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October 2021 market update

Canadian employment recovered while continued shortages and supply chain woes constrained the global economic recovery.

Nov. 5, 2021

Introduction

Economic activity during the month of October was hindered by global supply issues and the COVID-19 Delta variant. Inflation remained elevated, prompting some global central banks to acknowledge higher inflation may persist into 2022. As reported in October, economic growth in the U.S. and China slowed in the third quarter, while growth in Europe was largely unchanged from the previous quarter.

Equity markets moved higher over October. Investors brushed aside concerns about inflation and potentially weak economic growth, and instead focused relatively strong financial results. In Canada, the S&P/TSX Composite Index advanced to a new record. Energy and Industrials were the top performing sectors over the month. U.S. equity markets also advanced. The S&P 500 Index, Dow Jones Industrial Average and NASDAQ Composite Index all reached record highs during October. Yields on 10-year government bonds in Canada finished higher, while yields on 10-year U.S. Treasury Bonds finished flat.

Recovery in employment levels

The Canadian labour market continued its recovery. The unemployment rate fell to 6.9% in September, from 7.1% in the previous month. This was the lowest jobless rate since the onset of the pandemic. The economy added 157,000 jobs during the month, mostly in full-time work. A high number of job gains occurred in public administration as well as information, culture and administration. This pushed the number of employed persons to 19.1 million in September, which was similar to pre-pandemic levels. The labour force participation rate also ticked higher in September, bringing it closer to levels seen before the pandemic and potentially providing some relief to labour shortages.

Inflation causing concern

Inflation has been a key risk to the global economy and financial markets in 2021. The potential for stagflation (an environment where high inflation persists alongside high unemployment and muted economic growth) also exists. In Canada, consumer prices rose 4.4% year-over-year in September, well beyond the Bank of Canada's ("BoC") control band. Gasoline and food are driving up prices. The BoC has taken note of the sustained inflationary pressures. In its October meeting, the BoC acknowledged higher inflation will likely persist into 2022 before easing closer to its 2% target by year-end. Largely in response, the BoC expects to raise its key interest rate sometime in the second or third quarters of 2022.

The story is much the same in the U.S. Global supply chain issues and product shortages have contributed to the surging inflation rate. U.S. Federal Reserve Board ("Fed") Chair Jerome Powell altered his stance on the timing of inflation easing, noting elevated inflation is likely to continue into next year. The Fed could scale back bond purchases this quarter, but an interest rate increase does not appear to be on the table just yet. Powell noted the Fed will use every tool available to combat an ongoing surge in inflation.

U.S. economic growth sees slowdown in Q3

The U.S. economy expanded by 2.0%, annualized, in the third quarter of 2021, according to an advanced estimate from the U.S. Bureau of Economic Analysis. The rate of expansion was a much slower pace than the 6.7% increase in the second quarter, and was the slowest pace of growth since the economy contracted in the second quarter of 2020. The spread of the COVID-19 Delta variant and supply challenges weighed on business activity. Consumer spending was a key contributor to growth during the quarter. However, the rate of growth of spending eased from the previous quarter given a pullback in purchases of motor vehicles and parts, mainly due to parts shortages. Weighing on growth was a decline in residential real estate investment and net exports. The Chicago Fed National Activity Index dropped into a negative reading in September, suggesting below trend growth to come. Still, economists are expecting pandemic-related challenges to moderate and the labour market to improve, which may help economic activity in the fourth quarter.

Shortages weighing on production, China's economy

China's gross domestic product expanded during the third quarter, but at its slowest pace in over a year. The economy grew 4.9% year-over-year, which was a significant slowdown from the 7.9% expansion posted in the second quarter. Contributing to growth was a rise in consumer spending. However, strong domestic demand was weighed down by property and industrial production. China's manufacturing sector, which is a key component of its economy, has stumbled in 2021, with activity falling into recessionary levels in August. One of the main detractors from the sector has been output, which is being impacted by supply chain issues, power shortages and the spread of the COVID-19 Delta variant. Rising input prices also weigh on the sector. Despite growth that is still relatively strong compared to other areas of the world, the significant slowdown in the world's second largest economy is a cause of concern to the rest of the global economy. It may even force the People's Bank of China to ease policy further to help the country meet its economic growth goals.

Market performance - as at October 31, 2021

Equity Markets	Level	Month to date	Year to date	One year
S&P/TSX Composite Index C$	21,037.07	4.82%	20.67%	35.02%
S&P 500 Index US$	4,605.38	6.91%	22.61%	40.84%
Dow Jones Industrial Average US$	35,819.56	5.84%	17.03%	35.16%
MSCI EAFE Index US$	2,335.53	2.38%	8.75%	31.20%
MSCI Emerging Markets Index US$	1,264.75	0.93%	-2.05%	14.62%

Fixed Income Markets	Level	Month to date	Year to date	One year
FTSE Canada Universe Bond Index C$	1,160.61	-1.05%	-4.96%	-3.64%
FTSE World Investment Grade Bond Index US$	245.68	-0.32%	-4.78%	-1.88%

Currencies	Level	Month to date	Year to date	One year
CAD/USD	0.8073	2.35%	2.72%	7.53%

Commodities	Level	Month to date	Year to date	One year
West Texas Intermediate (US$/bbl)	83.57	11.38%	72.24%	133.50%
Gold (US$/oz)	1,783.38	1.50%	-6.06%	-5.08%