Investment Management

October 2023 market update

Canadians less rosy on the economy

Nov. 3, 2023

Introduction

Global equity markets fell over October as geopolitical tensions, relatively weak economic data and the possibility of higher-for-longer interest rates weighed on investor sentiment. Inflation continued to show signs of easing in October, which prompted central banks such as the Bank of Canada ("BoC") and European Central Bank ("ECB") to hold steady.[1] (#1) Manufacturing activity contracted in major economies, suggesting global demand was relatively muted.

An advanced estimate in October showed the U.S. economy grew by 4.9%, annualized, in the third quarter of 2023, while the European economy shrank by 0.1%. China's economy expanded by 4.9% year-over-year in the third quarter, showing some signs of stabilization. The S&P/TSX Composite Index declined over the month, hurt by weakness in the Health Care and Real Estate sectors. South of the border, U.S. equities also fell. Yields on 10-year government bonds in Canada ticked lower, while those in the U.S. finished higher. The price of gold moved higher amid geopolitical tensions and economic uncertainty, while the price of oil slipped.

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[1] The U.S. Federal Reserve Board ("Fed") held steady at its announcement on Nov. 1.

Canadian business and consumer sentiment waning

Amid the uncertainty in Canadian economic conditions, sentiment among Canadian consumers and businesses is souring. The main culprit of waning confidence has been the tightening of financial conditions in Canada as the BoC raised interest rates over an 18-month period to help suppress inflationary pressures. The BoC's third-quarter Business Outlook Survey highlighted businesses are concerned that tight policy will hinder sales growth, which has dragged down hiring and capital investment intentions. Both large and small companies share that sentiment. The CFIB Small Business Optimism Index fell in October to its lowest level since April 2020. Meanwhile, the Bloomberg Nanos Canadian Consumer Confidence Index, a weekly reading of Canadian consumer confidence, continued to drop in October, with consumers worried about the economy and their financial situation. The drop in sentiment may also be playing out in the broader economy, with retail sales falling by 0.1% in August and early estimates showing another weak reading in September. Where does that leave the BoC? The central bank held its benchmark overnight interest rate steady at 5.00% at its October meeting, where it may stay for the remainder of 2023 as economic activity shows signs of weakness.

U.S. economic growth stays strong in Q3

An advanced estimate showed the U.S. economy grew more than expected in the third quarter of 2023, expanding by 4.9%, annualized. Again, driving that growth was a robust U.S. consumer, with personal consumption increasing by 4.0% over the quarter. U.S. consumer spending continues to defy expectations of slowing amid tight financial conditions. Instead, spending growth is being fuelled by a strong labour market and pent-up savings. However, concerns are rising that those savings are depleting, and labour market momentum is softening, which could hinder spending in upcoming quarters. The economy was also boosted by a rise in real estate investment, which had fallen over the past few years. Another key contributor to growth was robust trade activity, notably a sharp rise in exports. While the Fed held steady at the beginning of November, a stronger-than-expected economy combined with still-elevated inflation could mean another rate hike is on the table.

European business activity falls to 2020 levels

High borrowing costs and elevated inflationary pressures are having an immense impact on business activity in Europe. According to the ICOB Eurozone Composite Purchasing Managers Index, business activity in Europe contracted at its sharpest pace since November 2020. The decline was in both the manufacturing and services sectors. In the manufacturing sector, weak demand continued to drag down new orders, both domestic and from abroad, which also weighed on output. The services sector, previously a beacon of strength in the European economy, has contracted for three straight months. The decline reflects a drop in travel and recreation spending across the continent. The decrease in business activity has been reflected in Europe's gross domestic product data. A flash estimate showed the European economy shrank by 0.1% over the third quarter of 2023, which would be its first contraction since December 2020. With moderating economic conditions and softening inflationary pressures, the ECB held its policy interest rate steady at 4.50% at its October meeting. While the ECB has not ruled out the possibility of another rate hike, it increasingly looks unlikely given the slowing European economy.

China issues economic support package

Amid a struggling economy, the Chinese government announced extensive stimulus measures to help kickstart economic conditions in the world's second-largest economy. Late in October, the government announced it would issue sovereign debt totalling 1 trillion yuan (C$189.7 billion). The issuance will be used for several purposes. Much of the issuance will be used towards infrastructure construction, particularly in those areas hit by natural disasters. While the stimulus could have a positive impact on economic activity, the results may not be immediate as some of the stimulus will be delivered next year. Part of the stimulus will also be used on issues related to climate change. The stimulus is expected to help the critical manufacturing sector and renewable energy. One of the biggest hindrances to China's economy has been its property sector, which has financially strained many of its local governments. In response, Beijing has announced a process for local governments to easily borrow money. China's economy showed signs of stabilizing in the third quarter, growing by 4.9% year-over-year. Beijing is hoping to keep the momentum going.

Market performance - as at Oct. 31, 2023

Equity Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
S&P/TSX Composite Index C$	18,873.47	-3.42%	**-3.42%**	-2.64%	**-2.64%**	-2.84%	**-2.84%**
MSCI USA Index US$	3,985.59	-2.39%	**0.01%**	9.49%	**12.31%**	8.29%	**10.19%**
MSCI EAFE Index US$	1,947.91	-4.10%	**-1.74%**	0.20%	**2.79%**	11.31%	**13.27%**
MSCI Emerging Markets Index US$	915.20	-3.94%	**-1.58%**	-4.31%	**-1.84%**	7.90%	**9.80%**
MSCI Europe Index US$	1,755.54	-3.80%	**-1.43%**	1.38%	**4.00%**	12.67%	**14.65%**
MSCI AC Asia Pacific Index US$	150.66	-4.24%	**-1.88%**	-3.26%	**-0.77%**	10.63%	**12.58%**

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	1,039.66	0.37%	**0.37%**	-1.09%	**-1.09%**	0.01%	**0.01%**

Universe Bond Index C$							
FTSE World Investment Grade Bond Index US$	196.42	-1.19%	**1.25%**	-2.87%	**-0.36%**	1.54%	**3.54%**

Currencies	**Level**	**Month to date**	**Month to date (C$)**	**Year to date**	**Year to date (C$)**	**1 year**	**1 year (C$)**
CAD/USD	0.7207	-2.14%	-	-2.31%	-	-1.80%	-

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)	81.02	-10.40%	-	1.36%	-	-5.99%	-
Gold (US$/oz)	1,983.88	7.32%	-	8.76%	-	21.45%	-
Silver (US$/oz)	22.88	3.00%		-4.63%		19.21%	

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