

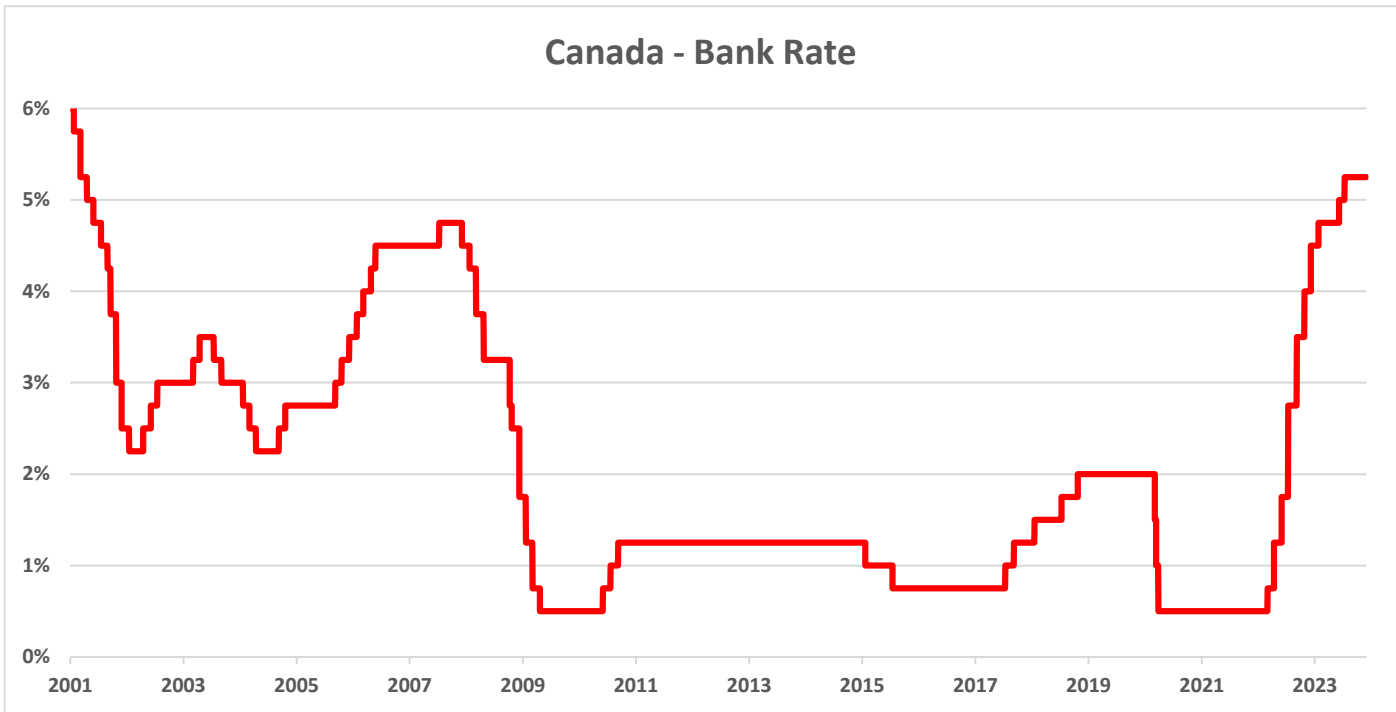
MONTHLY COMMENTARY

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Alfred Lam, MBA, CFA
Senior Vice-President, Co-Head of Multi-Asset
CI GAM Portfolio Management

Richard J. Wylie, MA, CFA
Vice-President, Investment Strategy
CI Assante Wealth Management

What will happen to interest rates in 2024?



Source: Bank of Canada

MARKET FOCUS

Bank of Canada extends “pause”

As can be seen in the graph above, the Bank of Canada has now held administered interest rates steady since its July policy announcement. The range for overnight borrowing was then set at 5.00% to 5.25%, with the official Bank Rate at 5.25%. The cumulative 475 basis points of tightening that began in March 2022 is 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). How long these higher interest rates persist will depend upon a number of factors. However, as the Bank moves to regain the credibility lost in recent years, inflation will likely be their primary focus.



THE PLAYBOOK



Importantly, the October 25 release of the Bank's latest Monetary Policy Report disclosed that slower economic growth and higher inflation are anticipated for 2023 and 2024. The Bank now forecasts GDP growth of 1.2% for 2023 (from 1.8% in the July forecast) and 0.9% for 2024 (from 1.2% in the July forecast). Similarly, the CPI forecasts are now: 3.9% for 2023 (3.7%) and 3.0% for 2024 (2.5%). "CPI inflation is expected to average about 3½% through the middle of next year before gradually easing to 2% in 2025. Inflation returns to target about the same time as in the July projection, but the near-term path is higher because of energy prices and ongoing persistence in core inflation." The latest figures from Statistics Canada revealed that its consumer price index fell 0.1% (seasonally adjusted) in October. On a year-over-year basis, the CPI was up 3.1%, which is down from the 8.1% peak figure recorded in June 2022 but remained above their nominal 2% target for the 31st consecutive month. The Bank of Canada's final policy announcement window for the year is scheduled for December 6, 2023.

U.S. Fed on hold

The U.S. Bureau of Labor Statistics reported that the consumer price index was unchanged (seasonally adjusted basis) in October, following a 0.4% increase in September. Over the preceding 12 months, the overall index had risen 3.2%. This is well off the 9.1% high announced for June 2022—the fastest pace since November 1981 (9.6%). The report also revealed that core inflation (CPI ex food and energy) had slowed down to 4.0% (y/y) in October. In either case, inflation has moderated but remains above the Federal Reserve's 2.0% target. These figures continue to show elevated, but easing, price pressures within the U.S. economy. As in Canada, the U.S. market's focus remains squarely on the Fed's next policy meeting, scheduled for December 12 and 13.

LONGER VIEW

The long term can be both certain and uncertain. Over the next 10 years, the Canadian government will continue to collect income and sales tax and use a good chunk of that revenue to pay off interest and other expenditures. If you hold a 10-year government bond for 10 years, it is likely that you will be paid interest of approximately 4% annually (based on the current market yield), and you will get your principal amount back at the end of the term. Earning 4% 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% 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 iPhones 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 to build and advance their businesses forward, investors must be aligned and forward-looking when assessing opportunities.

THE PLAYBOOK



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