Market Pulse

THE WEEK IN REVIEW

Friday, October 28, 2022

THIS WEEK'S RECAP:

- **The Bank of Canada (BoC) surprised markets by raising its target rate by 50 basis points (bps) to 3.75%, rather than the 75 bps that was fully priced in.** Although the BoC stated that rates will still need to rise further, the reduction in the pace of hikes is an acknowledgement to the fact that previous rate hikes have already started to slow down the economy and that we are getting close to the end of the tightening cycle. It is also a recognition by the BoC that the Canadian consumer is more sensitive to interest rate changes than those south of the border. **The market now only expects 50 bps of additional increases from here, with a cycle high of 4.25% for the target rate**.

- Although the European Central Bank (ECB) delivered the expected 75 bps increase to its target rate, some of the language modification in their statement was aligned with the BoC, so that markets also reduced the amount of additional tightening that is expected on the Old Continent.

- **The ongoing economic slowdown, the uncertainty on its extent and the challenge to control costs were recurring themes in the earnings reports from several of the major US Tech companies. Alphabet (Google), Microsoft, Meta (Facebook) and Amazon all sold off significantly following their reports.** While the correction phase we are going through is painful, we believe that these companies remain sector leaders and **that they should recover once inflation peaks, central bank tightening ends and uncertainty fades. This won't be a linear process, so volatility will remain.**

- **Despite the significant correction in the tech sector, the S&P 500 had a positive week**. As we said last week, **the market sentiment is very negative and positive news could lead to substantial appreciation, especially given the positive seasonality effect between now and the end of the year**. We had a positive development this week in the form of **a significant drop in bond yields; after having reached 4.30% last week, the US 10-year bond yields fell back below 4%. The release of the GDP price index on Thursday and PCE deflator on Friday seem to confirm that inflation is slowing down**. This would be a very positive development.

	Latest Price	1 week	3 month	YTD	1 year	3 year	5 year
EQUITIES							
S&P 500	7,235	4.0%	-3.9%	-17.4%	-14.2%	9.9%	10.0%
Nasdaq	13,326	2.2%	-8.5%	-28.6%	-27.6%	11.0%	11.6%
S&P/TSX	75,065	3.3%	0.9%	-6.0%	-5.4%	9.1%	7.2%
MSCI World	6,241	3.5%	-3.6%	-16.0%	-13.9%	7.7%	7.5%

FIXED INCOME							
FTSE Canada Universe Bond	1,042	2.9%	-4.0%	-12.5%	-10.7%	-2.3%	0.2%
ICE US High Yield	1,392	2.6%	-2.5%	-11.8%	-11.1%	0.2%	2.0%
COMMODITIES							
WTI (US$)	87.9	3.4%	-8.8%	16.9%	6.1%	16.3%	10.2%
Natural Gas (US$)	5.7	14.6%	-30.1%	52.4%	-1.7%	32.5%	13.9%
CURRENCIES							
USD	1.3596	-0.3%	6.2%	7.6%	10.1%	1.4%	1.2%
EUR	1.3553	0.7%	3.8%	-5.7%	-6.0%	-2.2%	-1.9%
JPY	0.0092	-0.2%	-3.3%	-16.0%	-15.1%	-8.3%	-4.0%
	Yield	**1 week**	**3 month**	**YTD**	**1 year**	**3 year**	**5 year**
GOVERNMENT BONDS – YIELD & CHANGES							
10y US (%)	4.01	(0.20)	+1.33	+2.50	+2.43	+2.17	+1.64
10y CAD (%)	3.24	(0.38)	+0.62	+1.80	+1.56	+1.61	+1.27

Source: Bloomberg. As at October 28, 2022.
Index total returns and prices are displayed in local currency.
Commodity returns are priced in US dollars.
Currency prices and returns are relative to the Canadian dollar.

ON DECK FOR NEXT WEEK:

- **The main event next week is the Federal Reserve rate decision on Wednesday November 2nd. Markets expect a 75 basis points increase in the Fed Funds target, which would then be at 3.75%.** We do not expect the US Central Bank to surprise markets like the Bank of Canada did, but following the BoC and ECB decisions, everyone will be looking for some softening in the language, possibly hinting at a slowdown in the pace of further hikes.

- The beginning of a new month will also bring the usual set of economic releases, with service and manufacturing surveys (ISM) providing a view on overall US- business sentiment and employment numbers (both in Canada and US) providing a factual yet lagged reading on the strength of the economy. We believe that a (controlled) economic slowdown happening alongside a (ideally rapid) decrease in inflation could offer significant support to financial markets.

For more information, please visit ci.com.

IMPORTANT DISCLAIMERS

This document is provided as a general source of information and should not be considered personal, legal, accounting, tax or investment advice, or construed as an endorsement or recommendation of any entity or security discussed. Every effort has been made to ensure that the material contained in this document is accurate at the time of publication. Market conditions may change which may impact the information contained in this document. All charts and illustrations in this document are for illustrative purposes only. They are not intended to predict or project investment results. Individuals should seek the advice of professionals, as appropriate, regarding any particular investment. Investors should consult their professional advisors prior to implementing any changes to their investment strategies.

Certain statements contained in this communication are based in whole or in part on information provided by third parties and CI Global Asset Management has taken reasonable steps to ensure their accuracy. Market conditions may change which may impact the information contained in this document.

CI Global Asset Management is a registered business name of CI Investments Inc.

© CI Investments Inc. 2022. All rights reserved.