Monthly Market Commentary
October 2022

Equities climb as the globe spins into a new season.

- Equities rallied in October around most of the globe, with a sizeable gain for developed-market shares and a loss for emerging markets.
- Fixed-income asset classes remained under pressure during the month as interest rates continued to rise (yields and prices have an inverse relationship).
- A global recession is on the horizon, with Europe and the U.K. more vulnerable to a downturn than the U.S. or Canada in the months immediately ahead.

Economic Backdrop

Equities around most of the globe moved higher in October after hitting a fresh bear-market bottom in the first half of the month on a selloff that began in August. The rally was uneven, with a sizeable gain for developed-market shares and a loss for emerging markets due to an abysmal performance by mainland Chinese equities.

Eastern European stocks outpaced other regions for the month, while Latin American equities also performed well. U.S. equities edged out Europe as a whole with a large advance; Europe, in turn, was followed by the U.K. and then Japan at a distance. Hong Kong shares tumbled by double digits, but not as deeply as they did in mainland China.

U.S. Treasury yields climbed across the entire curve, most markedly at the short end, lengthening an inversion. Gilt yields declined sharply at shorter maturities and were slightly higher at the long end during October, flattening what had become an inverted curve. Eurozone government-bond rates increased across all maturities through about 25 years and declined thereafter.

Fixed-income asset classes remained under pressure in the month as rates continued to rise (yields and prices have an inverse relationship). U.S. high-yield bonds benefited as risk assets rallied, while the most rate-sensitive areas of the market—mortgage-backed securities, U.S. Treasurys, and investment-grade corporates—delivered sizeable losses.

Commodity prices were mixed during October. Brent and West-Texas Intermediate crude oil spot prices climbed by 9.01% and 8.86%, respectively, while natural gas prices slid by 2.36%. Wheat prices finished only 4.26% lower for the full month despite having plummeted by more than 10% late in the period; the recovery—driven by Russia's threat to back out of a Ukrainian grain-shipping deal—proved brief as prices tumbled back again at the beginning of November.

Liz Truss resigned as U.K. prime minister in late October after the disastrous reception of her fiscal program sent gilt and sterling markets reeling, collapsing her support within the Conservative Party. Her departure cleared the way for Rishi Sunak, who ascended as Conservative leader and prime minister near the end of the month.

In China, Xi Jinping began his third five-year term as general secretary of the Communist Party in late October—breaking precedent for 10-year term limits and neglecting to name a clear successor to the Politburo Standing Committee. Xi's retention of the Party leadership ensures he will continue to serve as president of the People's Republic of China for another five years.

Russia resumed mass bombardment of Ukraine with missiles and drones in October as gains from Ukraine's counteroffensive mounted along its southern and eastern fronts. Ukraine claimed that the attacks, which appeared to target electricity infrastructure, took out roughly one-third of the country's power stations and led to rolling blackouts.

Central Banks

- The Bank of Canada (BoC) raised the policy interest rate by a smaller-than-expected 0.50%, to 3.75%, on October 26. This was the sixth consecutive rate hike, bringing the cumulative increase for 2022 to 3.50%. The BoC's Governing Council noted that headline inflation remained robust due to a number of issues including continued recovery from the pandemic, high commodity prices (especially for energy), war in Ukraine, tight labour markets, and a strong U.S. dollar. Still, the council noted that some of the more interest-rate-sensitive areas of the economy, such as housing, household spending, and business spending, were easing.

- The Federal Open Market Committee (FOMC) increased the federal-funds rate by 0.75% at the beginning of November—the fourth consecutive increase of its size—making the target range 3.75% to 4.00%. The central bank also settled into an accelerated pace of balance-sheet reduction starting in September, allowing Treasury and mortgage holdings to mature without being replaced at maximum respective monthly paces of $60 billion and $35 billion.

- The Bank of England's (BOE) Monetary Policy Committee did not meet in October after hiking its benchmark rate by 0.50% in both August and September, bringing the bank rate to 2.25%. In late September, the BOE announced a temporary bond-buying program to help ease concerns about financial stability as long-term rates skyrocketed in response to the new government's mini-budget.

- The European Central Bank (ECB) increased all three of its benchmark rates by 0.75% each at its late-October meeting, its second straight hike of that magnitude. The central bank also announced in late October that the applicable rates for its third targeted longer-term refinancing operation, or TLTRO III, would align with its deposit facility rate beginning November 23. The lending facility was originally established to foster credit availability but has essentially enabled bank subsidies as interest rates have risen, prompting the ECB's action.

- The Bank of Japan's (BOJ) short-term interest rate remained -0.1%, and the 10-year Japanese government-bond (JGB) yield target held near 0% at the central bank's late-October meeting. The BOJ continued to offer purchases of 10-year JGBs at 0.25% in order to keep yields within its acceptable range. In September, the central bank was compelled to intervene in currency markets for the first time since 1998 to limit the yen's slide.

Economic Data (unless otherwise noted, data sourced to Bloomberg)

- According to Statistics Canada, the rate of inflation decelerated (as measured by the change in the Consumer Price Index (CPI)) to 0.1% for September, and 6.9% for the one-year period. Gasoline prices continued to fall, although inflation otherwise remained relatively broad based and above the BoC's target range. Producer prices continued to ease in September, but were still notably elevated from a year ago. The Industrial Product Price Index (IPPI) was up 0.1% in September, while the Raw Materials Price Index (RMPI) fell 3.2%. On a year-over-year basis, the IPPI climbed 9.0% and the RMPI rose 11.0%. Prices for petroleum and crude energy product were generally lower. The labour market added 108,000 jobs in October, while the unemployment rate was unchanged at 5.2%.

- The U.S. Commerce Department's personal-consumption expenditures price index (PCE), which is the Federal Reserve's (Fed) preferred inflation measure, held at 0.3% in September and 6.2% year over year. Manufacturing growth in the U.S. held near a standstill during October as a slowdown in new orders eased while headcount reduction came to a halt. U.S. services activity remained volatile, contracting in October after recovering to a near-breakeven pace in the prior month. Job openings rose from 10.28 million in August to 10.72 million in September. The number of unemployed Americans measured 5.75 million in September, meaning there were about 1.9 jobs available for every jobseeker. The overall U.S. economy grew at a 2.6% annualized rate during the third quarter after contracting by an annualized 0.6% in the second quarter.

- Consumer prices in the U.K. increased by 0.5% during September and 10.1% over the prior year—setting a new 40-year high for the year-over-year inflation rate. U.K. manufacturing activity contracted for a third straight month in October after growth began to slow in May. Activity in the U.K. services sector began to contract in October after expanding at a modest-but-healthy pace through the summer and levelling off in September. The UK's claimant count (which calculates the number of people claiming Jobseeker's Allowance) increased in September—by about 25,500—after breaking a 17-month streak of declines in August. Total claimants held firm at 3.9% of the population.

- Eurozone consumer prices increased by 1.5% in October and 10.7% over the prior year—the highest year-over-year inflation figure since Eurostat began tracking data in 1997. A contraction in eurozone manufacturing activity that began in July deepened in October. Eurozone services activity declined further in October after entering contraction territory in the prior month. Eurozone economic growth slowed in the third quarter to 0.2% from 0.7% in the second quarter and to 2.4% from 4.3% in the year over year.

Market Impact (Referenced Index Returns are in CAD)

Global developed equity markets were led higher by the U.S., Europe, and Canada. Domestic gains were strong, as energy and information technology set the pace, while utilities and materials lagged. Canadian large companies performed notably better than smaller companies. Meanwhile, emerging markets fell sharply as China staggered to significant losses.

Fixed-income markets remained severely hampered by central bank rate hikes and quantitative tightening policies. Corporate bonds modestly outperformed government debt. Real-return bonds notched gains, while shorter term securities began to see benefits from higher rates. Riskier U.S. high-yield bonds were up with other risk assets and energy prices.

Index Data (October 2022)
- The S&P/TSX Composite Index was up 5.57%.
- The FTSE Canada Universe Bond Index returned -1.00%.
- The S&P 500 Index, which measures U.S. equities, gained 7.31%.
- The MSCI ACWI (Net) Index, used to gauge global equity performance, rose 5.26%.
- The ICE BofA U.S. High Yield Constrained Index, representing U.S. high-yield bond markets, returned 2.83% (currency hedged) and 2.10% (unhedged).
- The Chicago Board Options Exchange Volatility Index—a measure of implied volatility in the S&P 500 Index that is also known as the "fear index"—decreased from 31.62 to 25.88.
- WTI Cushing crude oil prices—a key indicator of movements in the oil market—moved higher from US$79.49 to US$86.53 a barrel to end October.
- The Canadian dollar strengthened slightly to C$1.36 per U.S. dollar. The U.S. dollar was mixed versus the world's other major currencies; it ended October at US$0.98 versus the euro, US$1.15 against sterling and at 148.64 yen.

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