

September in Review

Equity markets pulled back in September, after strong performance year-to-date. Rising inflation continues to cause concern among investors. While officials from the U.S. Federal Reserve and the Bank of Canada have indicated their belief that growing inflation will be a temporary phenomenon, both have also recently outlined plans to begin unwinding stimulus. In addition, in September there was concerning news from China, where the financial difficulties faced by a huge real estate developer caused volatility, and other economic reports showed signs of slowing growth. Commodities prices were mixed during the month with natural gas soaring 32.6%, and WTI Crude Oil climbing 9.9%, although gold declined by 3.4%. Canadian stocks dipped in September, as the S&P/TSX Composite lost 2.2%, with particular weakness in Health Care, Information Technology, and Materials, which were down 10.3%, 9.4%, and 5.7%, respectively. Notably, the Energy sector performed well, up 8.8%. U.S. markets were also weaker, with the S&P 500 declining 4.7% and the Dow Jones Industrial Average down 4.2%, in U.S. dollar terms. The MSCI Emerging Markets index dropped by 4.0%, while the MSCI World index declined 4.1%, in U.S. dollar terms. Bonds slipped lower in August, down 1.4%, and the FTSE Canada Universe Bond index is now down 4.0% year-to-date.

Here are some of September's most notable headlines:

Canadian inflation hit an 18-year-high in August. The August Consumer Price Index climbed 4.1% on a year-over-year basis, up from 3.7% growth in July, and higher than analyst expectations of 3.9%. This was the fastest pace of growth since March 2003. The growth comes from both recent price pressures and lower price levels in 2020. Durable goods drove the number higher, up 5.7%, with passenger vehicles up 7.2%, furniture up 8.7%, and household appliances up 5.3%. Prices for services grew for the fifth consecutive month, up 2.7% in August. Year-over-year prices for traveller accommodation increased 19.3%, as COVID-19 restrictions eased over the summer and travel increased.

The U.S. Federal Reserve provided a more hawkish outlook. U.S. Federal Reserve (the Fed) Chair Jerome Powell suggested the Fed could begin reducing asset purchases as soon as November, and could complete the process by mid-2022. The Fed also expects to begin raising its key short-term interest rate sooner than previously expected, perhaps as early as 2022, after completing the asset purchase tapering. The update reflects the Fed's view that the economy has recovered sufficiently from the COVID-19 recession for it to begin dialling back the extraordinary stimulus provided since last spring.

Debt crisis faced by China's Evergrande Group causing uncertainty. Huge Chinese real estate developer Evergrande has run into financial difficulty, roiling global financial markets. The company has liabilities of over US\$300 billion, and recently failed to make an \$83 million interest payment on a dollar-denominated bond held by foreign investors. The company is not technically in default unless it fails to make the payment within 30 days. Evergrande had previously warned it may default on its debt, and investors fear contagion that could spread to other markets. It is not clear if or how the Chinese government would bail out Evergrande, but the situation continues to cause uncertainty and volatility.

Did you know?

The global shipping market continues to suffer the effects of supply disruptions and shortages caused by the COVID-19 pandemic. When the pandemic started, major shipping lines canceled dozens of sailings. The result of this was that empty cargo boxes were not picked up before Chinese exports began to bounce back, and global demand for consumer products surged. The large number of "empties" has persisted, as COVID-19 restrictions have impacted operations at ports and depots. Part of the problem is that a lot of cargo going back to Asia

is low-value material such as waste paper and scrap metal. As shipping prices have increased, these trips are no longer economically viable, and the boxes remain stranded, further contributing to the problem.

Due to the shortage of shipping capacity, prices have surged, raising costs for many businesses around the world, in addition to materially slowing shipping times. Supply chain issues will likely continue for some time, as industry experts believe it could take until 2023 to resolve the shipping issues.

Source: Freightos Limited

INDEX†	1 Mth	Change (%) YTD	1 Yr	Index Level
Treasury Bill (FTSE Canada 60 Day T-Bill)	0.01	0.07	0.11	166
Bonds (FTSE Canada Universe Bond)	-1.40	-3.95	-3.35	1,177
Canadian Equities (S&P/TSX Composite)	-2.21	17.51	28.05	20,070
U.S. Equities (S&P 500, US\$)	-4.65	15.91	29.98	4,308
Global Equities (MSCI World, US\$)	-4.11	13.45	29.41	3,007
Emerging Markets (MSCI Emerging Markets, US\$)	-3.96	-1.16	18.52	1,253

CURRENCIES†	1 Mth	Change (%) YTD	1 Yr	Exchange Rate
C\$/US\$	-0.53	0.41	5.04	0.79
C\$/Euro	1.48	5.94	6.36	0.68
C\$/Pound	1.56	1.83	0.74	0.59
C\$/Yen	0.64	8.18	10.77	87.76

COMMODITIES (US\$)†	1 Mth	Change (%) YTD	1 Yr	Price
Gold Spot (\$/oz)	-3.36	-8.07	-8.48	1,757
Oil WTI (\$/barrel)	9.92	56.80	74.37	75.03
Natural Gas (\$/MMBtu)	32.59	109.84	103.08	5.87

† Total Return, as at September 30, 2021. Indices are quoted in their local currency. Source: Bloomberg

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