November 2021 market update

Inflation continues to rise, but that hasn't stopped an early holiday rush.

Dec. 7, 2021

Introduction

Economic activity in November was relatively strong, with gains in the manufacturing and service sector, while global supply chain issues, raw material shortages and rising inflation weighed on expectations. With the strengthening economy and high inflation, the U.S. Federal Reserve Board ("Fed") announced that it would begin reducing its asset purchases at its November meeting. However, a new COVID-19 variant discovered late in the month has injected a new level of uncertainty into the economic outlook.

Governments reacted to the new Omicron variant by instituting new travel restrictions and halting travel to a number of countries. Markets, which were already weighing the impact of policy tightening by central banks and inflationary pressures, responded swiftly, erasing a rally that lasted through most of the month. In Canada, the S&P/TSX Composite Index posted a loss, dragged down by the Health Care and Energy sectors. The S&P 500 Index was pulled lower by the Energy sector. The NASDAQ Composite Index advanced, while the Dow Jones Industrial Average fell. Yields on 10-year government bonds in Canada and the U.S. both declined over the month.

Highest inflation rate since 2003

Consumer prices in Canada in October posted their sharpest pace of year-over-year growth since 2003. Statistics Canada reported Canada's inflation rate was 4.7% in October over the same month in the previous year. This was a sharper increase than the 4.4% rate in September. All eight major categories of consumer prices rose in October, with significant pressure coming from a rise in energy costs, followed by food and shelter prices. So far, rising prices haven't slowed the Canadian consumer, with retail sales projected to have increased in October. Still, the surge in consumer prices may at some point have a negative impact on spending, which may hinder the recovery.

Fed begins reducing asset purchases

Amid improving economic conditions and inflation rising, the Fed announced at its November meeting that it will start to reduce the pace of its bond purchases by US$15 billion per month, with the discretion to adjust that amount as needed. The Fed also left its target range for its federal funds rate unchanged at 0.00% to 0.25%. In comments following the meeting, Chair Jerome Powell reiterated the Fed's stance that elevated inflation is largely transitory, so it will take a patient approach towards raising its key policy rate. However, the minutes from the meeting showed some concern about inflation. Officials of the Fed believe if inflation remains high, the pace of tapering may need to speed up, while an interest rate increase may be warranted sooner rather than later. Late in the month at a hearing with the Senate Banking Committee, Chairman Powell indicated that bond purchases may need to end ahead of its current plans in response to high inflation and the strengthening U.S. economy. He also noted use of the term 'transitory' as it relates to inflation may need to end amid its persistently high level. This suggested an interest rate increase may occur earlier than expected in 2022. While easing lockdown restrictions and the vaccination program are helping improve economic conditions, risks from the pandemic remain and must be closely monitored.

In November, U.S. President Joe Biden nominated Jerome Powell for a second term as Fed Chair, and Lael Brainard as the Vice Chair. The nominations now head to the Senate for confirmation.

Early holiday shopping boosts spending

For a third straight month, retail sales in the U.S. climbed in October, rising 1.7%. This was the highest monthly rate of growth since March 2021. Spending was boosted by more people starting their holiday shopping early amid widespread concerns about store inventories due to persistent global shipping delays. Additionally, a higher savings rate combined with rising wages helped contribute to the strong increase. In October, sales increased for gasoline, electronics and appliances stores, and automotive dealers. This increase in sales came despite rising consumer prices, with the personal consumption expenditure price gauge rising by 0.6% in October (5.0% year-over-year). While rising inflation is starting to weigh on consumer sentiment, the U.S. consumer continues to lift economic activity. The Fed will carefully assess the health of the consumer to determine if it can accelerate its planned rate increase to help tame inflation.

COVID-19 spreading in Europe

An alarming uptick in the number of cases of COVID-19 raised concerns about the potential for further lockdowns and potentially causing a disruption to the European economic recovery. Austria, Germany and Slovakia, among other nations, have all seen higher cases. In response, Austria implemented a nationwide lockdown. The World Health Organization (“WHO”) Regional Director Hans Kluge noted the spread is being caused by the winter season, inadequate vaccine coverage and the Delta variant. Those fears heightened further late in the month after South Africa reported identifying a new variant, which is now known as Omicron. The WHO and South African government’s scientists were researching the potential impact of this new variant, including how transmissible it is, how harmful it may be and if current vaccines would be able to protect people against it. Countries and regions, such as Canada, the U.S., U.K., European Union and others, announced travel restrictions against travellers coming from South Africa and nearby countries.

Market performance - as at November 30, 2021

Equity Markets	Level	Month to date	Year to date	One year
S&P/TSX Composite Index C$	20,659.99	-1.79%	18.51%	20.18%
S&P 500 Index US$	4,567.00	-0.83%	21.59%	26.10%
Dow Jones Industrial Average US$	34,483.72	-3.73%	12.67%	16.35%
MSCI EAFE Index US$	2,223.70	-4.79%	3.55%	8.27%
MSCI Emerging Markets Index US$	1,212.42	-4.14%	-6.11%	0.61%

Fixed Income Markets	Level	Month to date	Year to date	One year
FTSE Canada Universe Bond Index C$	1,170.70	0.87%	-4.14%	-3.79%
FTSE World Investment Grade Bond Index US$	244.75	-0.38%	-5.14%	-3.85%

Currencies	Level	Month to date	Year to date	One year
CAD/USD	0.7825	-3.07%	-0.35%	1.74%

Commodities	Level	Month to date	Year to date	One year
West Texas Intermediate (US$/bbl)	66.18	-19.83%	38.09%	47.75%
Gold (US$/oz)	1,774.52	-0.49%	-6.52%	-0.14%