RCTG

MONTHLY REPORT

November 2021 Edition

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RCTG MARKET RESEARCH

GLOBAL MARKETS INSIGHTS

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- **Commodity Markets –** Outbreaks due to the Omicron variant have dampened demand for oil, while supply is forecasted to grow by 1.9 million barrels a day. Natural gas prices remain volatile while unseasonably mild weather eases demand and allows for stockpiles to increase. Poor weather in the U.S. has led to a slight slow-down in harvesting time, however the markets remained relatively stable up until news of Omicron arrived late in the month.

FIXED INCOME MARKETS

Month in Review

FOMC's November meeting concluded with the plan to reduce monthly asset purchases. Despite this, Powell's newest comments signal that this plan may be accelerated in December's FOMC meeting. The low interest rate environment has led to a second year of record speculative grade bond issuances. In contrast, a major selloff caused by defaults has resulted in Chinese junk bond yields to soar. Back in the US, the short supply of new municipal bonds have caused yields to decrease.

Rates

The Federal Reserve's November rates meeting echoed familiar themes from members' messages in previous months. The pressure of high inflation continues the encouragement to raise interest rates and reduce monthly asset purchases on the back of exponentially rising prices across major industries. The Federal Open Market Committee (FOMC) concluded their two-day session earlier in the month with the indication that they will reduce monthly purchases of treasuries and mortgage backed securities, beginning in November. However, what was once "substantial further progress" is now a fresh set of uncertainties as the Omicron variant undoes much of the progress monetary policy targeted at the beginning of the pandemic.

Furthermore, following his senate hearing, FED Chair Jerome Powell commented that the central bank is prepared to accelerate its timeline in reducing its asset purchases. This shed light on the FED's renewed focus on managing inflation, pivoting away from stimulating the labor market, putting pressure on FOMC's December meeting to quantify this new hastening in asset purchase reductions. Meanwhile, with the goal of policy continuance and greater market stability, Biden has renominated Powell for a second term.

Municipals

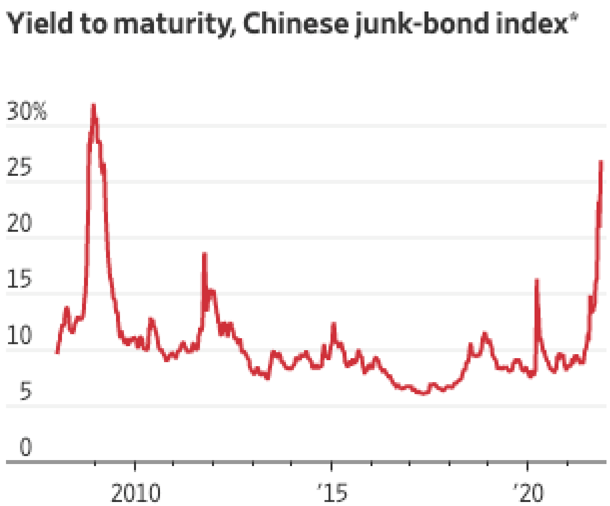
Congress's newly passed $1 trillion infrastructure bill has led Municipal bond price to increase. This muted price increase is in part due to a lack of supply caused by the lack of issuance of new municipal bonds. However, partial federal support for certain projects in the states and cities point to an increase in upcoming issuances.

Credit

Low interest rates and the stimulus-led economic recovery has led to a record issuance of speculative grade bonds this year, with issuance in mid-November topping $455B for the year, overshadowing 2020's $435B record.

Across the world, regulatory uncertainty, slowing home sales and defaults have caused a large selloff in the Chinese high-yield credit market led by major property developer, China Evergrande Group. The yield on the ICE BofA index of Chinese junk bonds has continued to

Sources: Blackrock, RBC Wealth Management, Scotia Economics rise past 25%, the first time since the 2008 global financial crisis, and in huge contrast to 6 months ago when rates hovered below 10%.



Note: *Shows ICE BofA Asian Dollar High Yield Corporate China Issuers Index.
Source: ICE Data Services

Sources: Blackrock, RBC Wealth Management, Scotia Economics

COMMODITY MARKET

Agriculture Market

Harvests in the U.S. in the past month have been slower than usual due to the unanticipated poor weather, however the size of the harvests has not been significantly impacted. Early in the month the USDA increased the year's projectected corn harvest by 0.30% to 177 bushels per acre, which is 43 millions more bushels than the previous month's projection. In contrast, the USDA also announced a 0.59% drop in the projected soybean per acre production. This alludes to soybean production being on the lower end of analyst's estimates, cumulating to a projected 340 million bushels. The sugar market experienced a large drop in late November due to news of rapid transmission and vaccine efficacy against the Omicron variant. The news led to a massive selloff, which resulted in a 23 point drop in the price of the commodity. The wheat market has kept relatively stable before establishing a peak in late November after heavy rains in Australia.

Precious Metals

China is seeing a lag in its property market, spurred on by growing liquidity concerns. This could affect overall copper demand in a negative way, since they are its largest consumer, coupled as well with detrimental effects on other base metals. Similarly, increased concerns over new vaccine resistant Coronavirus variants resulted in a bearish economic outlook also contributing to lower copper prices, which is a measure of global economic health. However, low copper inventories could prevent its price from slipping even further. Gold experienced related effects, nearing $1,800/ounce levels as Omicron fears of slower economic activity caused toned down predictions for interest rates in 2022. Furthermore, since Gold is a hedge against inflation and the dollar could see prices of the yellow metal to increase, alternative investment routes are sought after.

Oil

Oil prices continue to stay in the $70-$80/bbl handle (WTI). The growing crude supply has been offsetting the pressure from the heightened demand due to economic activity and natural gas shortages. In the previous months, the world's oil reserves have been pushed to the lowest levels since 2015. Updated 2022 supply forecasts a growth of 1.9 million barrels a day, with the U.S. making up around 60% of the additional non-OPEC + growth. Other noteworthy contributors to this growth include a rising output from the Gulf of Mexico - where previously, Hurricane Ida put a pause on oil production. Taking a look at demand, increased vaccinations have led to increased travel, resulting in the expected demand to reach 80% of 2019 levels. However, they have since taken a sharp decline due to the Omicron variant. Not only have outbreaks in India and China reduced demand for fuels, soaring energy prices have also dampened the demand for energy, forecasting a decline in oil demand, to a total of 96.4 million barrels a day.

Natural Gas

Natural gas prices have seen significant volatility in the last few months, from the surge in prices during the summer months due to supplies being depleted from a series of tumultuous weather events. Earlier in the year, freezes in Texas and unprecedented heat waves in June and July meant high demand and low inventory. Currently, EIA's analysts estimate natural gas prices should average $5.53 per million British thermal units, with a slight easing in demand due to unusually mild weather. Typically in November, the demand for gas exceeds production, but with the mild weather, stockpiles have more time to build before the withdrawal season.

EQUITY MARKETS

Month in Review

November highlighted several key events which ultimately demonstrated the overall shift from the post-trough inflation to an adjustment period. The equity markets struggled as many of the concerns highlighted last month became more pronounced. Uncertainty regarding the slowing/stagnating global growth, the newly discovered Omicron variant, high inflation levels, persistence of supply chain bottlenecks, rapidly approaching debt ceiling, and continually deteriorating U.S.-China relations have resulted in an overall standoff between both bullish and bearish investors. Subsequently, the month of November saw numerous daily record gains and losses across the major indices.

With the emergence of a new covid-19 variant, Omicron, the market's response was rather strong, though not significant. In the U.S. the S&P 500 declined 2.27% when the news of the new variant was released during the Black Friday and Thanksgiving holiday session. This was the third largest single day dip of the year, and which stood in contrast to the 2.34% gain experienced just a week prior on November 18th. However, while the impact of the variant was not known, investors took an optimistic view to buy on the dip. This followed public trends of not wanting to see another period of lockdowns and, as a result, the index gained 1.32% the next day. Towards the end of the month, the bears took the lead following Chairman Powell's statement rejecting that the elevated inflation was transitory. As a result, the S&P 500 declined 1.90% for the day, turning the month negative at -0.83%, but only 2.92% away from a new closing high and up 21.59% YTD.

Aside from inflation, the supply-chain disruptions caused by the pandemic restrictions and disastrous climate activity in various regions have also played a key role in the equity markets. November is known to be one of the highest spending periods for consumers as the holiday season approaches. However, due to the financial burden of logicatical issues being reflected in the prices of goods and services offered to consumers, many businesses missed sales quotas in comparison to previous years. Initial estimates for the start of the actual holiday season (Black Friday) showed an estimated 48% increase over the depressed 2020 period as customers returned to the stores, but it was still 28% shy of the 2019 level, as Americans spent an estimated USD 8.9 billion. Cyber Monday likewise brought in low revenues as most shopping has been moved to online platforms since the beginning of the pandemic.

At this point, inflation rather than the covid-19 virus, appears to be the biggest long-term fear of investors. The focus therefore has shifted to a macroeconomic view of the situation, which continues to be fed by supply shortages, labor costs, worker shortages, and consumer demands.

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