Monthly Market Commentary
November 2023

Investors look to central banks to pilot a soft landing.

- Global equity markets finished in positive territory in November, with Canada among the market leaders. Signs of slowing inflation spurred investors' hopes that central banks—particularly the Federal Reserve (Fed) and Bank of Canada (BoC)—won't need to raise interest rates further.
- Global fixed-income assets posted significant gains for the month. U.S. Treasury yields moved lower for all maturities of three months or longer (bond prices move inversely to yields), with Canadian bonds largely following suit.
- SEI believes that the Fed will keep the federal-funds rate at its current range of 5.25%-5.50% through the first half of 2024. We have similar expectations for the BoC to hold its overnight policy rate at 5.00%.

Economic Backdrop

Global equity markets rallied sharply in November. Signs of slowing inflation in the U.S. and Canada spurred investors' optimism that the Fed and BoC won't need to raise interest rates further and that these economies could be primed for a "soft landing," in which growth and inflation slow but the economy does not enter a recession. Developed markets outperformed their emerging-market counterparts for the month.

The Nordic countries were the strongest performers among developed markets in November, led by Sweden. The Pacific ex Japan region was the primary market laggard due mainly to underperformance in Singapore and Hong Kong. Latin America posted a double-digit gain and was the top-performing region within the emerging markets during the month due primarily to strength in Brazil. In contrast, the Gulf Cooperation Council (GCC) countries—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates—saw a less significant upturn and comprised the weakest-performing emerging-market region during the month.

Global fixed-income assets, as represented by the Bloomberg Global Aggregate Bond Index, gained 5.0% in November. Corporate bonds were the top performers within the U.S. market for the month, while U.S. Treasury securities saw relatively smaller gains and were the most notable market laggards. Treasury yields moved lower for all maturities of three months or longer. Yields on 2-, 3-, 5- and 10-year Treasury notes decreased 0.34%, 0.42%, and 0.51%, respectively, over the month. The spread between 10- and 2-year notes moved from –0.19% to –0.36% during the month, further inverting the yield curve. Canadian bonds largely followed suit.

The minutes of the Fed's October 31-November 1 meeting indicated that the central bank most likely will maintain the federal-funds rate at the current range of 5.25% to 5.50% in the near term. The Federal Open Market Committee (FOMC) meeting participants agreed that they were "in a position to proceed carefully and that policy decisions at every meeting would continue to be based on the totality of incoming information and its implications for the economic outlook as well as the balance of risks." However, the FOMC members acknowledged that "further tightening of monetary policy would be appropriate if incoming information indicated that progress toward the Committee's inflation objective was insufficient." The FOMC also noted that "data arriving in coming months would help clarify the extent to which the disinflation process was continuing, aggregate demand was moderating in the face of tighter financial and credit conditions, and labour markets were reaching a better balance between demand and supply."

On the geopolitical front, a one-week ceasefire in the military conflict between Israel and Hamas expired on November 30, after the two sides could not reach an agreement on an extension. The truce had led to several hostage and prisoner exchanges between Israel and Hamas. Each side blamed the other for the failure to extend the ceasefire, and fighting resumed following the expiration of the truce. Elsewhere, President Joe Biden and China's President Xi Jinping met in California on November 15. The leaders of the world's two largest economies agreed to resume military communications in an effort to improve relations between the countries amid speculation about China's intention to invade Taiwan, as well as the Xi administration's support of Russia in its ongoing conflict with Ukraine. At a news conference following the meeting, Biden noted that he and Xi had agreed that if there were concerns about "anything between our nations, or happening in our region, we should pick up the phone and call."

Global commodity prices, as measured by the Bloomberg Commodity Total Return Index, declined in November. The West Texas Intermediate (WTI) and Brent crude oil prices fell 6.2% and 4.9%, respectively, due to a significant increase in production in the U.S. and weakening global demand, particularly from China. The New York Mercantile Exchange (NYMEX) natural gas price tumbled 27% over the month due to an increase in inventories and forecasts for above-average winter temperatures in the U.S. On the positive side, the gold spot price rose 3.2% in November, bolstered by a decline in U.S. Treasury yields, as well as higher demand spurred by investors' hopes that the Fed may begin to ease monetary policy sooner than previously anticipated. Wheat prices were up 7.5% in November attributable to a reduction in exports from Ukraine, along with a delayed harvest in France due to above-average rainfall.

Central Banks

- As was widely expected, the Bank of Canada (BoC) held its overnight interest rate steady at 5.00% and continued its policy of quantitative tightening following its December 6 meeting. The BoC stated that higher interest rates have slowed the global economy, although it observed that robust consumer spending had driven stronger-than-expected growth in the U.S., while Canadian economic growth slowed to just 1.1% during the third quarter. Inflation has continued to moderate with lower oil prices noted as a significant factor. Also of note, financial conditions for Canadians eased as long-term interest rates retraced some of the sharp move higher while the U.S. dollar weakened recently. The next BoC meeting is scheduled for January 24, 2024.

- During a speech in early November at the Jacques Polak Annual Research Conference in Washington, D.C., hosted by the International Monetary Fund, Fed Chair Jerome Powell noted that, while inflation is slowing, it remains above the central bank's 2% target rate. Powell said that the Federal Open Market Committee (FOMC) members are "gratified by this progress but expect that the process of getting inflation sustainably down to 2 percent has a long way to go. The labour market remains tight, although improvements in labour supply and a gradual easing in demand continue to move it into better balance." Powell also commented that the FOMC is "committed to achieving a stance of monetary policy that is sufficiently restrictive to bring inflation down to 2 percent over time; we are not confident that we have achieved such a stance." As widely expected, the Fed maintained the federal-funds rate in a range of 5.25% to 5.50% following its meeting on October 31-November 1. The next Fed meeting will be held on December 12-13.

- In an interview with Daily Focus, a UK-based news service, Bank of England (BOE) Governor Andrew Bailey said that the central bank is "getting our sleeves rolled up and tackling the issues we face. We've got to get on and bring inflation down to our target of 2 percent. That is the best thing we can do for growth in the economy—and we will do it." Noting that the 4.6% annual increase in the CPI in October was well below the peak of 11.1% a year earlier, Bailey commented that "2 percent is our target and we will do what it takes to get there." He also cautioned that the BOE is *"not in a place now where we can discuss cutting interest rates—that is not happening. We need to see how the final part of the journey down to 2 percent inflation plays out; we have not seen enough of that journey yet to be confident."* In a split 6-3 vote at its meeting in early November, the Bank of England (BOE) left the Bank Rate unchanged at a 15-year high of 5.25%. Three BOE Monetary Policy Committee members supported a 25-basis point increase.

- During a speech at the European Parliament's Committee on Economic and Monetary Affairs in Berlin, Germany, on November 21, European Central Bank (ECB) President Christine Lagarde cautioned that, despite larger-than-expected declines in the eurozone's inflation rate over the past several months, it remains above the central bank's 2% target. Lagarde commented, "This is not the time to start declaring victory. We need to remain focused on bringing inflation back to our target, and not rush to premature conclusions based on short-term developments. We will need to remain attentive until we have firm evidence that the conditions are in place for inflation to return sustainably to our goal." The ECB left its benchmark interest rate unchanged at 4.50% following its meeting on October 26, and its next meeting is scheduled for December 14.

- The Bank of Japan's (BOJ) "Summary of Opinions at the Monetary Policy Meeting" (held on October 30-31) revealed that several members recommended a gradual reduction of monetary economic stimulus amid signs of higher inflation and wage growth. As noted in the summary, "Although the year-on-year rate of increase in the consumer price index has started to decelerate, this has been more moderate than projected, since a pass-through of cost increases to selling prices has spread among firms to a greater extent than expected." In an appearance before Japan's Parliament on November 9, BOJ Governor Kazuo Ueda said, "We expect trend inflation to gradually approach 2%. But we'd like to wait until we have more conviction that sustained achievement of our price target comes into sight. Until then, we will maintain negative interest rates and the yield curve control framework." The BOJ left its benchmark interest rate unchanged at -0.1% following its meeting on October 30-31, and will meet again on December 18-19.

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

- According to Statistics Canada, consumer prices (as measured by the change in the Consumer Price Index (CPI)) rose a modest 0.1% for October, while the year-over-year increase slowed to 3.1%. The deceleration in the 12-month CPI was broad-based as price increases for durable goods and gasoline eased. Although price increases for groceries also decelerated, the level inflation remains notably elevated. Meanwhile, producer prices declined as the Industrial Product Price Index (IPPI) and Raw Materials Price Index (RMPI) slid 1.0% and 2.5%, respectively, in October. Year-over-year prices declined 2.7% for both the IPPI and RMPI. The Canadian economy added just 25,000 jobs in November, as the unemployment rate ticked higher by 0.1% to 5.8%.

- The Department of Labor reported that the U.S. consumer-price index (CPI) was flat in October after rising 0.4% in September. The CPI advanced at a lower-than-expected rate of 3.2% compared to the same period a year earlier—down sharply from the 3.7% annual rise in September. Core inflation, as measured by the CPI for all items less food and energy, posted a 12-month increase of 4.0%—the smallest year-over-year advance since September 2021. Core inflation rose 0.2% in October versus 0.3% during the previous month. Housing costs comprised the bulk of October's rise in CPI, offsetting lower gasoline prices. Food costs rose 0.3% and 3.3% during the month and over the same period in 2022, respectively. According to the second estimate of the Department of Commerce, U.S. gross domestic product (GDP) grew at an annualized rate of 5.2% in the third quarter of 2023, up from the initial estimate of 4.9%, and sharply higher than the 2.1% year-over-year rise in the second quarter. GDP has increased for five consecutive quarters following declines in the first two quarters of 2022. The largest contributors to economic growth in the third quarter were consumer spending, private inventory investment (a measure of the changes in values of inventories from one time period to the next), and exports. These gains offset an increase in imports, which are a subtraction in the calculation of GDP.

- The Office for National Statistics (ONS) reported that consumer prices in the U.K., as measured by the Consumer Prices Index (CPI), were unchanged in October, down sharply from the 0.5% increase in September. The CPI rose 4.6% year-over-year, significantly lower than the 6.7% annual upturn in September. The largest contributors to the 12-month rise in inflation included alcoholic beverages and tobacco, as well as food and non-alcoholic beverages. These more than offset a decline in prices for electricity, gas and other fuels. Core inflation, which excludes volatile food prices, rose at an annual rate of 5.7% in October, down from the 6.1% year-over-year increase in September. The ONS also announced that U.K. GDP was flat in the third quarter of 2023, following an increase of 0.2% in the second quarter, and rose 0.6% versus the same period in 2022. Production output was unchanged during the quarter, compared to the 1.2% upturn during the previous quarter. The services sector saw an upturn of 0.4% in August, versus a 0.5% decrease during the second quarter. Output in the construction sector ticked up 0.1% in the third quarter, compared to the 0.3% growth rate over the previous three-month period.

- Eurostat pegged the inflation rate for the eurozone at 2.4% for the 12-month period ending in November, down from the 2.9% annual increase in October. Prices for food, alcohol and tobacco rose 6.9% in November, but the pace of acceleration slowed from the 7.4% annual rate for the previous month. Costs for services and non-energy industrial goods rose 4.0% and 2.9%, respectively, over the previous 12 months. Conversely, energy prices fell 11.5% year-over-year, following an 11.1% decline in October. Core inflation, which excludes volatile energy and food prices, rose at an annual rate of 3.6% in November, down 0.6 percentage point from the previous month. According to Eurostat's initial estimate, eurozone GDP decreased 0.1% in the third quarter of 2023, a modest downturn from 0.2% growth rate in the second quarter, and posted a slight uptick of 0.1% year-over-year. The economies of Poland and Cyprus were the strongest performers for the third quarter, expanding 1.4% and 1.1%, respectively. GDP for Ireland fell 1.8% and Finland's economy contracted by 0.9% during the period.

Index Data (November 2023)

- The S&P/TSX Composite Index jumped 7.48%.
- The FTSE Canada Universe Bond Index returned 4.29%.
- The S&P 500 Index, which measures the performance of U.S. equities, rose 6.59%.
- The MSCI ACWI (Net) Index, used to gauge global equity performance, gained 6.68%.
- The ICE BofA U.S. High Yield Constrained Index, representing U.S. high-yield bond markets, returned 4.42% (currency hedged) and 2.12% (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"—was moderately higher, as it moved from 18.14 to 12.92.
- The WTI Cushing crude oil price—a key indicator of movements in the oil market—slumped from US$81.02 to US$75.96 a barrel to end November.
- The Canadian dollar strengthened to C$1.36 per U.S. dollar. The U.S. dollar was weaker against the world's other major currencies, ending November at US$1.09 versus the euro, US$1.27 against sterling, and at 147.84 yen.

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