

October 2022 market update

Central banks take another shot at taming inflation

Nov. 7, 2022



Introduction

Global equity markets rose over October, despite some periods of volatility. Sentiment swayed as economic data had investors considering how aggressive central banks might be at upcoming meetings. Inflation remained elevated in Canada and the U.S. in September even though it eased from August. In Europe and the U.K., inflation ticked higher in September. Meanwhile, a preliminary estimate showed the U.S. economy expanded in the third quarter, reversing two straight quarters of declines, while growth in China expanded faster in the third quarter over the previous quarter. The Bank of Canada (“BoC”) raised its benchmark overnight interest rate by 50 basis points (“bps”) to 3.75%, while the European Central Bank raised its key interest rate by 75 bps to 2.00%.

The S&P/TSX Composite Index advanced, led by the Energy and Information Technology sectors. South of the border, the S&P 500 Index finished higher, benefiting from the strong performance of the Energy sector. Yields on 10-year government bonds in Canada and the U.S. moved higher over most of the month before those gains pared back late, but yields still finished higher. The price of oil advanced over the month, while the price of gold finished slightly lower.

Broad-based price pressures persist

While inflation eased in Canada and the U.S. primarily due to falling gasoline prices, inflation persisted as price pressures remained broad-based. Canada's rate of inflation slowed to 6.9% in September from 7.0% in the previous month. However, the core inflation rate, which excludes more volatile items like energy and food, stayed largely the same during the month, suggesting price pressures are coming from more than just gasoline. With inflation still at elevated levels, the Bank of Canada ("BoC") raised its benchmark overnight interest rate by another 50 basis points ("bps") near the end of the month while signalling more rate hikes to come. In its Monetary Policy Report, Canada's central bank did reduce its outlook for inflation and gross domestic product.

The inflation story was much the same in the U.S., where the inflation rate eased to 8.2% in September, but the core rate advanced to 6.6%, its highest rate since 1982. And concerns about inflation appear to be weighing on consumer sentiment. Based on the University of Michigan's well-known consumer sentiment survey, inflation expectations rose in October. This could affect American consumer spending habits, which have been key drivers of U.S. economic growth coming out of the pandemic. While the U.S. economy expanded in the third quarter, reversing two straight quarterly declines, the pace of growth in consumer spending slowed. Any potential drop in demand may raise uncertainty for the U.S. economic outlook.

The U.K.'s shakeup at the top

It's been an eventful few months in British politics. After former U.K. Prime Minister Boris Johnson was ousted, Liz Truss was elected to the role. However, her tenure began with a thud. Looking to stimulate the U.K. economy, Truss introduced a sweeping fiscal plan that included widespread tax cuts. The plan wasn't well received by market participants who feared it could push inflation even higher in the U.K. and send the economy tumbling. In response, U.K. financial markets experienced a period of significant volatility. The British pound fell to its lowest level against the greenback in October. Meanwhile, government bond yields surged higher, and prices plunged, as expectations of a potentially deep recession heightened. U.K. equity markets were also volatile owing to the uncertainty of how the new fiscal plan may affect inflation. The Bank of England stepped in to help calm markets by purchasing U.K. government bonds while temporarily halting the sale of bonds it already holds. Bond yields and the British pound later stabilized as Liz Truss resigned from her post, making it the shortest tenure ever for a U.K. Prime Minister. Rishi Sunak will now succeed Truss and hopes to bring some stability to U.K. politics and financial markets. As all the political drama unfolded, news that the U.K. economy shrank by 0.3% in August suggested the U.K. economy may be beginning to weaken. The inflation rate reached 10.1% in September, accelerating from August.

Muted economic growth in China

Economic growth in China accelerated in the third quarter of 2022 compared to the previous quarter, but there were still signs of a struggling economy. China's gross domestic product expanded by 3.9% year-over-year in the third quarter, ahead of the 0.4% rate of growth in the second quarter and exceeding the 3.3% expansion economists expected. Still, it was well below the growth rate seen before the pandemic. The economy benefited from rising economic activity as some lockdown restrictions eased. A rise in infrastructure investment was a major contributor to growth, but it was burdened by weaker trade activity. Meanwhile, domestic demand remains muted. Data showed retail sales grew by 2.5% year-over-year in September, below the 5.4% annual increase in August. It was the slowest pace of growth since May's decline. The property market continued to be challenged by high debt, hindering China's economy. With the economy weakening in recent months, the yuan fell against the U.S. dollar. Given the currency decline, the People's Bank of China held its key interest rates steady to avoid divergence from other global central banks and provide stability to the yuan. Over the month, China's equity market fell as concerns about the strength of China's economy heightened. Late in the month at the National Congress of the Chinese Communist Party, President Xi Jinping was re-elected for a record third term.

Cutting oil production

While the Organization of the Petroleum Exporting Countries ("OPEC+") spent most of 2022 raising production, its path shifted as the year's end approached. At its October meeting, OPEC+ announced it would reduce production over the fourth quarter of 2022. With oil prices dropping in recent months, the oil cartel said it would moderate production to help stabilize the oil market. The production cut announcement was met with strong criticism from the U.S. government. U.S. President Joe Biden hoped OPEC+ would continue to raise production, which may have pushed down prices, and eased the financial burden on Americans and other global consumers. But OPEC+ did not believe keeping production steady or even raising production was warranted as it estimates global demand to drop significantly in the fourth quarter by approximately double its planned production cuts of 440,000 barrels per day. OPEC+ sees a pullback in demand as global economic conditions weaken. Oil prices moved higher over the month. In Canada, the Energy sector advanced and was the top performer on the S&P/TSX Composite Index, benefitting largely due to higher oil prices.

Market performance - as at Oct. 31, 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\$	19,426.14	5.32%	5.32%	-8.47%	-8.47%	-7.66%	-7.66%
S&P 500 Index US\$	3,871.98	7.99%	6.84%	-18.76%	-12.40%	-15.92%	-7.49%

Dow Jones Industrial Average US\$	32,732.95	13.95%	12.74%	-9.92%	-2.87%	-8.62%	0.55%
MSCI EAFE Index US\$	1,750.00	5.33%	4.21%	-25.09%	-19.22%	-25.07%	-17.56%
MSCI Emerging Markets Index US\$	848.16	-3.15%	-4.18%	-31.16%	-25.77%	-32.94%	-26.21%
MSCI Europe Index US\$	1,558.12	7.09%	5.96%	-25.57%	-19.74%	-24.88%	-17.34%
MSCI AC Asia Pacific Index US\$	136.18	-1.97%	-3.01%	-29.48%	-23.96%	-30.95%	-24.03%

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\$	1,039.55	-1.00%	-1.00%	-12.66%	-12.66%	-10.43%	-10.43%
FTSE World Investment Grade Bond Index US\$	193.14	-0.47%	-1.53%	-20.86%	-14.66%	-21.36%	-13.25%

Currencies	Level	Month to date	Month to date (C\$)	Year to date	Year to date (C\$)	1 year	1 year (C\$)
CAD/USD	0.7340	1.58%	-	-7.18%	-	-9.00%	-

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)	86.53	8.86%	-	15.05%	-	3.54%	-
Gold (US\$/oz)	1,633.56	-1.63%	-	-10.70%	-	-8.40%	-