THE PLAYBOOK

CI ASSANTE WEALTH MANAGEMENT

MONTHLY COMMENTARY

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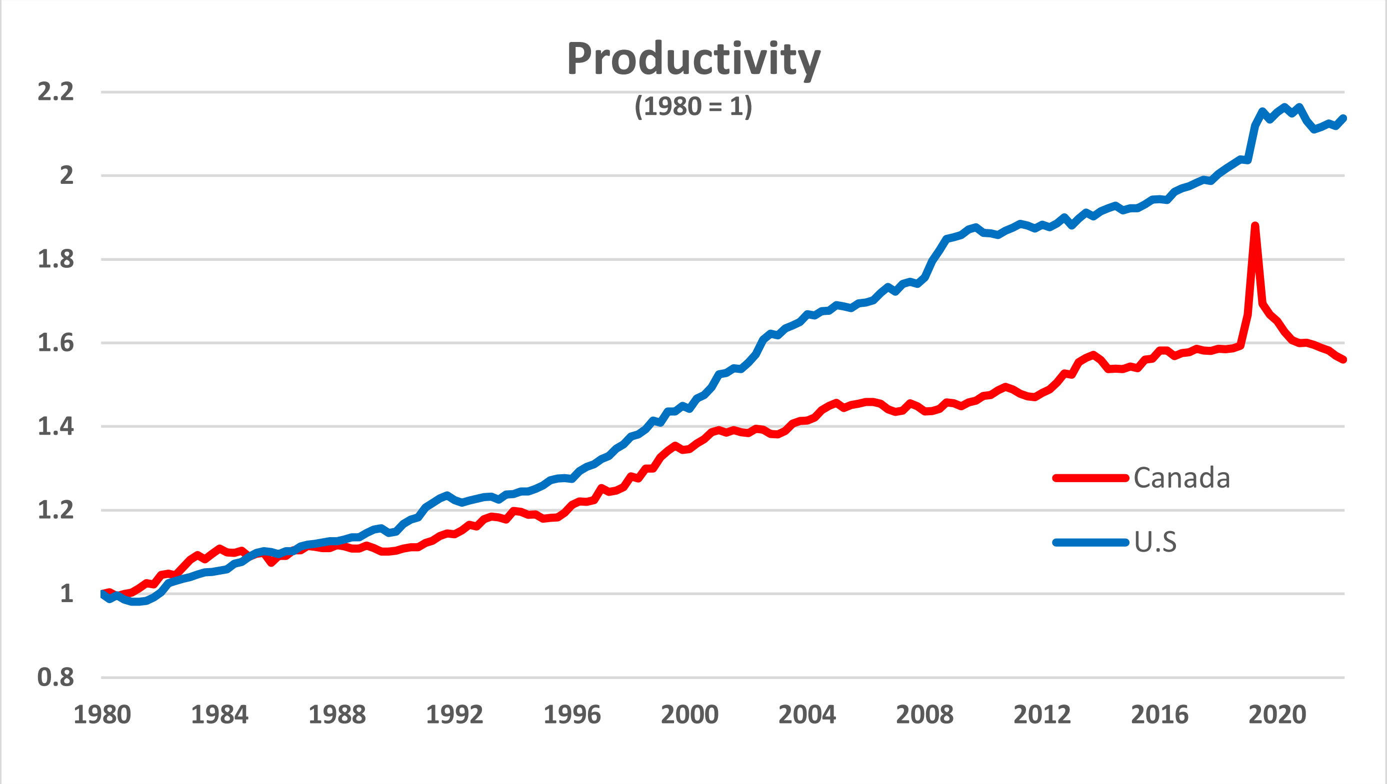
Canadian productivity weakens further.



Source: Statistics Canada

MARKET FOCUS

Poor productivity challenges economic growth.

Statistics Canada reported that labour productivity of Canadian businesses contracted 0.6% in the second quarter of 2023. As can be seen in the accompanying graph, after the data anomalies brought on by the pandemic, this is now the fifth consecutive

quarterly decline in labour productivity. In fact, there have been 11 declines over the last 13 quarters and productivity is now at its lowest level since the third quarter of 2015. Relative to the U.S., Canada's performance has been even more disappointing. In a speech delivered to the Canadian Chamber of Commerce Canada 360 Summit in 2022, Bank of Canada Governor Tiff Macklem spoke specifically to this issue. "Productivity growth is vital to non-inflationary growth and rising standards of living. At a time when inflation is already well above our target, this is more vital than ever."[1] Not surprisingly, a similar string of weak business investments has accompanied the poor productivity results. The entrenchment of the higher interest rate environment can be expected to further dampen investment moving forward.

U.S. Fed moves to on hold.

Following its two-day monetary policy meeting in September, the U.S. Federal Reserve (Fed) left administered interest unchanged. This left the target for the federal funds rate in a range of 5.25% to 5.50%, after a cumulative rate hike of 525 basis points (a basis point is 1/100th of one per cent). The rate increases seen since March 16, 2022, are now the largest move since interest rates on federal funds rose 1,525 basis points from 4.75% in November 1977 to 20.00% in May 1981. The last time the federal funds rate was 5.50% was on March 19, 2001. Importantly, in the materials that accompanied the announcement, the first projections for 2026 were provided. The "dot-plots" suggest that the mid-point of the federal funds target rate is expected to fall to below 4% by the end of 2025 and below 3% by the end of 2026. This suggests that a subsequent Fed "on-hold" announcement, while not certain, appears likely. The next Fed policy meeting is scheduled for October 31 and November 1.

LONGER VIEW

The long term can be both certain and uncertain. Over the text ten years, the Canadian Government will continue to collect income and sales tax and use a good chunk of them to pay off interest and other expenditures. If you hold a ten-year government bond for ten years, it is likely that you will be paid an interest of 4.16% annually (based on the current market yield), and you will get your principal amount back at the end of the term. Earning 4.16% is a dream considering that we have not seen this level of interest in a while, and the new generation has never seen it before. Inflation brings uncertainty in the near term, and this will dictate whether the dream of 4.16% will become a reality. Stocks are different. The near term can be uncertain as it is influenced by investor behaviour, cyclical earnings, and policies. Over the long term, we are almost certain that technology will continue to thrive and impact our lives. Some companies may eat the "lunch" of others. Apple Inc. for example, replaced their camera and improved other aspects of their iPhone's like the calculator, phone, and notebook. With new updates made to the Apple Watch, you can even surf the internet and shop online. When corporate CEOs are looking and building their business's forward, investors have to be aligned and forward-looking when assessing opportunities.

[1] Bank of Canada Governor Tiff Macklem Canadian Chamber of Commerce Canada 360 Summit – February 9, 2022.

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

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