

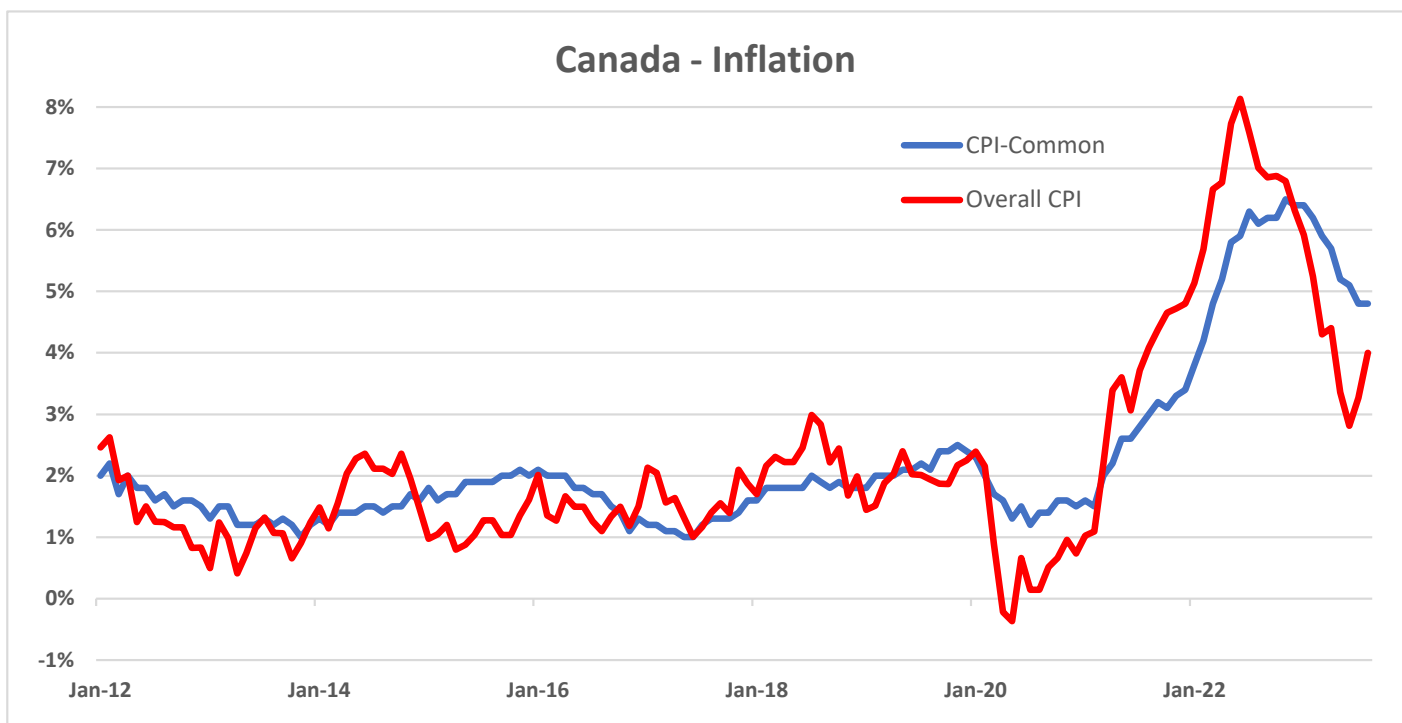
MONTHLY COMMENTARY

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Inflation resurfaces



Source: Statistics Canada

MARKET FOCUS

Bank of Canada's "sticky" inflation rises.

Update figures from Statistics Canada revealed that its Consumer Price Index (CPI) surged 0.6% (seasonally adjusted) in August following a similar 0.5% advance in July. As a result, the annual inflation rate, which had cooled to 2.8% in June, has now been pushed back up to 4.0%. As can be seen in the accompanying chart, this is well below the 8.1% peak figure recorded in June 2022 - the fastest pace since January 1983 (8.2%). However, this is still double the 2.0% center point of the Bank of Canada's 1% to 3%



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target band. At the same time, the Bank's primary **core** inflation measure, CPI common - which the central bank says is most closely correlated with the nation's output gap - appears to have stabilized, with 4.8% readings in both July and August. At its September policy window, the Bank of Canada stated that "The longer high inflation persists, the greater the risk that elevated inflation becomes entrenched, making it more difficult to restore price stability." The cumulative 4.75% increase in administered interest rates has pushed the official Bank Rate to 5.25%, the highest level since April 16, 2001. The next policy announcement is scheduled for October 25, 2023.

U.S. job market raises concerns.

The U.S. Bureau of Labor Statistics reported that the unemployment rate edged up again in September, moving to 3.8%. While this remains near historic lows, this is the highest figure seen since February 2022 (also 3.8%). Meanwhile, non-farm payrolls gains were reported at 187,000 during the month, which came on the back of a 157,000 advance in August and a 105,000 gain in July. Taken together, this is the weakest three-month job gain since April to June 2020, at the earliest stages of the pandemic recovery. Other figures also revealed hints of a softening job market. The number of unemployed workers rose to 6.4 million, marking the highest level since January 2022, while average hourly earnings, fell to 4.3%, down from a peak of 5.9% annual growth in March 2022. In a related report the number of job openings stood at 8.8 million in August, the lowest level since March 2021 (8.4 million). Future data releases will be very closely monitored as it now appears that higher interest rates are influencing the U.S. labour market.

LONGER VIEW

The Federal Reserve has raised rates aggressively this year and last year; we have seen inflation cooling. However, these measures may inadvertently slow economic growth and increase unemployment. Until the extent of these side effects becomes clear, the markets will remain a "guessing game." Over the long term, we expect rates to average 3.70%-4.40%. This means the 10-year bond at over 4% yield today is oversold. Stocks are poised 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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