MONTHLY COMMENTARY

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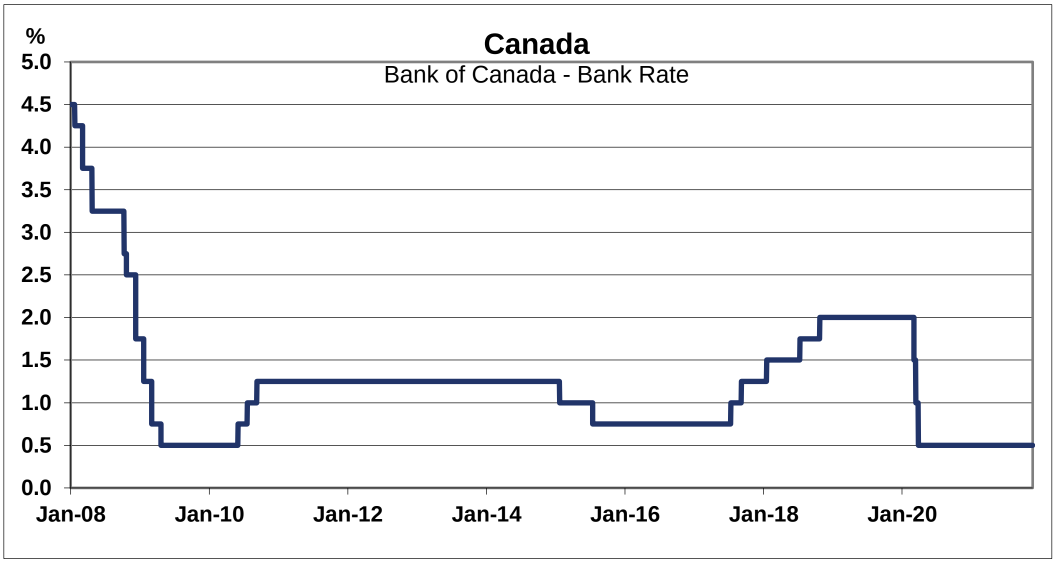
Canadian-administered interest rates



Source: Bank of Canada

MARKET FOCUS

Bank of Canada ends bond buying

At its latest policy announcement window, the Bank of Canada (BoC) revealed that it was holding interest rates steady, with its target for overnight borrowing unchanged at 0.25%. However, the BoC did surprise market participants by further stating that it was "ending quantitative easing and moving into the reinvestment phase." This means that it will now purchase Government of Canada bonds solely to replace ones that are maturing. Further, the press release acknowledged the continued bout of inflationary pressures, stating that energy constraints and supply bottlenecks "now appear to be stronger and more persistent than expected." According to the BoC's updated economic forecast, consumer price index (CPI) growth is now expected to be 3.4% for 2021 as a whole (up from the July forecast of 3.0%), 3.4% for 2022 (versus 2.4%) and 2.3% for 2023 (versus 2.2%). Conversely, GDP is expected to grow by a smaller 5.1% in 2021 (versus 6.0%) and 4.3% in 2022 (versus 4.6%), but by 3.7% in 2023 (versus 3.3%). Regardless, the subsequent release of October 2021 consumer price data revealed an annual inflation rate of 4.7%. Further, barring a material change, price momentum is likely to see CPI breach the 5.0% level by the end of 2021. The BoC's shift to a more "hawkish" stance, with respect to monetary

policy, raises the probability of an actual interest rate hike over the near term.

U.S. job market heats up

The U.S. Bureau of Labour Statistics reported that the unemployment rate dropped 0.2% to 4.6% in October 2021 in line with a 531,000 advance in non-farm payrolls during the month. The dip in the unemployment rate came despite a 104,000 advance in the labour force and is now the lowest rate since March 2020 (4.4%). The October payrolls gain was the 17th in the last 18 months that has seen an average gain of 1,009,000. In addition, wages rose 0.4% during October and stand with a 4.9% gain on a year-over-year basis. Even though the overall employment level remains 2.8% lower than the pre-pandemic peak established in February 2020, some signs of labour market tightening have started to emerge. Coupled with inflation's break above 6% (6.2% in October), the strength of the U.S. job market will apply further pressure on the U.S. Federal Reserve to raise interest rates.

Bank of England defies rate hike bets, roils bond markets

The Bank of England (BOE) held its key bank rate at a record-low 0.1% at its latest policy-setting window. The decision to stand pat caught traders by surprise and sent yields on one-year gilts tumbling 22 basis points, its steepest decline since February 11, 2009. The move also sent the British pound down 1.4% against the U.S. dollar to US$1.35, the biggest one-day fall since September 10, 2020. Pushing back against market pricing for a series of rate hikes to 1% in 2022, the BOE noted that the aggressive market-implied path for rates would leave inflation growth below its 2% target. Nevertheless, BOE Governor Andrew Bailey stated that "it will be necessary over coming months to increase [the] bank rate in order to return CPI inflation sustainably to the target." Traders are now pricing in a greater than 65% chance that the BOE will raise rates by 0.25% at its December 16, 2021 meeting.

LONGER VIEW

We anticipate monetary policies to be accommodating for the foreseeable future. As a result, stocks will be favoured by investors as there are lack of alternatives for inflation protection. Stock valuations will be higher than normal; consider we are not in normal periods with high earnings growth, very low interest rates and growing money supply, investors need to accept or miss out.

For more information, we encourage you to speak to your advisor or visit us at assante.com