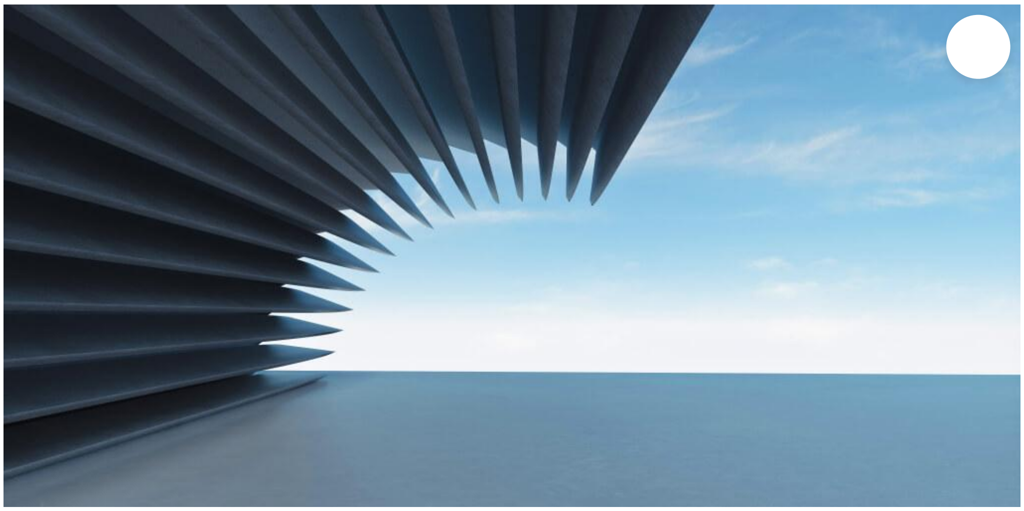
September 2023 market update

A slowing Canadian housing market and U.S. economy

Oct. 5, 2023



Introduction

Global equity markets fell over September as expectations of interest rates being higher for longer weighed on investor confidence. In response, investors exited risk assets. The Bank of Canada ("BoC"), U.S. Federal Reserve Board ("Fed") and Bank of England ("BoE") all decided to pause at their September meetings. The Fed, most notably, signalled the possibility of one more rate increase this year with inflation still above target. High inflation persisted in September, weighing on households and businesses. Global manufacturing activity contracted, suggesting demand remains relatively muted for manufactured goods.

In Canada, the S&P/TSX Composite Index dropped. The Communication Services sector posted the biggest loss. U.S. equities, as measured by the MSCI USA Index, also declined. Yields on 10-year government bonds in Canada and the U.S. advanced over the month. Gold prices moved lower, while the price of oil increased.

Canada's housing market shows signs of slowing

More data shows some weakness may be developing in Canada's real estate market. The Canadian Real Estate Association reported sales of existing homes in Canada fell by 4.1% in August. August's drop marks the second straight monthly decline in existing home sales. Benchmark home prices ticked higher, suggesting low supply continues to add upward pressure to home prices. Low housing supply has become a significant issue for all levels of government as they grapple with Canada's real estate market, which many consider unaffordable. The federal government took its first step towards increasing supply as part of its Housing Accelerator Fund. The Fund will invest $74 million to help the city of London, Ontario, build 2,000 homes over the next three years. That should help take a bite out of the supply gap, but there is still a long way to go. The Canada Mortgage and Housing Corporation estimates the Canadian economy needs 3.5 million more units by 2030 to close the supply gap and eliminate affordability concerns. Mortgage rates, a key driver of real estate market activity, appear set to be higher for longer. The BoC held its interest rate steady at 5.00% at its September meeting but signalled to markets it is unlikely to bring down interest rates in the short term.

U.S. economic growth under pressure

Data from the Federal Reserve Bank of Chicago ("Chicago Fed") shows U.S. economic activity was pressured in August as tighter financial conditions weighed on U.S. households. The Chicago Fed National Activity Index fell to −0.16 from 0.07 in July (a negative reading denotes below-trend growth). While a slowdown in economic activity was largely unsurprising, the biggest contributor raised a major concern for the U.S. economy. Consumption and housing-related indicators were a key detractor over the month of August. Personal consumption has been a critical component of U.S. economic growth as the country emerged from the pandemic, but momentum may be slowing. A recent report from Fitch Ratings projects U.S. consumer spending could fall considerably by the first quarter of 2024 in response to higher borrowing costs, an easing labour market and slower wage growth. Additionally, Fitch points out that pent-up savings during the pandemic, which have driven much of the spending over the past few years, are becoming depleted. With that in mind, the paused interest rates at its September meeting. While inflation is edging higher, the U.S. central bank is seeing some pockets of weakness in the economy, which precipitated the rate hold. Still, the Fed expects interest rates to remain high.

U.K. inflation cooler than expected

Inflation in the U.K. is coming down, which is welcome news for the BoE, households and businesses. However, it remains elevated and above the central bank's 2% target, meaning the actions of the BoE have taken a bit longer than other central banks in moderating inflation. The U.K. inflation rate softened to 6.7% in August from 6.8% in July. Based on a survey from Bloomberg, August's rate also came in below the 7.0% rate economists had expected. August's reading saw a slowdown in prices for food and non-alcoholic beverages and household equipment, which offset a jump in motor fuel costs in response to rising oil prices. Even with inflation at elevated levels, the BoE surprised markets at its September meeting by keeping its policy interest rate unchanged at 5.25%, marking its first meeting without a rate increase since 2021. However, the pause may not be permanent, with the BoE expressing its readiness to raise interest rates further if needed.

OPEC expects growing demand for oil

The price of oil surged higher over the summer, and that momentum extended into September, with prices rising by almost 10%. Several factors have contributed to the recent rise. Just before the third quarter, the Organization of the Petroleum Exporting Countries ("OPEC") announced it would reduce production amid an uncertain outlook for oil demand given a wobbly global economy. However, the global economy has proven to be resilient and has sustained relatively strong levels of oil demand. In its monthly reports during the third quarter, OPEC acknowledged the global economy is progressing better than expected, allowing the oil organization to predict a relatively strong outlook for global oil demand. OPEC estimates demand will increase by 2.4 million barrels per day this year and by 2.4 million barrels per day in 2024. Higher oil prices offer little relief for Canadian households already facing high prices at the gas pump. Canadian inflation has ticked higher in recent months due in part to higher oil prices. The Energy sector posted a gain over the month on the Canadian equity market.

Market performance - as at Sept. 30, 2023

Equity Markets	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
S&P/TSX Composite Index C$	19,541.27	-3.70%	**-3.70%**	0.81%	**0.81%**	5.96%	**5.96%**
MSCI USA Index US$	4,083.33	-4.79%	**4.80%**	12.17%	**12.30%**	19.63%	**17.55%**
MSCI EAFE Index US$	2,031.26	-3.69%	**-3.70%**	4.49%	**4.61%**	22.26%	**20.13%**
MSCI Emerging Markets Index US$	952.78	-2.81%	**-2.82%**	-0.38%	**-0.27%**	8.79%	**6.90%**
MSCI Europe Index US$	1,824.94	-4.04%	**-4.05%**	5.39%	**5.51%**	25.43%	**23.25%**
MSCI AC Asia Pacific Index US$	157.33	-2.93%	**-2.93%**	1.02%	**1.14%**	13.25%	**11.28%**

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	1,035.82	-2.62%	**-2.62%**	-1.46%	**-1.46%**	-1.36%	**-1.36%**

Universe Bond Index C$							
FTSE World Investment Grade Bond Index US$	198.78	-3.14%	**-3.15%**	-1.70%	**-1.59%**	2.44%	**0.65%**

Currencies	Level	Month to date	Month to date (C$)	Year to date	Year to date (C$)	1 year	1 year (C$)
CAD/USD	0.7365	0.16%	-	0.50%	-	1.44%	-

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)	90.79	8.56%	-	13.12%	-	11.77%	-
Gold (US$/oz)	1,848.63	-4.72%	-	1.35%	-	11.33%	-
Silver (US$/oz)	22.18	-9.26%	-	-7.41%	-	17.85%	-

This commentary represents Canada Life Investment Management Ltd.'s views at the date of publication, which are subject to change without notice. Furthermore, there can be no assurance that any trends described in this material will continue or that forecasts will occur; economic and market conditions change frequently. This commentary is intended as a general source of information and is not intended to be a solicitation to buy or sell specific investments, nor tax or legal advice. Before making any investment decision, prospective investors should carefully review the relevant offering documents and seek input from their advisor. You may not

FTSE Disclaimer (https://www.canadalife.com/investment-management/email-disclaimers.html#ftse)
|
S&P Disclaimer (https://www.canadalife.com/investment-management/email-disclaimers.html#sp)
|
MSCI Disclaimer (https://www.canadalife.com/investment-management/email-disclaimers.html#msci)

" "" "

Give Feedback