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CHARTBOOK
Market Comment

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Market Comment

In October, the Bank of Canada again left its policy interest rate unchanged at 5.0%. There has been no change to the rate since the Bank last increased it in July. In recent statements from the meeting and in testimony to parliament, Bank of Canada Governor Tiff Macklem explained the rationale for the decision and the outlook for future interest rate decisions. Macklem said that supply and demand are nearly in balance, and that economic growth is slowing. GDP growth in Canada has been nearly non-existent since the fist quarter of 2023. Macklem expects these trends to continue which should bring inflation down gradually, expected to reach the 2% target in 2025.

With the anemic GDP growth in Canada of late and unemployment beginning to creep higher, further rate hikes from the Bank of Canada from here appear very unlikely unless something changes significantly.

The situation is a little different in the US, where GDP growth is extremely strong and unemployment has not materially increased. Despite this, market expectations show that the Federal Reserve's Fed Funds rate is also not expected to increase.

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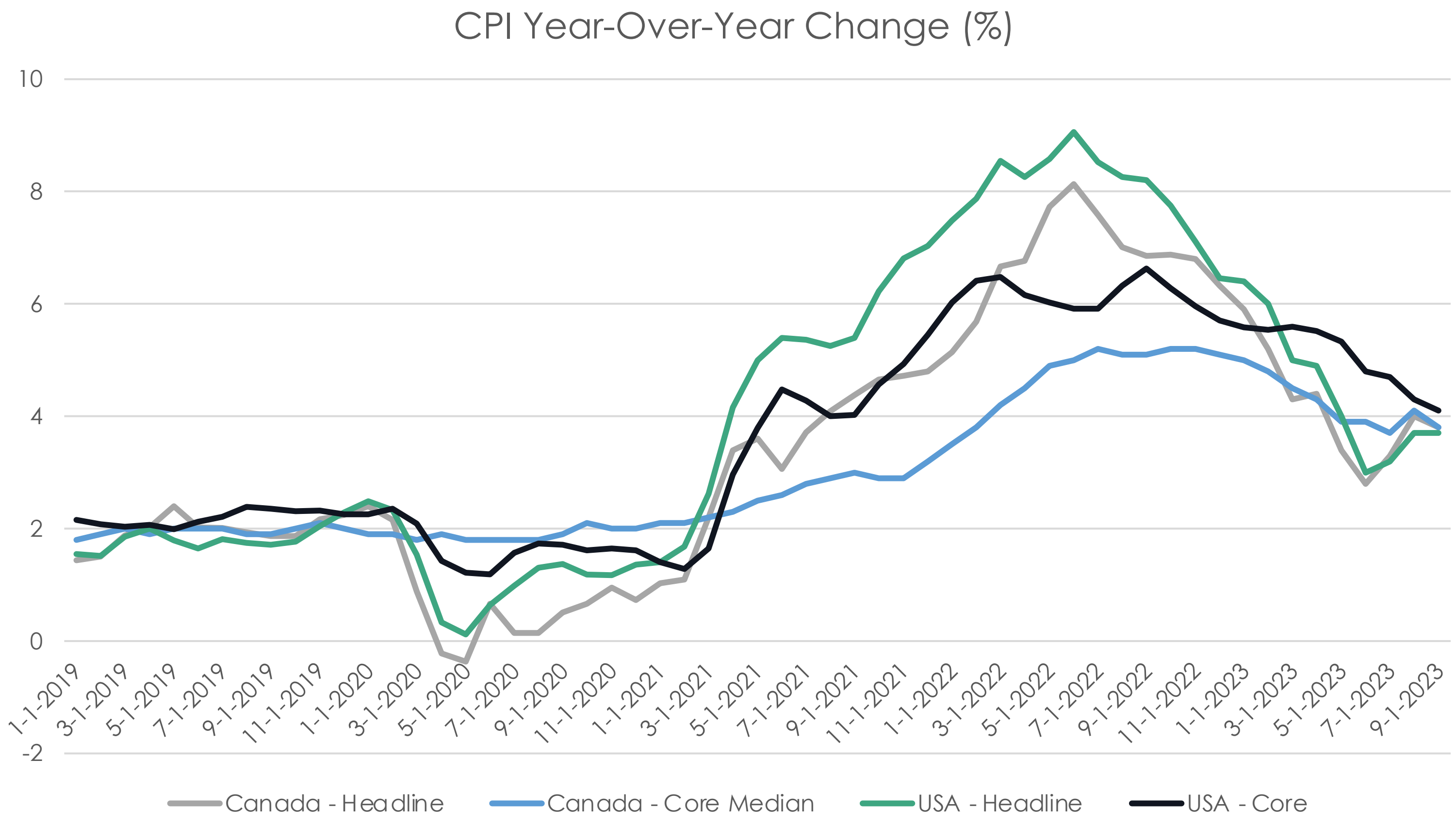
Inflation



Measures of inflation for September in Canada and the USA have converged near the 4% level, still substantially higher than their target rate of 2%.

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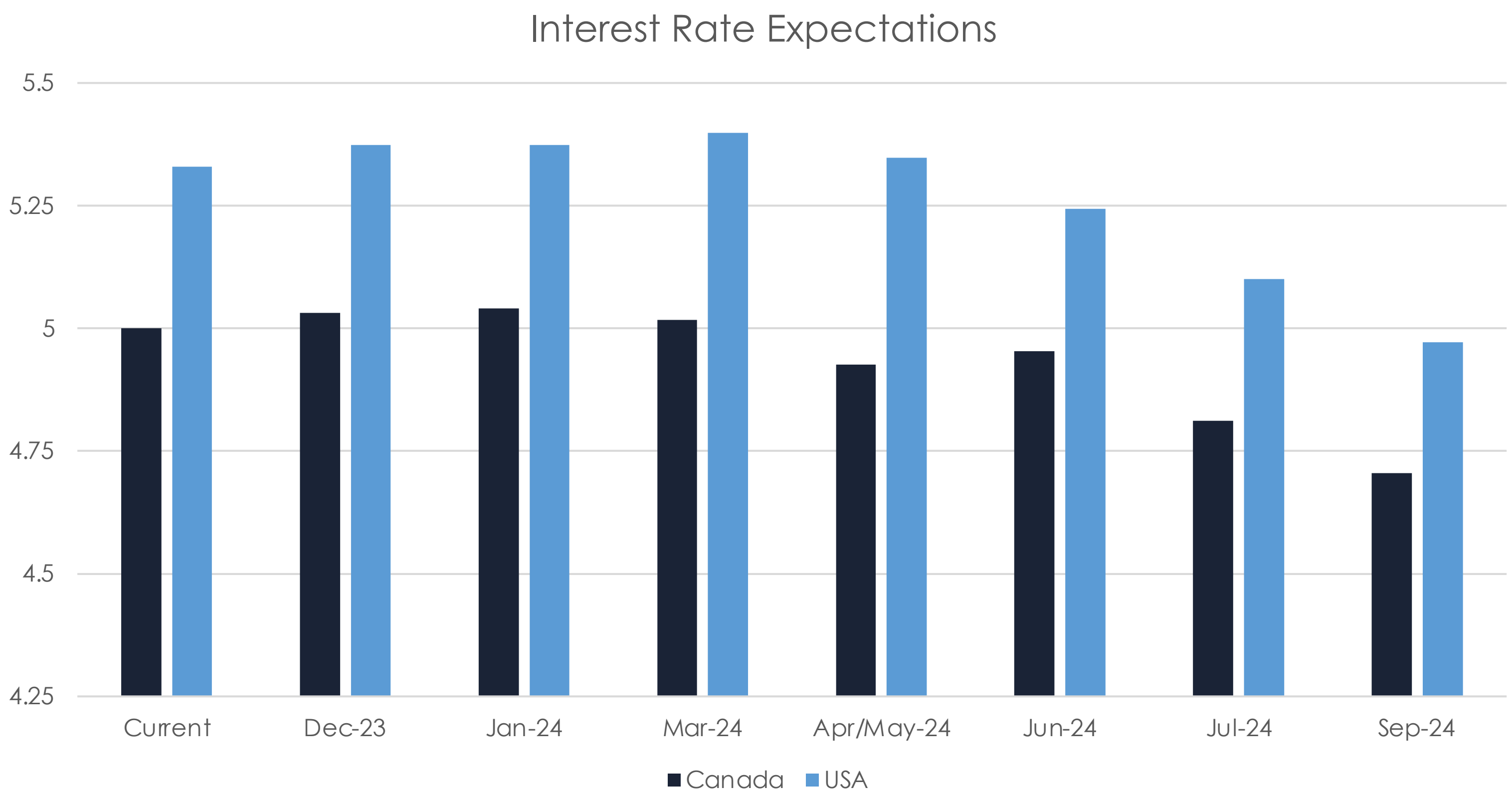
Interest Rate Expectations

The Federal Reserve and the Bank of Canada both held their policy interest rates unchanged at the most recent meetings. Based on market expectations, these rates are expected to remain steady until mid-2024 when they will begin to moderately decline.



Data: Overnight Index Swap markets as of October 27, 2023

YTD Returns

Year-to-date asset returns have been quite mixed. The major outlier here is the Nasdaq, which is up almost 30% in 2023. However, this return is still not enough to make up for the decline in 2022, as the Nasdaq is down about 6% since the beginning of 2022.

Bonds have been similarly challenging for investors, particularly longer duration bonds. The good news is that with these price declines, investors have the opportunity to buy these bonds at discounts to their face value, making future returns much more attractive.

Commodities have been one of the lone bright spots in terms of asset returns, with several commodities posting overall positive returns since the beginning of 2022.

Name	YTD (%)	2022 (%)
Stock Indices:		
S&P/TSX Composite Index	-3.3	-5.8
S&P 500 Index	7.2	-12.4
Nasdaq 100 Stock Index	29.6	-27.7
Dow Jones Indus. Avg	-2.2	-0.4
MSCI EAFE	1.0	-7.9
MSCI EM	-3.7	-14.2
FTSE 100 Index	-2.2	0.0
Euro Stoxx 50	5.8	-8.0
Nikkei 225	18.8	-14.0
Shanghai Composite	-2.3	-14.1
Hang Seng Index	-12.0	-6.5
Bond Indices:		
iShares Core Can Univ. Bond ETF	-3.4	-11.7
BBG US Aggregate	-2.5	-11.1
BBG US Corporate	-1.5	-15.8
BBG US Treasury 20+ Yr	-13.3	-31.1
Commodities:		
Gold Spot $/Oz	10.0	-0.3
BBG Commodity	-6.4	21.7

Year-to-date data as of Oct. 27, 2023.

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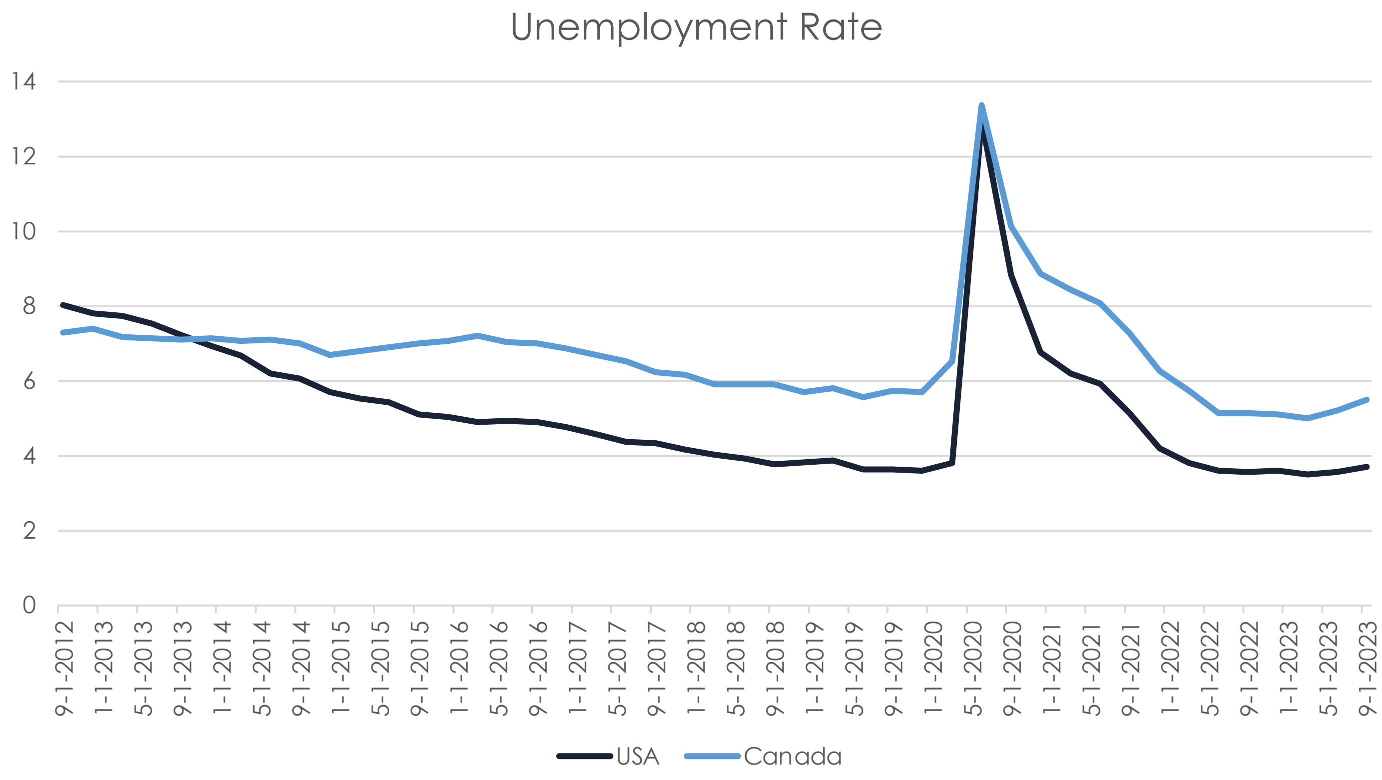
Employment

The Federal Reserve and the Bank of Canada are trying to engineer a so-called "soft-landing" where the economy gradually cools off and inflation moderates without causing a recession. Such a scenario should theoretically be accompanied by a moderate increase in unemployment as economic growth and business activity moderate down to a sustainable level.

As you can see in the chart, unemployment in the USA and Canada have begun to increase, from a low of 3.5% in the US to 3.7% and a low of 5% to 5.5% in Canada. At these levels unemployment is still historically low. Whether this rise in unemployment will be moderate or more substantial remains to be seen.



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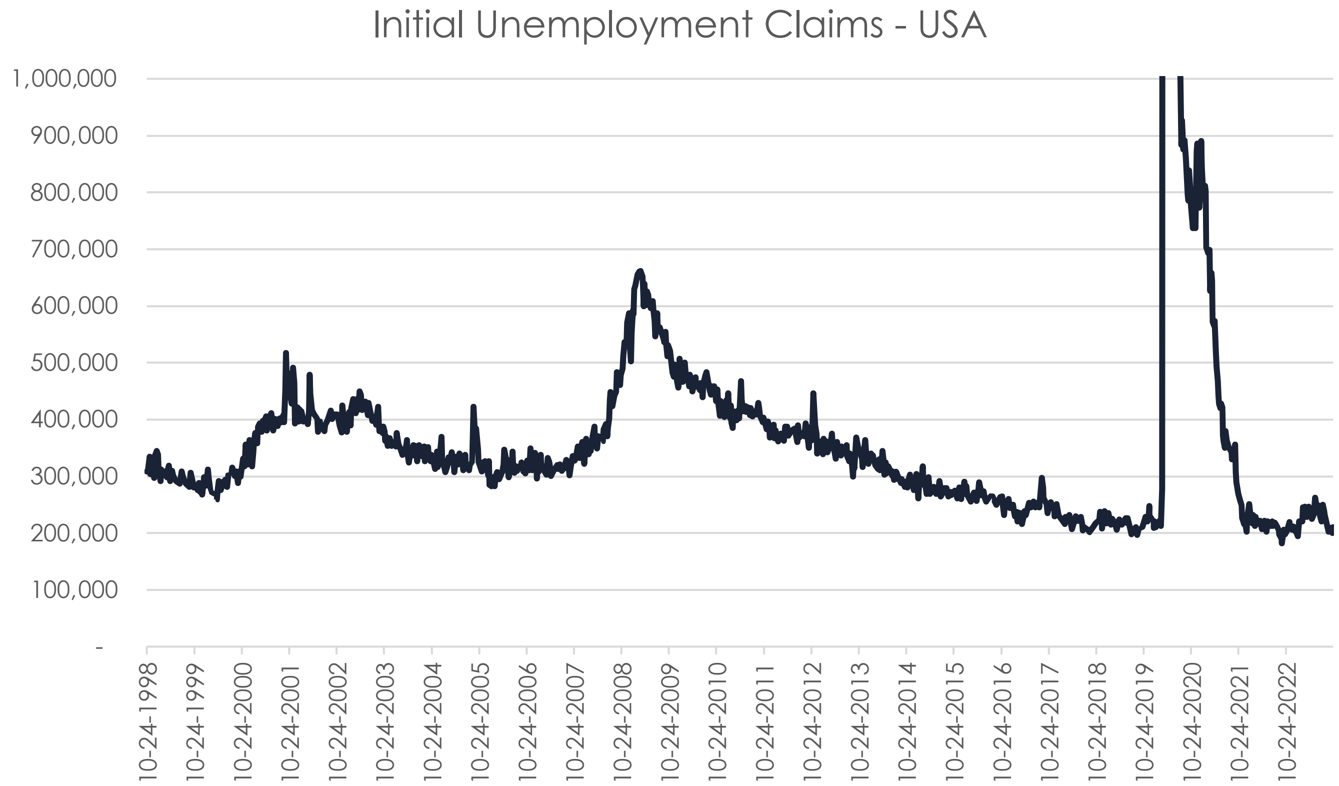
Initial Unemployment Claims



US initial unemployment claims, a leading indicator of the health of the economy, remain near historically low levels. Despite the small increase in the unemployment rate, there are no signs of trouble from this indicator yet.

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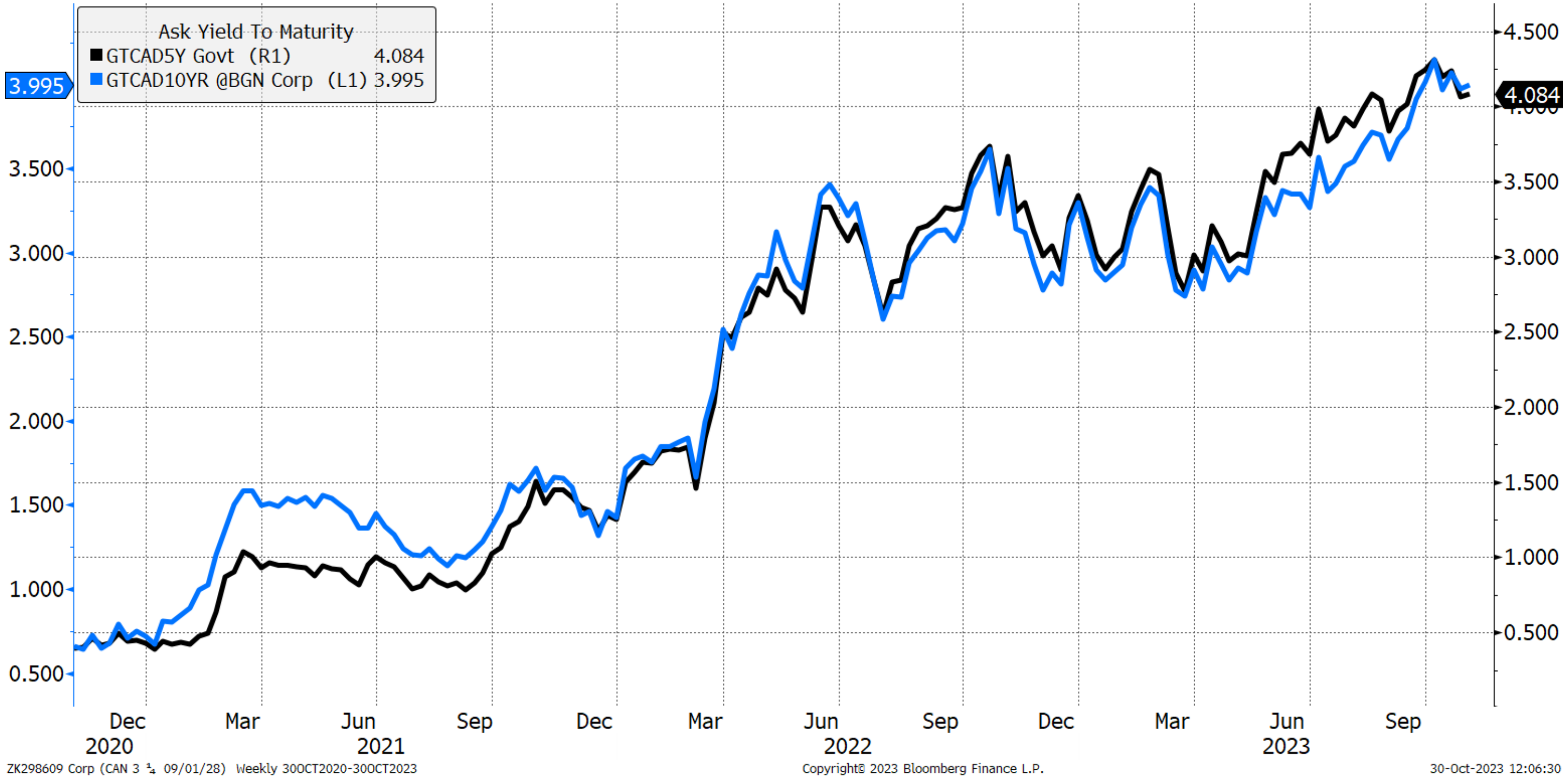
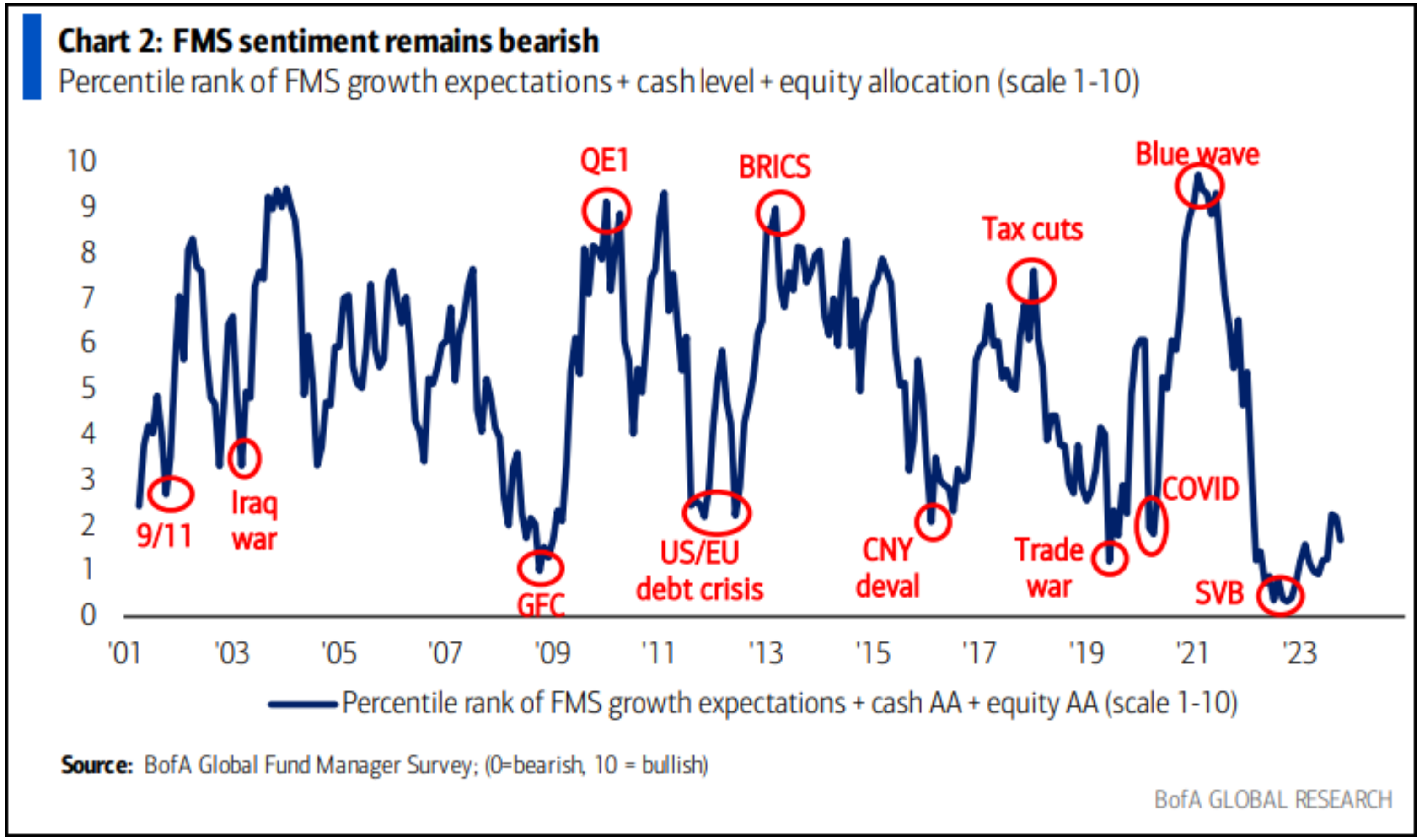
Bond Yields

5-year bond yields, represented by the Government of Canada 5-Year Bond (the black line in the chart), are an important metric for consumers because they are key in determining the 5-year mortgage rate that banks lend at. While the Bank of Canada has not increased its overnight rate since July, longer term bond yields, such as the Government of Canada 5-Year and 10-Year shown here, continued to rise.

For homeowners needing to refinance their homes in the near future, 5-year bond yields declining would be a welcome development.



Fund Manager Sentiment



Bank of America does a sentiment model based on the responses to their survey of Fund Managers. The model currently shows sentiment as extremely negative, comparable to levels seen various past crises including COVID and the Global Financial Crisis. (continued on the next slide)

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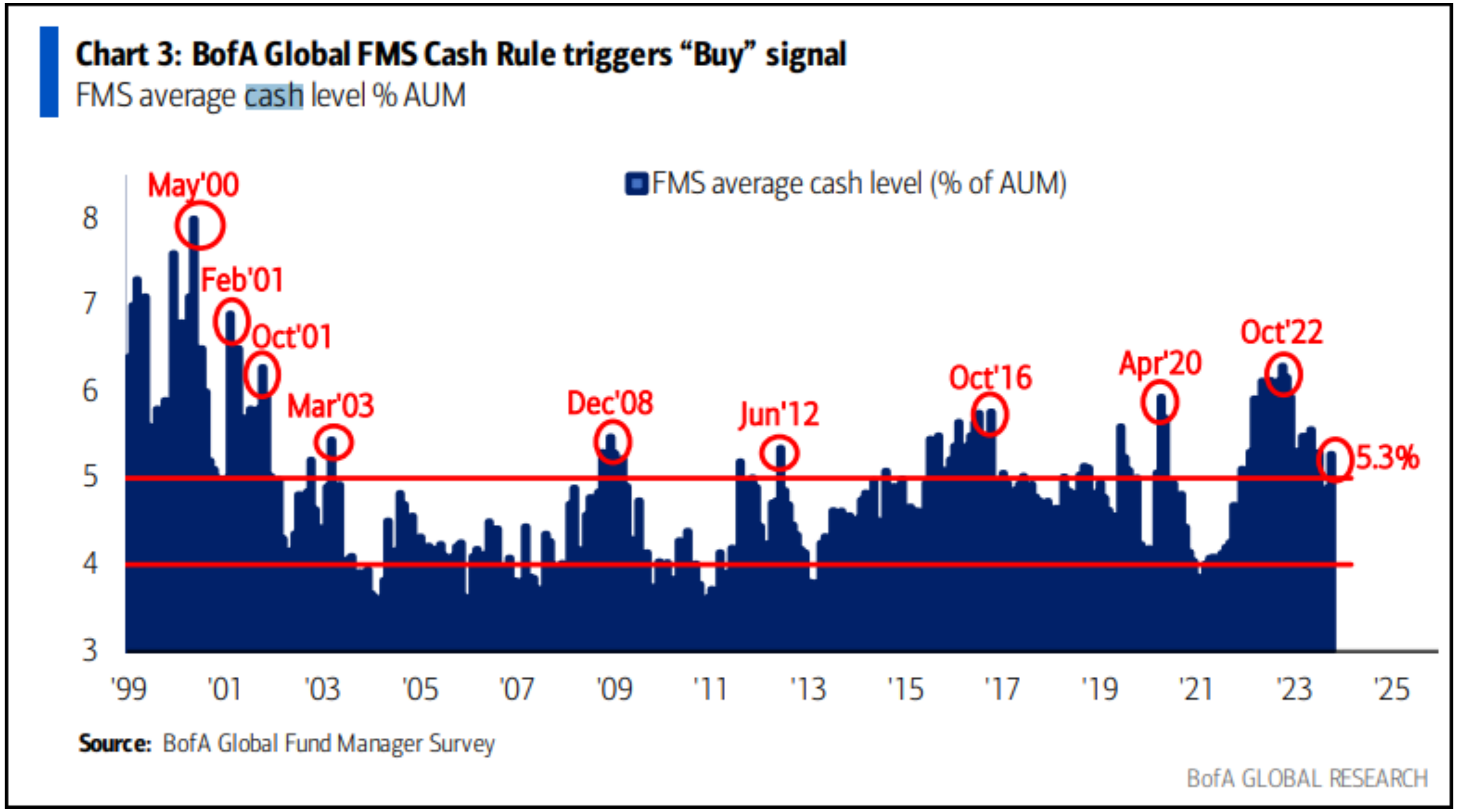
Fund Manager Cash Positions

Based on Bank of America's model, the high level of pessimism and cash allocation from fund managers is a contrarian "buy" signal, which is associated with higher than average stock market returns over the next several months.



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