



October 20, 2023

## In focus

Global equities ended the week posting negative returns against rising U.S. Treasury yields and escalating tensions in the Middle East. Market participants also digested remarks from Federal Reserve Chair Jerome Powell that left the door open to an additional rate hike, although other Fed officials hinted that the tightening cycle could be at an end.

Stocks in China fell sharply as concerns about China's property market outweighed a surprisingly strong GDP release, which showed that China's economy grew 4.9% in the third quarter from the year earlier. New home prices in China's 70 major cities fell 0.3% in September from August. Meanwhile, property developer Country Garden signalled a first-ever default, as it would not be able to meet all its offshore payments, due to subdued sales.

In commodities, oil prices notched their second straight weekly gain as the potential escalation of the Middle East conflict stoked supply concerns, while gold extended its advance due to its safe-haven appeal.

U.S. Treasury yields rose amid renewed concerns that interest rates will remain higher for longer. The yield on the ten-year Treasury hit the 5.0% mark on Thursday for the first time since 2007. While the ten-year yield slipped back below that threshold on Friday, the yields of two-year and 30-year Treasuries both ended the week around 5.08%.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	19,115.64	-1.78%	-2.18%	-1.39%
S&P500	4,224.16	-2.39%	-1.49%	10.02%
NASDAQ	12,983.81	-3.16%	-1.78%	24.05%
DJIA	33,127.28	-1.61%	-1.13%	-0.06%
Russell 2000	1,680.79	-2.26%	-5.84%	-4.57%
FTSE 100	7,402.14	-2.60%	-2.71%	-0.67%
Euro Stoxx 50	4,024.68	-2.69%	-3.59%	6.09%
Nikkei 225	31,259.36	-3.27%	-1.88%	19.79%
Hang Seng	17,172.13	-3.60%	-3.58%	-13.19%
Shanghai Comp.	2,983.06	-3.40%	-4.10%	-3.44%
MSCI ACWI	642.07	-2.50%	-2.25%	6.06%
MSCI EM	925.58	-2.70%	-2.85%	-3.22%
MSCI ACWI ESG Leaders	2,327.07	-2.74%	-2.23%	8.15%

Fixed Income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,033.76	-0.77%	-0.20%	-1.66%
BBG Global Agg.	430.21	-1.01%	-1.35%	-3.52%
TSX Pref	1,537.84	-1.45%	-2.41%	-3.66%

Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	4.07%	10.2	4.6	77.2
10 yr U.S. Govt.	4.91%	30.1	34.3	103.9
30 yr Canada Govt.	3.86%	16.2	5.5	58.7
30 yr U.S. Govt.	5.08%	32.2	37.6	111.3

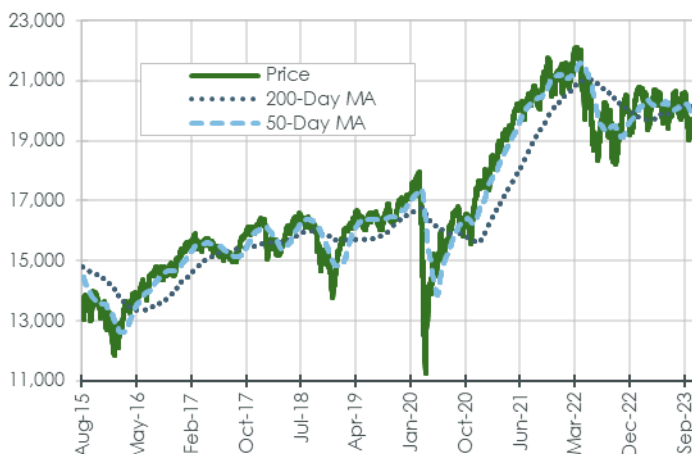
Commodities	Close	Weekly	MTD	YTD
Oil	88.08	2.00%	-0.81%	13.93%
Natural gas	2.90	-10.41%	-1.02%	-35.35%
Gold	1,981.40	2.51%	7.18%	8.63%
Silver	23.37	2.88%	5.39%	-2.42%
Copper	356.30	-0.22%	-4.67%	-6.48%

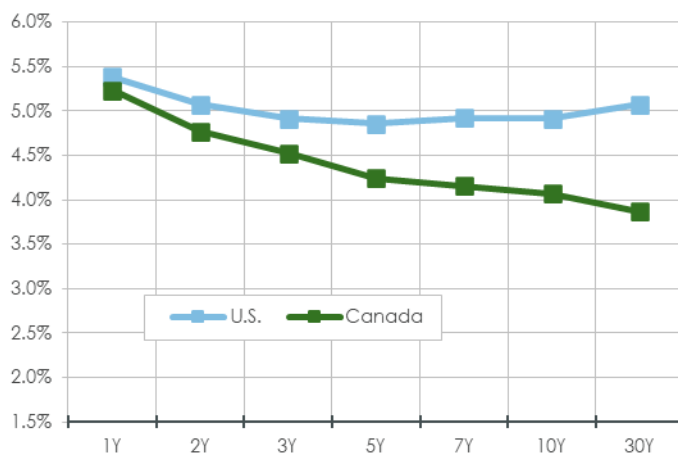
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7291	-0.41%	-1.00%	-1.18%
USD/EUR	0.9439	-0.80%	-0.20%	1.05%
CAD/EUR	0.6883	-1.22%	-1.21%	-0.16%
USD/JPY	149.8600	0.19%	0.33%	14.29%
USD/CNY	7.3151	0.14%	0.23%	6.04%
USD/MXN	18.2378	0.82%	4.68%	-6.47%
GBP/CAD	1.6683	0.66%	0.72%	1.76%
GBP/USD	1.2164	0.17%	-0.29%	0.67%

\*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	Sep	4.0%	3.8%	4.0%
Canada housing starts	Sep	240.0k	270.5k	250.4k
U.S. initial jobless claims	14-Oct	210k	198k	211k
U.S. housing starts	Sep	1383k	1358k	1269k
U.S. retail sales advance MoM	Sep	0.3%	0.7%	0.8%
China GDP YoY	Q3	4.5%	4.9%	6.3%

## Canada

Canadian equities declined for the week, with the recent sharp rise in long-term borrowing costs weighing on investor sentiment. The materials sector led the gains after better-than-expected economic data from China brightened the demand outlook, while the interest-rate sensitive utilities and real estate sectors led the decline.

Canada's annual inflation rate unexpectedly slowed to 3.8% in September, and underlying core measures also eased. Retail sales fell by 0.1% in August from July and look set to stay flat in September, adding to evidence of a slowdown in the domestic economy.

## U.S.

U.S. equity markets declined over the week as U.S. Treasury yields hovered near multi-year highs, following hawkish remarks by Federal Reserve Chair Jerome Powell, while the Middle East conflict kept investors on edge. Investors also digested a slew of disappointing quarterly reports from companies that dampened risk appetite further.

On Tuesday, the U.S. Commerce Department reported that retail sales rose 0.7% in October, roughly double consensus expectations. The increase was particularly strong among online retailers and at restaurants and bars, indicating continued strength in discretionary spending. Meanwhile, industrial production surprisingly went up 0.3% month-on-month, despite strikes at major automobile factories.

On Thursday, Federal Reserve Chairman Jerome Powell signaled that recent economic strength and the continued tight labour market might warrant tighter financial conditions. Adding to evidence that the labour market remains tight, data showed initial claims for unemployment benefits came below forecasts once again, falling below 200,000 for the first time since January.

All the sectors except consumer staples and energy ended lower. The rate-sensitive real estate sector led

the losses, followed by other cyclicals, including consumer discretionary and information technology. Chipmakers fell as the U.S. Department of Commerce announced its plan to prevent the sale of more advanced artificial intelligence chips to China.

## Rest of the world

European equities ended the week lower amid uncertainty about the outlook for interest rates and fears that conflict in the Middle East could escalate. A batch of disappointing earnings reports worsened the risk-off mood. Several European Central Bank (ECB) policy makers, including ECB President Christine Lagarde, highlighted the inflation risk posed by the rise in oil prices ignited by fighting in the Middle East.

On the economic data front, the annual inflation rate in eurozone was confirmed to have eased to a two-year low of 4.3% in September. Inflation in the U.K. unexpectedly held steady in September at an annual rate of 6.7%, due to rising gasoline prices. German investor morale improved more than expected in October, driven by expectations of further declines in inflation and stable short-term interest rates in the eurozone, according to the ZEW economic institute.

Asian equities posted weekly losses, tracking the broader weakness across global markets. Japan's stock markets fell against a backdrop of a slight easing in inflationary pressure in Japan. The core consumer price index rose 2.8% year-on-year, down from 3.1% in August.

In China, retail sales rose a better-than-expected 5.5% in September from a year earlier, up from 4.6% in August. Industrial production growth was unchanged from August, while urban unemployment fell slightly. The People's Bank of China kept its one-year and five-year loan prime rates unchanged, at 3.45% and 4.2%, respectively, at its October meeting, in a widely expected move. The central bank also injected a record 733 billion yuan in liquidity to the financial system through reverse repo contracts.

## Looking ahead

Economic indicators	Period	Survey	Prior period
U.S. initial jobless claims	21-Oct	208k	198k
U.S. GDP annualized QoQ	Q3	4.3%	2.1%
U.S. University of Michigan sentiment	Oct	63.0	63.0
U.S. durable goods orders	Sep	1.5%	0.1%
Germany IFO business climate	Oct	85.9	85.7
China industrial profits YoY	Sep	-	17.2%

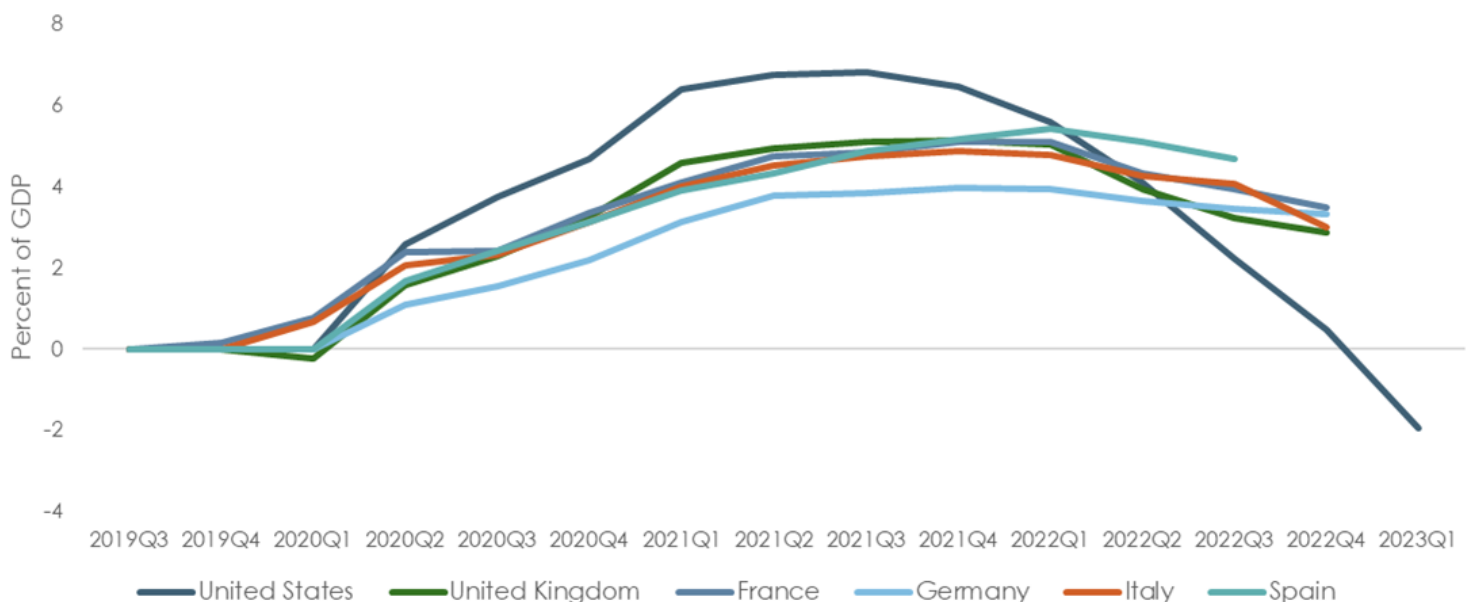
Central bank meetings			
Central banks	Date	Probability of change	Current rate
Bank of Canada	25-Oct-23	8.80%	5.00%
European Central Bank	26-Oct-23	-1.50%	4.50%
Bank of Japan	31-Oct-23	1.00%	-0.10%
Federal Open Market Committee	1-Nov-23	1.60%	5.50%
Bank of England	2-Nov-23	12.00%	5.25%

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

### Cumulative excess savings in advanced economies

The chart below shows that the stock of savings built during the pandemic, which has so far supported consumers, is declining in advanced economies, especially the U.S. This suggests there are fewer resources for households to draw on as they contend with a still-elevated cost of living and more restricted credit availability following from monetary tightening aimed at reducing inflation.



Source: IMF, October 2023 World Economic Outlook.

## Appendix

Global markets (Returns in Canadian dollar terms)				
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Oil	120.81	2.42%	0.20%	15.29%
Natural gas	3.98	-10.05%	-0.02%	-34.58%
Gold	2,717.95	2.99%	8.28%	9.96%
Silver	32.06	3.35%	6.45%	-1.24%
Copper	488.68	0.19%	-3.70%	-5.37%
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