

October in Review

Equity markets performed well in October, reversing course from a September dip to continue the year-to-date upward trend. Investors continue to keep a close watch on rising inflation rates, along with the policy response of major central banks. Both the Bank of Canada (BoC) and the U.S. Federal Reserve (the Fed) have suggested they will scale back quantitative easing programs this year before increasing interest rates in 2022. The rapid pace of global economic growth seen earlier in 2021 has slowed to some degree, but the global economy is still expanding at a solid pace. So far corporate earnings remain strong, despite ongoing global supply chain constraints. Commodities prices were mixed during the month. WTI Crude Oil soared 11.9% in October and has more than doubled over the past year. Gold gained 1.5%, while natural gas declined by 9.4% following substantial gains earlier in the year. Canadian stocks climbed in October, as the S&P/TSX Composite gained 5.0%, with particular strength in Industrials, Energy, and Real Estate, which were up 8.8%, 8.7%, and 6.4%, respectively. U.S. markets were also higher, with the S&P 500 gaining an impressive 7.0% and the Dow Jones Industrial Average up 5.9%, in U.S. dollar terms. The MSCI World index climbed by 5.7%, while the MSCI Emerging Markets index moved higher by 1.0%, also in U.S. dollar terms. Bonds slipped lower, down 1.1%, and the FTSE Canada Universe Bond index is now down 5.0% year-to-date.

Here are some of October's most notable headlines:

Energy prices surge on growing demand and constrained supply. WTI crude oil prices crossed \$80 per barrel last month for the first time since 2014 as demand continued to rebound while supply remains tight. OPEC agreed during the month to stick with its plan to increase production by only 400,000 barrels per day in November, despite the recent fuel shortage. The issue has been most pronounced in Europe and Asia. Cold weather across Europe increased demand for natural gas, but supply from Norway and Russia was also constrained. Meanwhile China is experiencing rolling blackouts and shuttered factories due to fuel shortages.

China's rapid economic growth appears to be slowing. Growth in Chinese GDP dipped to 4.9% in 3Q21, on a year-over-year basis. While the economy is still growing, the growth rate missed analyst expectations of 5.2%, and was the weakest in a year. Power shortages, supply chain problems and a property market crisis all contributed to the weak quarter. This has negative implications for China's trading partners, impacting both supply and demand, particularly in the Asia-Pacific region in the near-term, but also in the U.S. and Europe. Chinese Q3 industrial production growth of 3.1% was notably lower than the rate of 4.5% that had been expected.

Canadian inflation rate at 18-year high. Canada's consumer price index (CPI) increased 4.4% in September from a year ago. This was higher than analyst expectations of 4.3%, and up from 4.1% in August. The growth in inflation was driven by higher gasoline prices, up 33% from last year, although prices were higher in all eight major CPI components, particularly shelter and food. Core inflation, which strips out volatile energy and food prices, was up 2.7%, up from 2.6% in August. While the Bank of Canada has long insisted that higher inflation is a temporary phenomenon due to the pandemic and supply-chain disruptions, governor Tiff Macklem has recently acknowledged that it could be a little more persistent than previously thought.

Did you know?

The Industrial Product Price Index (IPPI) increased in September, up 1.0% month-over-month and up 15% year-over-year. Energy and petroleum products led the move higher, up 3.3% from last month. Chemicals and chemical products were also a big contributor, up 2.9% month-over-month, mainly due to higher prices for petrochemicals, as well as ammonia and chemical fertilizers. Higher prices were also seen in motorized and recreational vehicles, fabricated metal products and construction materials, and primary ferrous metal products. The broad increases were partially offset by price declines in lumber and other wood products.

Source: Statistics Canada

INDEX†	1 Mth	Change (%) YTD	1 Yr	Index Level
Treasury Bill (FTSE Canada 60 Day T-Bill)	0.01	0.08	0.11	166
Bonds (FTSE Canada Universe Bond)	-1.05	-4.96	-3.64	1,161
Canadian Equities (S&P/TSX Composite)	5.02	23.40	38.79	21,037
U.S. Equities (S&P 500, US\$)	7.01	24.03	42.89	4,605
Global Equities (MSCI World, US\$)	5.69	19.90	41.07	3,175
Emerging Markets (MSCI Emerging Markets, US\$)	1.00	-0.15	17.29	1,265

CURRENCIES†	1 Mth	Change (%) YTD	1 Yr	Exchange Rate
C\$/US\$	2.38	2.80	7.53	0.81
C\$/Euro	2.53	8.62	8.35	0.70
C\$/Pound	0.79	2.63	1.72	0.59
C\$/Yen	4.75	13.32	16.91	91.93

COMMODITIES (US\$)†	1 Mth	Change (%) YTD	1 Yr	Price
Gold Spot (\$/oz)	1.53	-6.66	-6.37	1,784
Oil WTI (\$/barrel)	11.87	75.27	112.81	83.57
Natural Gas (\$/MMBtu)	-9.43	86.27	65.83	5.43

† Total Return, as at October 31, 2021. Indices are quoted in their local currency. Source: Bloomberg

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