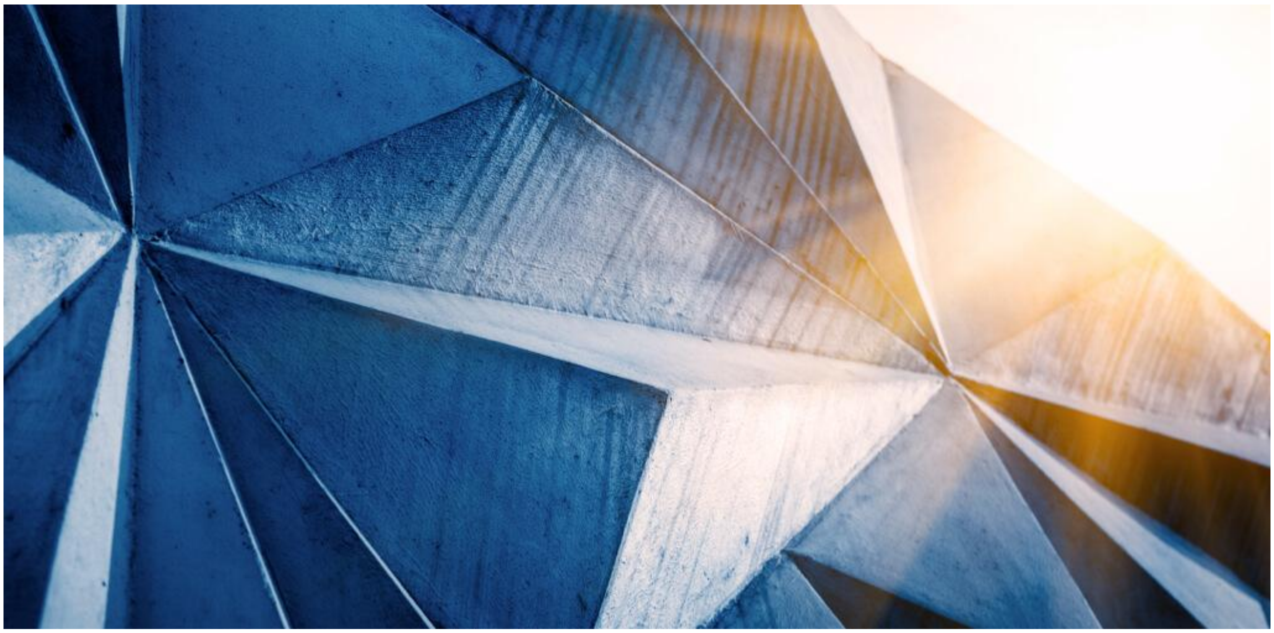
November 2022 market update

A slowdown could be on the horizon for the U.S. Federal Reserve

Dec. 7, 2022



Introduction

Global equity markets advanced over November as expectations grew that the U.S. Federal Reserve Board ("Fed") would soon begin slowing the pace of its interest-rate hikes. The Fed raised the target range of its federal funds rate by 75 basis points ("bps") to 3.75%-4.00% early in the month, but the minutes suggested officials are beginning to consider a slowdown in the pace of rate increases. Inflation remained elevated globally, particularly in Europe and the U.K., where both are experiencing deteriorating economic conditions. In Canada and the U.S., October's inflation rate moderated but remained broad-based and still at levels well above their central bank's targets.

In Canada, the S&P/TSX Composite Index finished higher, benefiting from the strong performance of the Materials sector. In the U.S., the S&P 500 Index rose higher, also led by the Materials sector. Materials stocks were buoyed by rising gold prices. Meanwhile, the price of oil fell over November, with Europe considering a cap on Russian oil prices. Yields on 10-year government bonds in Canada and the U.S. declined over the month.

Slowdown expected from the U.S. Fed

The Fed held its November meeting, announcing it was raising the target range of its federal funds rate by 75 bps to 3.75%-4.00%. It marked the highest level for the federal funds rate since 2008, the sixth consecutive rate increase by the Fed, and the fourth straight at 75 bps. The Fed indicated that more interest rate increases were likely in response to persistently high inflation, but the U.S. central bank would closely monitor its potential impact on the U.S. economy. As various Fed officials commented in the days following the meeting, investors placed their bets on whether the pace of rate hikes would stay the same or slow down. The answer might be in the meeting minutes released late in the month. In it, most Fed officials expressed the need to slow the pace of rate hikes soon, but the federal funds rate could climb higher than expected if elevated inflation persists. Investors began pricing in a 50 bps rate increase at the Fed's next meeting on Dec. 14. By all indications, rate increases will continue into 2023 but more slowly.

Struggling Canadian households

As inflationary pressures persist in Canada and the Bank of Canada ("BoC") continues to lift interest rates, Canadians may be feeling the squeeze from tighter financial conditions. According to the Office of the Superintendent of Bankruptcy Canada ("OSB"), total insolvencies rose by 3.1% in September over the previous month and by 22.5% compared to September 2021. Year-over-year, consumer insolvencies rose by 22.1%, suggesting Canadian households are struggling under the weight of rising interest rates and high inflation. Despite inflation slowing in recent months, largely due to moderating gasoline prices, inflation remains broad-based, hurting Canadians across a vast majority of their everyday purchases. Several recent studies have shown that credit card debt has risen as Canadians are forced to pay higher prices for many goods and services.

The tighter financial conditions are not only proving troublesome for everyday purchases but also for Canadians with mortgages. In a speech, BoC Senior Deputy Governor Carolyn Rogers noted approximately 670,000 new mortgages in Canada since the beginning of the pandemic are variable rate and suggested that the rise in borrowing costs could negatively affect these households. However, Rogers hopes the high stress tests imposed on mortgage holders should help ensure these households can afford higher mortgage rates and keep Canada's housing market from buckling underneath. The tighter financial conditions could hinder consumer spending but to this point, the Canadian consumer has appeared to be relatively resilient. Despite September's falling retail sales, Statistics Canada estimated a relatively large rebound in October of 1.5%.

Weak global growth in Q3

In its most recent data, the Organization for Economic Cooperation and Development ("OECD") reported the global economy expanded by only 0.4% over the third quarter of 2022. The OECD noted that lower global trade was a key contributor to sluggish global economic activity. The economic organization reported that slowing demand, along with lower commodity prices, brought down the value of trade flows over the quarter. The U.S. economy returned to growth in the third quarter after two straight quarterly declines, while growth slowed in Europe and Canada. Meanwhile, the economies of the U.K. and Japan contracted in the third quarter. In China, gross domestic product grew in the third quarter.

In its most recent forecast, the OECD says growth might remain muted over the remainder of 2022 and 2023 but won't likely fall into a recession. The OECD believes the impact of Russia's invasion of Ukraine, elevated inflation, rising interest rates and muted growth in household wealth may hinder economic growth. The OECD expects the global economy to grow by 3.1% in 2022 before moderating to 2.2% in 2023. The group estimates Canada's economy to grow by 3.2% in 2022 before slowing to 1.0% next year. Recent signs show the OECD may be correct in its estimates. Both the U.S. and Europe reported a contraction in business activity in November. Meanwhile, China had to institute new lockdown restrictions amid an outbreak of COVID-19 cases, which resulted in the first deaths since 2020. This may add further pressure on China's already struggling economy.

Clean energy investments for Indonesia

Canada and eight other countries have reached an agreement with Indonesia to reduce the countries' dependence on coal. Indonesia is the world's third-largest coal producer and one of the world's largest carbon emitters. With much of the world looking to reduce its dependence on coal and reduce carbon emissions, the agreement could have a large impact on reducing emissions worldwide. Named the 'Just Energy Transition Partnership,' the agreement offers grants and loans totaling approximately $20 billion over five years from both the public and private sectors to incentivize a quicker clean energy transition. The plan is consistent with the Paris Agreement goals. In its recent outlook, the OECD expects the Indonesian economy to grow by 4.7% in 2023, a potentially strong pace of growth amid expectations of significant slowdowns elsewhere in the world. Many countries have committed to reaching net-zero emissions to address climate-change-related risks. Canada, as part of its Canadian Net-Zero Emissions Accountability Act, is committed to achieving net-zero emissions by 2050.

Market performance - as at Nov. 30, 2022

Equity Markets	**Level**	**Month to date**	**Month to date (C$)**	**Year to date**	**Year to date (C$)**	**1 year**	**1 year (C$)**
S&P/TSX Composite Index C$	20,453.26	5.29%	**5.29%**	-3.63%	**-3.63%**	-1.00%	**-1.00%**
S&P 500 Index US$	4,080.11	5.38%	**4.56%**	-14.39%	**-8.41%**	-10.66%	**-5.67%**
Dow Jones Industrial Average US$	34,589.77	5.67%	**4.86%**	-4.81%	**-1.85%**	-0.31%	**5.91%**

MSCI EAFE Index US$	1,944.03	11.09%	**10.23%**	-16.78%	**-10.96%**	-12.58%	**-7.69%**
MSCI Emerging Markets Index US$	972.29	14.64%	**13.75%**	-21.08%	**-15.56%**	-19.81%	**-15.33%**
MSCI Europe Index US$	1,732.53	11.19%	**10.34%**	-17.23%	**-11.44%**	-11.81%	**-6.88%**
MSCI AC Asia Pacific Index US$	156.39	14.84%	**13.96%**	-19.02%	**-13.35%**	-17.59%	**-12.99%**

Fixed Income Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
FTSE Canada Universe Bond Index C$	1,068.81	2.81%	**2.81%**	-10.20%	**-10.20%**	-8.70%	**-8.70%**
FTSE World Investment Grade Bond Index US$	202.37	4.78%	**3.97%**	-17.07%	**-11.27%**	-17.32%	**-12.70%**

Currencies	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)

CAD/USD	0.7456	1.58%	-	-5.76%	-	-5.90%	-

Commodities	**Level**	**Month to date**	**Month to date (C$)**	**Year to date**	**Year to date (C$)**	**1 year**	**1 year (C$)**
West Texas Intermediate (US$/bbl)	80.55	-6.98%	-	7.02%	-	21.71%	-
Gold (US$/oz)	1,768.52	8.26%	-	-3.32%	-	-0.34%	-