

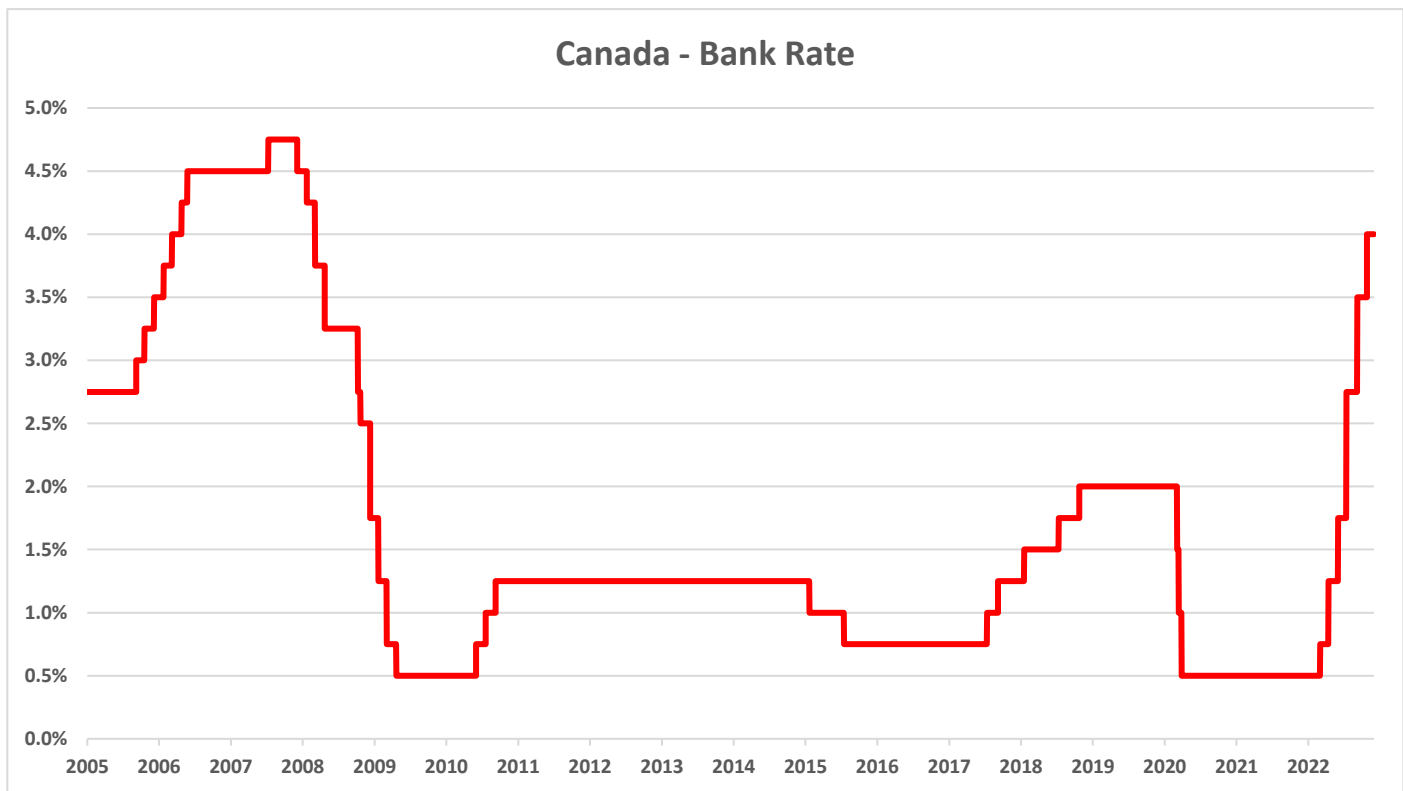
## MONTHLY COMMENTARY

December 2022

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### Tightening continues



Source: Bank of Canada

### MARKET FOCUS

#### Bank of Canada raises rates again

At its most recent policy announcement window, the Bank of Canada (BoC) confirmed that it was raising administered interest rates once again. Its target moved up 50 basis points (a basis point is 1/100th of one per cent) to 3.75% with the new range for overnight borrowing set at 3.50% to 4.00%. The reference “bank rate” is the upper boundary of the target range. As can be seen in the

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accompanying graph, the cumulative increase now stands at 3.50%, since the first move came on March 2, 2022. This is now the largest set of interest rate increases since November 1987 to May 1990, when the bank rate was moved from 8.09% to 14.05% (596 basis points). This took place before the current policy announcement window system came into effect. The statement that accompanied the most recent move continued to indicate that “the policy interest rate will need to rise further.” The pace of inflation eased to 6.9% in October. However, it remains well above the BoC’s 2% target. The final policy announcement for 2022 is scheduled for December 7, 2022, and analysts continue to expect that the rate hikes will continue.

## U.S. job market cools

The U.S. Bureau of Labor Statistics reported that the labour market continued to add jobs in October with non-farm payrolls rising by 261,000 during the month. Despite the positive result, however, this is well below the average 365,000 advance posted over the prior six months. Further, this is now the weakest monthly gain since December 2020 when there was an outright **decline** of 115,000. At the same time, the unemployment rate rose to 3.7% from 3.5% in September. This shift came even as the labour force (the number of working-age people who are either working or actively looking for work) declined for the fifth time in seven months. In addition, wage growth that peaked at 5.6%, in March 2022 slipped to 4.7% in the most recent report and is now running well below headline inflation of 7.7% (also October). While the softening in the U.S. labour market is modest at present, it will continue to fuel concerns that a recession may appear over the near term.

## LONGER VIEW

The base-case scenario of a terminal Fed Funds rate of 5%, neutral rate of 3% and long-term inflation below 3% seems achievable as consumers and businesses have turned cautious with their spending amid higher interest rates and the weaker wealth effect. This should mean plenty of investment opportunities in the markets with capital gains and larger return potentials. If you look at their performance backward, you are only seeing what the markets were pricing for near-term uncertainties, which was a bit of a guessing game and tells you very little of the long-term return potential. We continue to favour the energy sector for imbalanced demand and supply dynamics, and the IT sector for productivity enhancements. We also started to like Chinese equity as we see friendlier government policies on COVID and business in general and for their very attractive valuations. Bonds have performed negatively, but the yields have risen from under 2% to over 4% in months. There are a lot more reasons to own them today. Investors should recognize that the last few months was about anyone’s guess of inflation, central bank policy and consumer behaviour. We could have underperformed or outperformed in this market and it has very little meaning to our longer-term returns.



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