Monthly Market Matters

Summary for November 2022

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Highlights

Global equities climb higher amid a further easing in financial conditions

WTI crude oil prices remain volatile amid uncertainty surrounding a potential China reopening, but ended the month lower

Strong US non-farm payroll report offset by weak household survey

Chinese equities surge amid policymakers easing zero-Covid policies

Still the only game in town

Global equities climbed higher in November, extending their gains off the deeply oversold levels seen at the mid-October low. The S&P/TSX and the S&P 500 have now eclipsed their 200-day moving averages for the first time since June and April, respectively.

The primary catalyst guiding markets continue to be financial conditions (see chart comments for more). Similar to the ~17% rally in the S&P 500 that we saw over the summer, an easing of financial conditions have given way to the recent ~14% rally off the October 12 cycle low. The four components used to assess current financial conditions have all contributed. The glaring element has been falling bond yields in reaction to the softer-than-expected October CPI print, which has revived hopes of a dovish pivot. Alongside recent Fed speak favouring a slowing pace of rate hikes, the US 10-year Treasury yield is down 44 basis points (bps) in the month to 3.61%. Falling US yields have led to a sizeable consolidation of the US dollar gains this year. The US Dollar Index (DXY) dropped 5%, marking the largest monthly decline since 2009. The third component, corporate credit spreads, have narrowed considerably. Finally, the last component is equity markets, which have surged higher.

WTI crude oil prices remain volatile amid uncertainty surrounding a potential China reopening, but ultimately ended the month lower, succumbing to ongoing recession fears. The front-end contract for WTI fell 7% to ~US$80/bbl, while Brent sunk 10% to US$85/bbl. After lengthy negotiations, the European Union (EU), G7 and Australia have agreed to place a price cap on Russian seaborne oil at US$60/bbl.The price cap and previously agreed upon EU sanctions will come into effect on December 5, which should keep Russian crude flowing to global markets for the time being. The focus now flips to potential retaliation measures from Moscow, which has been vocal in rejecting any form of a price cap. In early December, OPEC+ opted to keep output steady, as widely expected.

China's reopening dilemma

Chinese equities churned out their best month since 2003, with the Hang Seng Index rocketing ~27% higher. The move was supported on two fronts: policymakers slightly easing its stance towards its zero-Covid policy and shoring up its support for its slumping real estate sector.

Canadian Fixed Income	Level	Month	YTD
FTSE Canada Universe Bond	1,069	2.8%	-10.2%
FTSE Canada All Corporate Bond	1,255	2.9%	-8.9%
Bloomberg Canada High Yield	158	2.1%	-4.8%
Global Equities	**Level**	**Month**	**YTD**
S&P/TSX Composite	20,453	5.3%	-3.6%
S&P/TSX Small Cap	702	6.2%	-9.3%
S&P 500	4,080	5.4%	-14.4%
NASDAQ	11,468	4.4%	-26.7%
Russell 2000	1,887	2.2%	-16.0%
UK FTSE 100	7,573	6.7%	2.6%
Euro Stoxx 50	3,965	9.6%	-7.8%
Nikkei 225	27,969	1.4%	-2.9%
MSCI China (USD)	61	29.6%	-27.3%
MSCI EM Index (USD)	972	14.6%	-21.1%
Currencies and Commodities	**Level**	**Month**	**YTD**
CDN $	$0.746	1.6%	-5.8%
US Dollar Index	105.95	-5.0%	10.7%
Oil (West Texas)	$80.55	-6.9%	4.6%
US Natural Gas	$6.93	4.9%	69.4%
Gold	$1,769	8.3%	-3.3%
Copper	$3.74	11.3%	-14.9%
Canadian Interest Rates	**Level**	**Month**	**YTD**
3-month T-bill	4.06	13	390
GOC bonds 2-yr	3.87	-2	292
GOC bonds 10-yr	2.94	-31	151
GOC bonds 30-yr	2.99	-29	132
Canadian Sector Performance		**Month**	**YTD**
Energy		0.9%	32.8%
Materials		10.8%	1.9%
Industrials		6.3%	6.5%
Cons. Disc.		5.0%	-3.7%
Info Tech		9.5%	-48.4%
Health Care		-0.3%	-54.5%
Financials		6.0%	-7.3%
Cons. Staples		4.8%	10.9%
Comm. Services		4.3%	-3.0%
Utilities		-1.2%	-9.6%
Real Estate		6.6%	-21.9%

Source: Bloomberg & FactSet November 30, 2022 – local currency unless noted, equity price only returns, bonds total return

The frustrations toward the country's harsh restrictions boiled over this month, leading to violent protests in cities across the country. In response to the unrest, Beijing beefed up its police presence, deployed censorship efforts across its social media platforms, and, most importantly, provided slight concessions towards its zero-Covid policy.

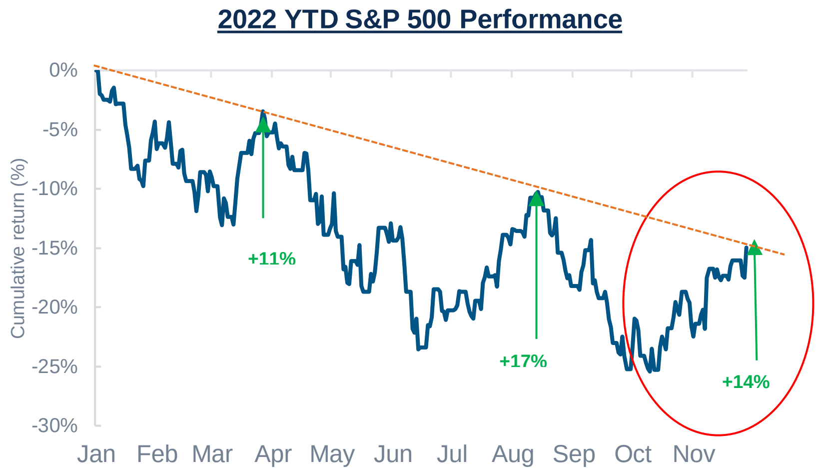
However, the reopening measures have led to a record number of daily Covid cases, prompting local authorities to renew strict lockdown measures in many areas of the country. The start and stop policy highlights the challenging dilemma facing Chinese leaders. **If policymakers relax restrictions, cases will spike and increases the likelihood of a spike in fatalities, a scenario the Party has desperately tried to avoid. On the other hand, tightening policy will continue to weigh heavily on the world's second-largest economy.** The weakness has forced China's central bank to cut its reserve requirement ratio for most banks by 25 bps last week, translating to a US$70 billion injection of liquidity into the economy. In addition, policymakers introduced a 16-point plan aimed to support its ailing real estate sector.

China's Politburo, the top decision-making body, typically meets in early December to set its policy agenda for the upcoming year. Given the recent developments, alongside further signs of economic deterioration (China's official manufacturing and non-manufacturing PMIs falling lower in November), **look for the Party to firm its policy stance towards supporting economic growth in 2023.**

Mind the details

The US jobs report released in early December showed the economy adding more jobs than expected in November. **Although the headline figure indicates strength, parsing the underlying data tells a mixed message**. First, the headline number was boosted by 42,000 government positions. Second, the household survey continues to signal softness, with jobs now virtually flat since March. Notably, a fundamental difference in the household survey is that workers holding multiple jobs are only counted once. In contrast, the official NFP report tallies each position separately. **This divergence likely means that workers are taking on additional jobs and points to a softer labour market.** Lastly, the unemployment rate held steady at 3.7%, but was due to another tick down in the labour force participation rate, which has fallen to 62.1% from 62.4% in August. This, combined with elevated job openings, continues to put upward pressure on nominal wages, with average hourly earnings jumping 0.6% m/m to bring the annual figure above the 5% handle again. **In summary, a strong headline figure and the structural demand-supply imbalance point towards a tight labour market, which should prevent a near-term Fed dovish pivot. However, the underlying details indicate that labour market conditions are indeed softening.**

Chart in focus: The third time's not the charm



In this month's chart, we revisit our August 12th Weekly Market Snapshot chart of the week. In the report, we mentioned that we were skeptical of the 17% bounce from the June 16 trough and warned investors that these violent rallies were typical in past bear markets. In turn, alongside a deteriorating earnings backdrop and the belief that inflation would remain stickier than expected, we believed that the path of least resistance was likely downward. Right on cue, the S&P 500 proceeded to retrace back below its June 16 low for the following two months. Fast-forward to today, we find ourselves in a similar position, with the S&P 500 bouncing ~14% off the mid-October cycle lows on the back of deeply oversold conditions. This begs the question if this time is different. **Our short answer is no, and we think equity markets will likely drift back toward the October lows.** Notably, a key difference relative to the summer rally is market leadership. Unlike the summer, where we saw tech leading the charge, the most recent bounce has seen a wider breadth of stocks advancing (a stronger indication of a sustained rally), with old-economy stocks leapfrogging to pole position. The Dow Jones Industrial Average has widely outperformed the S&P 500 and NASDAQ, entering a new bull market last week. This is likely a signal of new leadership and could point to further strength in the short term. **Nevertheless, as the lagged effects of tighter monetary policy put downward pressure on economic growth we expect earnings to estimates to be revised lower.** This will likely serve as a headwind for equities as we move into 2023. **However, we think this sets the stage for equities to begin looking towards an eventual recovery, bringing a better equity outlook in the latter half of 2023.** For longer-term investors, our recommendation has not changed. **During volatile times like today, the most prudent approach is to remain invested, avoid overreacting to near-term news, and from an opportunistic lens, look to lengthen your time horizon for what will likely be attractive buying opportunities in the first half of 2023.**