October 31, 2023

Interest rates, inflation and a slowing economy were top of mind for investors in September as the month and third quarter ended on a low note. Here's a summary of the main events that steered the markets:

Monthly market developments

- Equity markets dipped for the second straight month but remain up YTD. Rising bond yields, worries about a U.S. government shutdown in October and the outlook for interest rates and inflation weighed on North American equities. China's slow economic recovery placed more pressure on global stocks.
- U.S. and Canadian bond yields rose as investors interpreted the context of the Fed and Bank of Canada putting hikes on hold in September to mean rates would likely remain higher for longer.
- Oil prices surpassed US$90 a barrel for the first time in over a year. Saudi Arabia's supply is currently 25% below its official production capacity which should act as a buffer if demand increases.
- The U.S. dollar has been rallying through Q3 on relative U.S. economic strength and elevated yields.
- The EU announced it will investigate China state subsidies for EVs. China has invested heavily in EV technology over the past decade with battery-powered vehicles estimated to be over 30% of exports.
- China cut its bank reserve requirement ratio resulting in the release of over CNY600 billion (C$110 billion) from capital reserves to raise commercial lending capacity and stimulate economic growth.

- The European Central Bank raised rates 0.25% to 4% while the Bank of England left them unchanged for the first time in two years after U.K inflation dipped slightly. The Bank of Japan has a long-held 0% interest rate policy but signaled the possibility of removing its yield curve control measures.
- U.S. CPI rose 0.5% to 3.7%. This was in line with expectations and largely due to energy costs. Core inflation, which excludes food and energy, dropped 0.4% to 4.3%. The Fed held rates steady at 5.25-5.5% for its second meeting in a row. Fed chair Powell said the Fed was getting closer to the end of its rate-hiking cycle but the process of getting inflation sustainably down to 2% has a long way to go.
- Canadian inflation increased more than expected for the second straight month. Inflation came in at 4%, up from 3.3%, driven by higher gas prices, mortgage costs and rising rents. Although the increase was a concern for the Bank of Canada, it opted to hold rates at 5%. The bank pointed to a softening labour market and a reduction in excess demand as confirmation the economy is slowing.

How does this affect my investments?

After showing strength in the first half of 2023, markets have stumbled the last few months. Whether we are already there or not, we are getting close to the end of the rate-hiking cycle. Transition periods often come with volatility. Investors will be looking for more visibility on the delayed impact of hikes so far, how long rates may stay high and what it will take for central banks to begin reversing course.

Regardless of where we are in the market cycle, it’s important to take a disciplined approach to investing and stay focused on your long-term goals. This strategy helps you keep your emotions out of investing, typically buying high and selling low like many investors do. Ongoing monitoring and reviewing of your portfolio also ensure it remains on track. Diversifying investments reduces risk as well.

If you have any concerns, please call me at 613-491-3344 to discuss.

Sincerely,

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