Sep	0.3%	0.6%
China GDP YoY	Q3	4.5%	6.3%

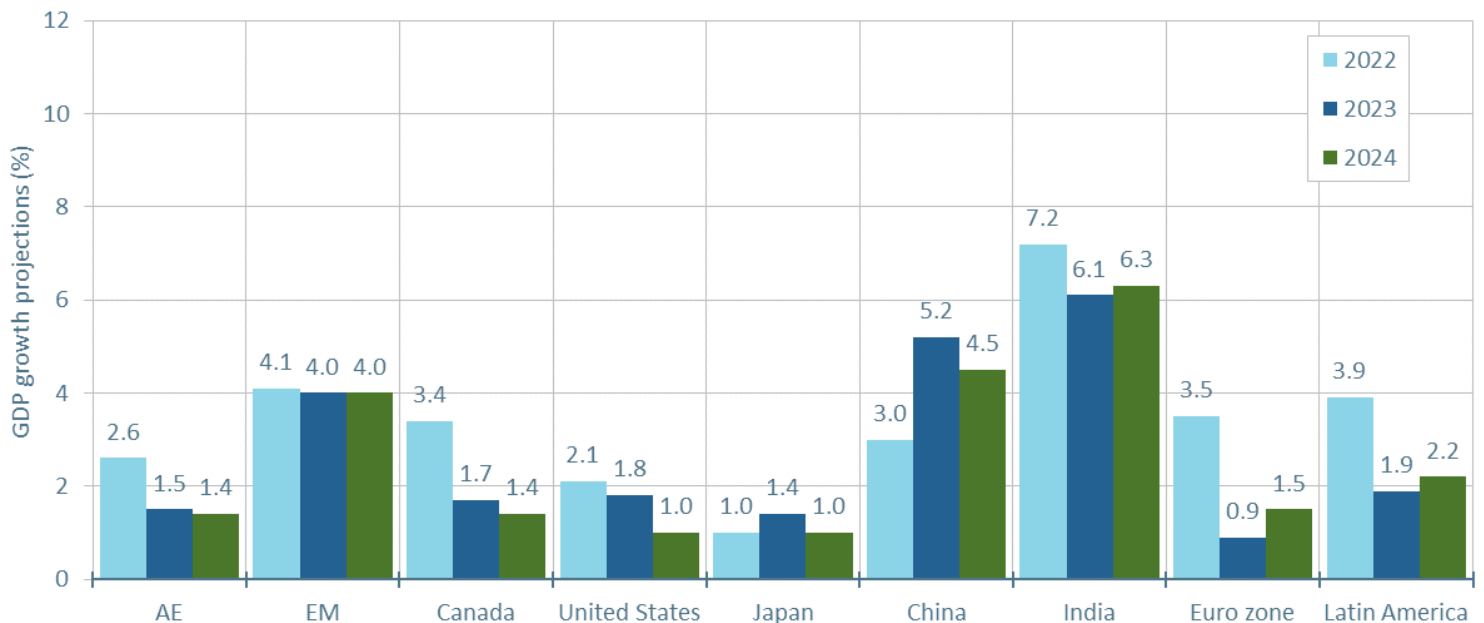
Central bank meetings			
Central banks	Date	Probability of change	Current rate
Bank of Canada	25-Oct-23	38.50%	5.00%
European Central Bank	26-Oct-23	-1.50%	4.50%
Bank of Japan	31-Oct-23	-11.50%	-0.10%
Federal Open Market Committee	1-Nov-23	7.80%	5.50%
Bank of England	2-Nov-23	28.50%	5.25%

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

World economic outlook projections

The chart below shows the annual percentage change in real GDP growth projections. Advanced economies are expected to slow from 2.6% in 2022 to 1.5% in 2023, and 1.4% in 2024, as policy tightening starts to bite. Emerging market and developing economies are projected to have a modest decline in growth, from 4.1% in 2022 to 4.0% in both 2023 and 2024.



Source: IMF, October 2023 World Economic Outlook.

Appendix

Global markets (Returns in Canadian dollar terms)

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Natural gas	4.42	-3.07%	11.15%	-27.27%
Gold	2,639.16	5.40%	5.14%	6.77%
Silver	31.02	5.11%	3.00%	-4.44%
Copper	487.77	-1.57%	-3.88%	-5.54%
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