

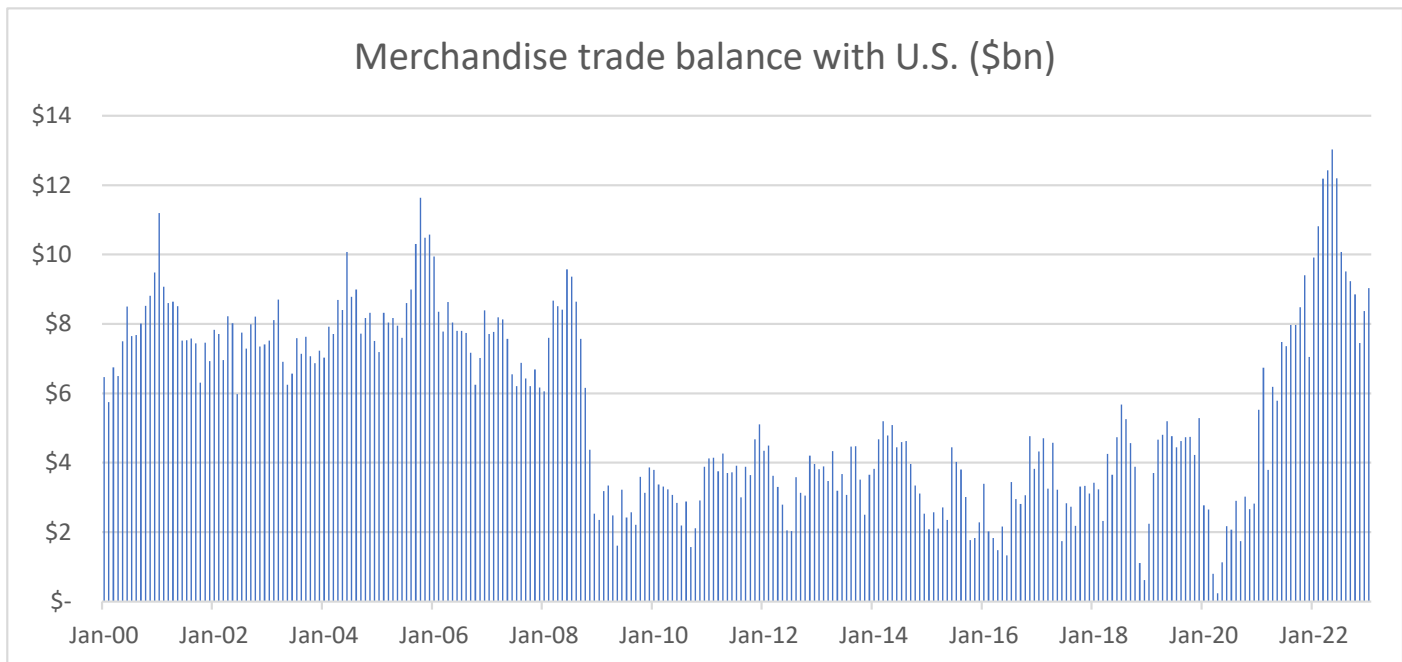
MONTHLY COMMENTARY

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Trade worries heighten



Source: Statistics Canada.

MARKET FOCUS

U.S. protectionist sentiment is a risk for Canada

According to updated figures from Statistics Canada, the merchandise trade surplus rose to \$1.9 billion in January. Not surprisingly, the primary driver in Canada's current overall trade picture is the flow of goods and services that move between Canada and the United States. As can be seen in the accompanying graph, Canada's merchandise trade surplus with the U.S. declined significantly during the 2008-2009 financial crisis and had serious challenges recovering. The surplus averaged \$7.8 billion over the five-year period from 2003 to 2007. It took until August of 2021 for the surplus to move back to that level. In 2003, the U.S. accounted for 76.7% of Canada's total two-way trade. On the same basis, trade with China accounted for 2.1% of the total. By 2022 those figures had moved to 69.4% and 6.4%, respectively. Despite the increased reliance on trade with China, the U.S. remains Canada's largest

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trading partner. However, concerns still remain. U.S. President Joe Biden's recent State of the Union speech underscored what would be stronger "Buy American" rules for publicly funded projects. The goods targeted appeared to be lumber, metals, glass and fibre-optics. Trade negotiations will now be conducted against a backdrop of shifting energy policy and concerns over an uncertain security situation.

U.S. job market remains firm – for now

The U.S. Bureau of Labor Statistics reported that the unemployment rate edged up to 3.6% in February from the prior month's post-recession low of 3.4%. However, non-farm payrolls gains were reported as 311,000 during the month, which came on the back of a 504,000 advance in January. The 815,000 total is the strongest two-month gain since July and August 2022 (totalling 920,000) and comes against a backdrop of high numbers of job openings. Job openings stood at 10.8 million in January (the latest available data). At that level, the number of job openings exceeded the number of unemployed individuals by 5.1 million. This remains very close to the record 6.1 million gap recorded in March 2022, just as the U.S. Federal Reserve (the "Fed") began to raise interest rates. Following its latest monetary policy meeting, the Fed raised administered interest rates by another 25 basis points (a basis point is 1/100th of one per cent), moving the federal funds rate to the highest level since 2007. Only time will tell for the cumulative rate hikes to eventually translate into a weaker job market.

LONGER VIEW

The U.S. Federal Reserve has raised rates aggressively this year and that is expected to cool inflation. The side effect of this strategy is a slowing economy and rising unemployment. Until we know how bad these side effects will be, the markets will remain a "guessing game". Over the long term, we expect rates to average 2.25% to 2.5%. This means the 10-year bond at 3.7% yield today is oversold. Stocks will likely continue to benefit from low long-term interest rates and technology advancement. Economic cycles have been short and volatile as they are heavily influenced by dramatic policies. Therefore, investors should not be overly excited or concerned about what they see in the immediate term.

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