WEEK IN REVIEW

October 6, 2023

In focus

Most global equity and fixed income markets ended the week posting negative returns. However, U.S. equities rallied sharply on Friday to close the week with some gains. These gains were centred mainly on a rally in technology stocks, after investors finally took a "rate friendly" view of a mixed September jobs report.

Equities in the rest of the world ended the week with declines, amid fears of a long period of high interest rates and slowing global growth. Investors responded negatively to U.S. data showing job openings had increased unexpectedly in August, signalling a tightening labour market.

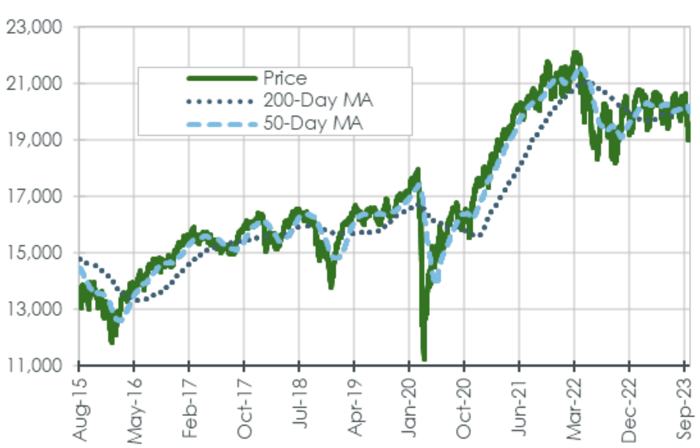
From a sector perspective, robust gains in mega-cap technology stocks such as Microsoft, NVIDIA and Apple boosted the information technology and communication services sectors. In contrast, energy stocks declined due to falling oil prices. The utilities sector continued to decline as well.

Increased borrowing by the U.S. Treasury, intended to bridge a widening deficit and lower tax revenue, contributed to a sell-off in bonds during the week. This is expected to further increase the cost of financing for businesses and consumers.

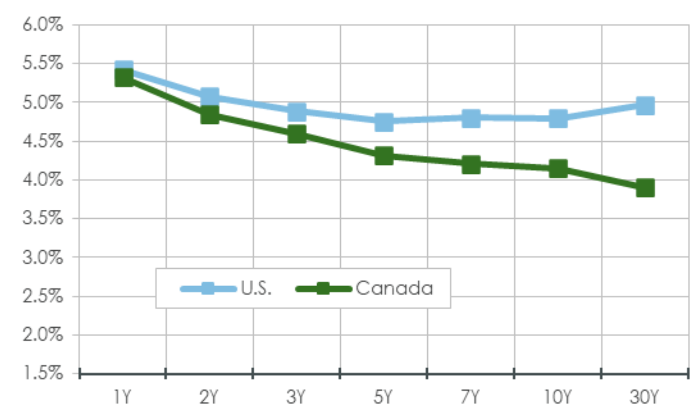
Indexes	Close	Weekly	MTD	YTD
S&P/TSX	19,246.07	-1.51%	-1.51%	-0.72%
S&P500	4,308.50	0.48%	0.48%	12.22%
NASDAQ	13,431.34	1.60%	1.60%	28.33%
DJIA	33,407.58	-0.30%	-0.30%	0.79%
Russell 2000	1,745.56	-2.22%	-2.22%	-0.89%
FTSE 100	7,494.58	-1.49%	-1.49%	0.57%
Euro Stoxx 50	4,144.43	-0.72%	-0.72%	9.25%
Nikkei 225	30,994.67	-2.71%	-2.71%	18.78%
Hang Seng	17,485.98	-1.82%	-1.82%	-11.60%
Shanghai Comp.	3,110.48	0.00%	0.00%	0.69%
MSCI ACWI	654.04	-0.42%	-0.42%	8.04%
MSCI EM	937.34	-1.62%	-1.62%	-1.99%
MSCI ACWI ESG Leaders	2,378.39	-0.07%	-0.07%	10.54%
Fixed income	**Close**	**Weekly**	**MTD**	**YTD**
FTSE Canada Uni.	1,029.83	-0.58%	-0.58%	-2.03%
BBG Global Agg.	431.60	-1.03%	-1.03%	-3.21%
TSX Pref	1,557.51	-1.16%	-1.16%	-2.43%
Bond yields	**Close**	**bps chg Weekly**	**bps chg MTD**	**bps chg YTD**
10 yr Canada Govt.	4.16%	13.0	13.0	85.6
10 yr U.S. Govt.	4.80%	23.0	23.0	92.6
30 yr Canada Govt.	3.90%	9.2	9.2	62.4
30 yr U.S. Govt.	4.97%	26.8	26.8	100.5
Commodities	**Close**	**Weekly**	**MTD**	**YTD**
Oil	82.79	-8.81%	-8.81%	6.40%
Natural gas	3.34	13.96%	13.96%	-25.56%
Gold	1,833.01	-0.84%	-0.84%	0.49%
Silver	21.60	-2.60%	-2.60%	-9.82%
Copper	362.75	-2.94%	-2.94%	-4.79%
Currencies	**Close**	**Weekly**	**MTD**	**YTD**
CAD/USD	0.7320	-0.61%	-0.61%	-0.79%
USD/EUR	0.9446	-0.13%	-0.13%	1.12%
CAD/EUR	0.6916	-0.73%	-0.73%	0.32%
USD/JPY	149.3200	-0.03%	-0.03%	13.88%
USD/CNY	7.2980	0.00%	0.00%	5.79%
USD/MXN	18.1655	4.26%	4.26%	-6.84%
GBP/CAD	1.6718	0.94%	0.94%	1.97%
GBP/USD	1.2237	0.31%	0.31%	1.27%

*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 unemployment rate	Sep	5.6%	5.5%	5.5%
Canada net change in employment	Sep	20.0k	63.8k	39.9k
U.S. initial jobless claims	30-Sep	210k	207k	205k
U.S. ISM manufacturing	Sep	47.9	49.0	47.6
U.S. durable goods orders	Aug	0.2%	0.1%	0.2%
U.S. unemployment rate	Sep	3.7%	3.8%	3.8%

Canada

Canadian equities declined for the week. Energy was the worst-performing sector; oil prices fell due to weaker oil prices and concerns about weakening demand. Stocks in the materials and financials sectors also declined. The performance of materials was affected by a weakening growth outlook, while sectors such as financials, utilities and real estate have been affected by higher interest rates.

U.S.

U.S. equity markets started the week on a cautious note but ended with gains, due to a rally in mega-cap technology names. Higher borrowing by the U.S. Treasury contributed to a rise in benchmark bond yields, hampering investor confidence, and pushing ten-year benchmark Treasury yields to a sixteen-year high on Tuesday.

A closely watched employment report from the U.S. Labor Department showed that non-farm payrolls increased more than expected in September, marking the strongest job gain in eight months, along with upward revisions to July and August data. However, wage growth held steady at a slower-than-expected pace, and the unemployment rate remained unchanged, at 3.8%, slightly above expectations. The number of initial claims for unemployment benefits increased less than expected last week. Meanwhile, the U.S. trade gap in August narrowed to the smallest since September 2020, with a rise in exports, led by crude oil, and a decline in imports, due to falling purchases of cell phones and other electronics.

The ISM non-manufacturing PMI eased to 53.6 in September, still indicating expansion in the services sector. New orders for manufactured goods in August increased slightly more than expected, driven mainly by demand for manufactured nondurable goods.

Among sectors, the information technology, communication services and health care sectors advanced, lifting the overall index to gains. In contrast, energy was the worst-performing sector. The utilities sector also declined, because rising bond yields make the sector less attractive for investors seeking income.

In corporate developments, oil giant Exxon Mobile fell following reports that the company was closing in on a deal to purchase Pioneer Natural Resources. Cleaning products maker Clorox sank after warning of a loss in its first quarter due to a cyberattack in August. Dell Technologies declined after the company's revenue forecast signaled that an AI boost would take longer than anticipated to materialize.

Rest of the world

European and Asian equities declined for the week, reflecting worries about the impact of "higher for longer" interest rates on global growth. Data showed that retail sales in the eurozone dropped in August more than expected. The latest PMI data indicated a further moderate contraction in business activity levels across the private sector in the currency bloc, with both manufacturing and services output declining. Among individual stocks, tobacco firms Imperial Brands and British American Tobacco fell after the U.K. government proposed banning younger generations from ever buying cigarettes, a move that would give the country some of the world's toughest smoking rules. On a more positive note, factory orders in Germany surprised on the upside in August, rebounding from a sharp drop in July, thanks to a surge in orders for electronic components for both the domestic and the foreign market.

Concerns about high interest rates and the uncertainty of the global economy also affected Asian equities, while Chinese markets were closed for the week. Nevertheless, investors remained positive on seeing upbeat economic data during the National Day holiday in China. Sunac China rallied after the property developer obtained a Hong Kong court approval on Thursday for its US$9 billion offshore restructuring proposal.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada building permits MoM	Aug	1.4%	-1.5%
U.S. initial jobless claims	07-Oct	210k	207k
U.S. CPI YoY	Sep	3.6%	3.7%
U.S. University of Michigan sentiment	Oct	67.0	68.1
U.S. CPI ex food and energy YoY	Sep	4.1%	4.3%
U.S. NFIB small business optimism	Sep	91.0	91.3

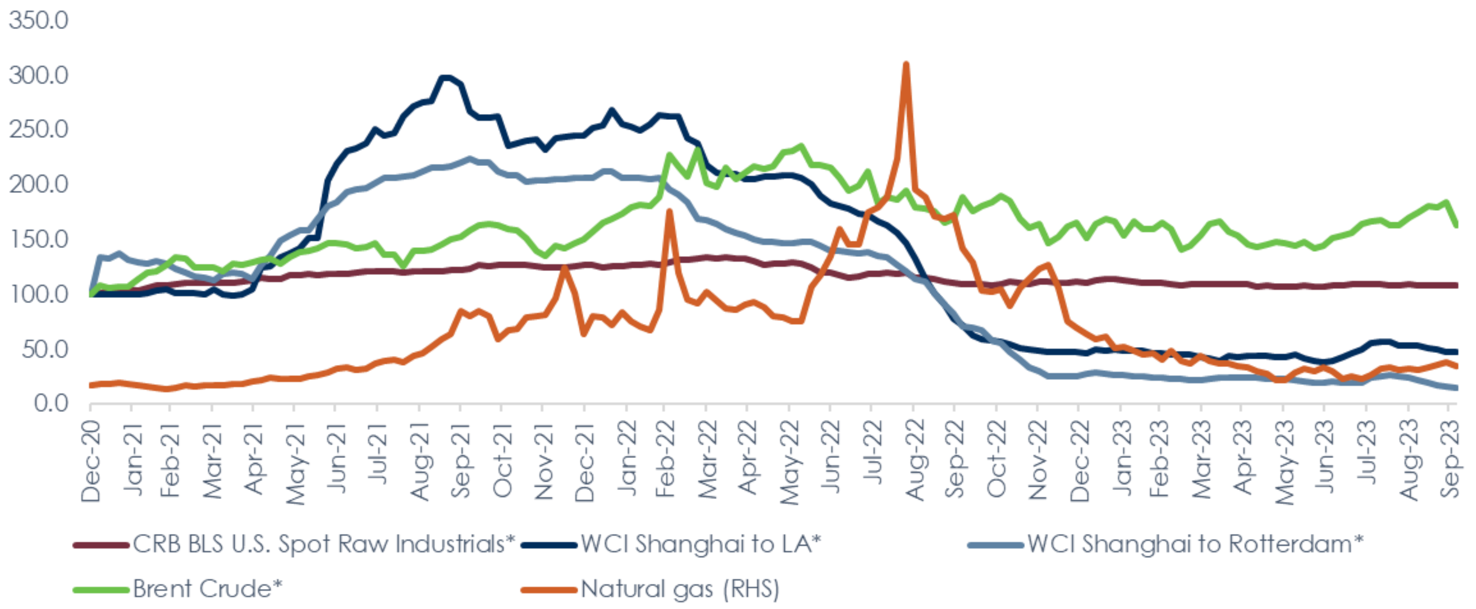
Central bank meetings			
Central banks	**Date**	**Probability of change**	**Current rate**
Bank of Canada	25-Oct-23	41.80%	5.00%
European Central Bank	26-Oct-23	-0.10%	4.50%
Bank of Japan	31-Oct-23	-11.50%	-0.10%
Federal Open Market Committee	1-Nov-23	30.50%	5.50%
Bank of England	2-Nov-23	30.60%	5.25%

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

Global cost pressures are rolling over.

The chart below shows a steady decline across a range of raw material, shipping and input costs. Shipping rates, as measured by WCI Shanghai to LA and Shanghai to Rotterdam, have been falling since the beginning of 2022, while raw material prices, as measured by the CRB BLS U.S. Spot Raw Industrials Index, have eased off since the end of March 2022, falling by about 20%. While the decline in input costs has resulted in retail inflation declining from its peak, process for raw materials and for crude oil remain relatively high.



*Data indexed to 100 as at December 31, 2020.
Source: Fidelity International and Bloomberg, October 6, 2023.

Appendix

Global markets (Returns in Canadian dollar terms)				
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Natural gas	4.56	14.66%	14.66%	-24.97%
Gold	2,504.01	-0.24%	-0.24%	1.31%
Silver	29.51	-2.01%	-2.01%	-9.09%
Copper	495.56	-2.35%	-2.35%	-4.04%
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