

Views From the Frontline

November 20, 2023

	Price	Quarter-to-Date Change	Year-to-Date Change
S&P 500	4,514	5.5%	19.3%
S&P/TSX Composite	20,176	3.6%	7.1%
EAFE	2,101	3.6%	11.6%
Volatility (VIX)	13.8	-3.7	-7.9

Equity markets have rallied as of late, more than offsetting the weakness witnessed in October as lower-than-expected inflation data boosted risk sentiment.

U.S. equities regained favour recently, outperforming Canadian and International markets with falling bond yields boosting interest rate-sensitive growth areas of the market. As such, mega-cap growth stocks have outperformed the broader index month-to-date. Within Canada, the financials sector has rebounded off of October lows as optimism surrounding an economic soft landing benefited from speculation that the Bank of Canada will halt future rate hikes. Oppositely, the energy sector – which supported the Canadian market throughout October – has lost momentum in November with oil prices falling despite ongoing geopolitical risks in the Middle East. Implied volatility – as measured by the VIX – has declined recently, falling back near July levels.

Nominal interest rates declined during the last two weeks against the backdrop of slower US inflation data for October and a jobs market that seems to be losing steam. Both indicators

	Yield	Quarter-to-Date Change	Year-to-Date Change
US 10 Year	4.44%	-14 bps	56 bps
Canada 10 Year	3.68%	-35 bps	38 bps
Volatility (MOVE)	113.1	-0.4	-8.5

cemented the view that the Bank of Canada and the US Federal Reserve are likely at the end of their interest rate hiking cycle.

	Quarter-to-Date Change	Year-to-Date Change
Canada Aggregate Bond	3.3%	1.4%
US Aggregate Bond	1.9%	0.8%
US High Yield Bond	2.5%	6.7%

Returns are calculated based on representative ETFs

Yields on corporate bonds were lower over the past two weeks, which was due to both a decrease in interest rates and a decrease in the risk premium for owning corporate bonds versus government bonds. The risk-on tone to the market was driven by optimism that interest rates have peaked. The primary market has been active as issuers took advantage of lower interest rates to issue fresh bonds. Issuers included Canadian Tire REIT, Saputo, Suncor, and Ford, among others.

Market Drivers



*Market driver size implies significance of developments, subjectively ranked given internal opinions.

Central Banks – Neutral

Although softening inflation data provided an encouraging indication that hawkish monetary policy is proving effective, Federal Reserve officials refused to rule out the possibility of another interest rate hike. Still, the deceleration was cheered by the market with participants boosting speculation of rate cuts next year.

Earnings – Neutral

Although U.S. earnings have continued to contract on a year-over-year basis, companies surpassed expectations with earnings remaining supported by stable operating margins. That said, more companies are revising forecasts downward than previous quarters with large retailers like Walmart issuing cautious outlooks on consumer strength heading into the holiday season.

Inflation – Positive

US inflation slowed by more than expected to 3.2% (year-over-year) in October as core services and energy costs eased. The print boosted speculation of peaking interest rates and therefore, risk-assets rallied higher.

China – Neutral

U.S.-Chinese relations appeared to have improved recently with President Biden and President Xi meeting in person last week. While bilateral trade tensions were not mentioned and no formal agreements were introduced, both parties agreed the meeting was constructive toward improving cooperation and stabilizing affairs.

Geopolitics – Negative

While war between Israel and Hamas militants wages on, investor sentiment has begun to shift with risk-assets regaining favour and oil prices easing. That said, concerns of a reescalation and the possibility of the war widening into a larger regional conflict presents a headwind for investors.

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