RCTG

MONTHLY REPORT

October 2021 Edition

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RCTG MARKET RESEARCH

GLOBAL MARKETS INSIGHTS

ALL DATA WITHIN THIS REPORT IS MEANT FOR EDUCATIONAL PURPOSES AND IS SUBJECT TO CHANGE

IN THIS ISSUE

- **Fixed Income Markets –** The Bank of Canada omits their bond purchase program while CPI rises beyond forecasts. The uncertainty of inflation impacts seem to be the reason behind the rate policy changes being shifted towards the near future focusing on spring of 2022. US Corporates continue to feel unthreatened by heightening debt, while the entirety of fixed income is encouraged by optimistic forecasts… that is, except for Muni's!

- **Commodity Markets –** Oil prices still are trending in the $70-$80/ bbl handle (WTI), but surging demand from travel and gas prices are being met with a decrease in demand due to increased Covid-19 cases and increased supply through increased oil production.

- **Equity Markets –** Flows into equities continued as volatility oscillated lower during the month of October. Emerging Market and Commodity equities were the biggest winners as stock indices appreciated 5%+ across the globe.

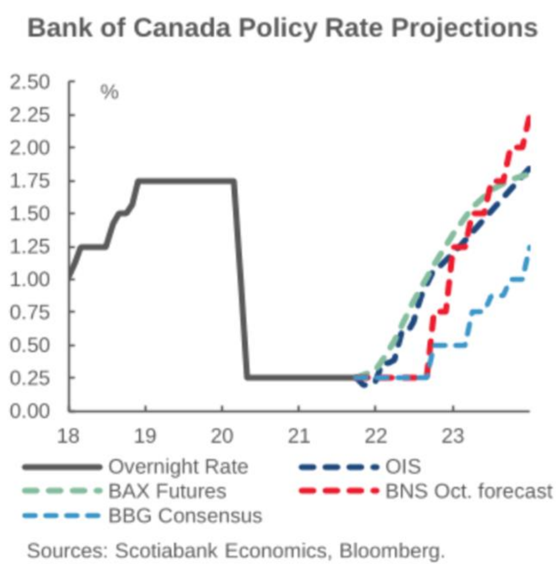
FIXED INCOME MARKETS

Month in Review

On the back of inflation, the Bank of Canada (BoC) along with many other central banks are aiming to challenge their original rate forecasts with hikes sooner than aforementioned. Chairman Powell has pushed back on this idea, also countering the common misconception that the BoC must wait for the Fed to take active measures on rate changes. With this in mind, core inflation is most definitely on Canada's radar with CPI exceeding expectations rising to 4.7% in October. Worries of the US debt ceiling continue to rattle investors yet still continues to inspire growth for corporate credit issuances. Repo's show little signs of stress, while short-term treasury spreads are a cause for concern amidst Janet Yellen's claims in September. Municipal's stand outperformed by both treasuries and corporates in October.

Rates

On October 27th, the Bank of Canada announced its decision to taper Quantitative Easing (QE) of bond purchases through the discontinuation of the Canada Bond Purchase Program that was triggered by the effects of COVID-19. This news comes with optimism in markets as a signal for recovery, but treasury markets are nonetheless wary of an echoing pattern of the 2013 "Taper Tantrum". Benchmark bond yield investors reacted sharply to movements, with Canada 10Y bonds hiking up 12bps by month's end, regardless of rates being maintained at 0.25%. While rates maintained, the seemingly everlasting low interest rate environment paired with tapering is exactly what many forecasted for the timeline of policy adjustments. The Bank of Canada is still expected to begin interest rate hikes by Q2 2022, and it is expected that the Federal Reserve will follow a likewise pattern on their November 3rd announcement. Short-term T-Bill spreads show signs of tension with one month yields near their yearly high.



Sources: Bloomberg News, RBC Wealth Management, Scotia Economics

Municipals

Muni Market's faced challenges this past month, continuing the pattern of losses over a two-month period. Negative returns for October stand at -0.29% and have interfered highly with gains made previously in the year. Headwinds that began in September have passed through October in the Municipal bond market and are expected to continue pushing through into November on the back of discrepancies between supply and demand.

Credit

US corporate spreads tightened to an all-time low as debt financing continues to attractively add on to the creation of the expected "debt-boom" initiated by the zero lower bound interest rates that have created a massive volume of liquidity for financial institutions. US investment grade spreads have remained somewhat at par with months prior, while foreign investment grade yields jumped due to the fluctuations in global bond markets caused by the uncertainty surrounding Chinese debt.

Sources: Bloomberg News, RBC Wealth Management, Scotia Economics

COMMODITY MARKET

Agriculture Market

Soybean prices have experienced uncertainty recently, with many predicting a much more bearish outlook given estimates of a large harvest from Brazil, and increased plantings in the U.S. This is coupled with inflation leading to higher fertilization prices and increased costs overall. Despite potential dry weather concerns in southern parts of the U.S., soybean markets look to hold relatively steady going into 2022.

Corn and grains both experienced losses throughout earlier times in the month, however these losses were short-lived as droughts in grain and corn producing parts of Canada led to spike in demand. This led to wheat futures hitting multi-year in the past week due to the strong demand from importers. These worrisome weather patterns ranging from droughts in Canada to heavy rains in Australia, in cohesion with the recent news that the International Grain Council cut its 2022 wheat production outlook, suggests wheat prices may be on the rise in the near future.

The United States Department of Agriculture recently projected global sugar exports to hit 63.11 million tonnes for the current season, underscoring their May estimate of 65.95 million tonnes. In addition to this, the Tropical Research Services predicted sugar supply deficits in the upcoming year, adding to the already inflated price of the commodity.

Precious Metals

At the beginning of the month, the Jobs report presented mixed sentiments highlighting shortcomings in jobs added but also showcasing a smaller unemployment rate, falling below 5% for the first time since the pandemic. Furthermore, a higher increase in wages implied a strengthening labor market but one that presents long-term inflation concerns. As a reaction to such news, Gold rallied. Throughout the month, prices were hovering around the resistance level of $1800/oz. The yellow metal closed out the period around $1780/oz due to GDP figures that missed expectations and a stronger dollar.

In China, the country is still experiencing an energy crisis, reflected by record-high natural gas prices in the wake of winter weather fast approaching. Prices, in general, have been rising due to increased demand as a result of pandemic easing. Actions such as power rationing imposed by the government further increase the uncertainty and concern regarding the future, with certain increases in price and global inflation. However, towards the end of October, aluminum prices fell to levels not seen in eight weeks. This came on the coattails of supply issues surrounding thermal coal, which in the end, were deemed to be less severe than initially thought.

Energy

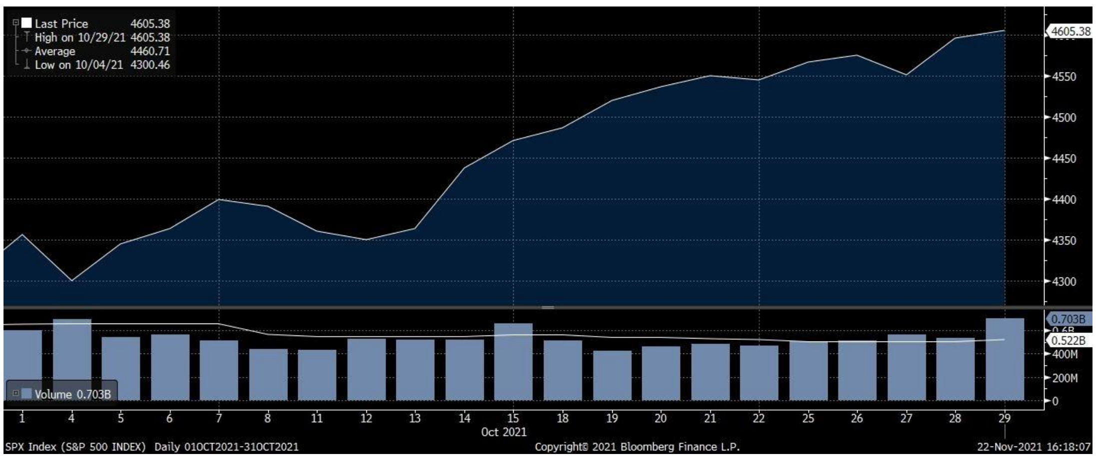
Oil prices continue to stay in the $70-$80/bbl handle (WTI). The travel and gas crisis has pushed oil prices higher, but they are being offset by the rising European Covid-19 cases and increasing oil prices. Earlier this month, the continuing rebounding economy and natural gas shortages have pushed the world's oil reserves to their lowest capacity since early 2015. OPEC has reported that global demand for oil will grow by 5.7 million barrels a day, adjusting their estimate down by 160,000 barrels due to soaring oil prices and decreased demand. The IEA has reported that the gap between supply and demand will be eased, through the U.S., Saudi Arabia, and Russia making up half of the expected output rise in the remainder of 2021. Increasing by 1.5 million barrels a day in the remainder of 2021. In addition to this, new covid waves in Europe and China have led to weaker industrial activity, further lowering demand.

EQUITY MARKETS

Month in Review

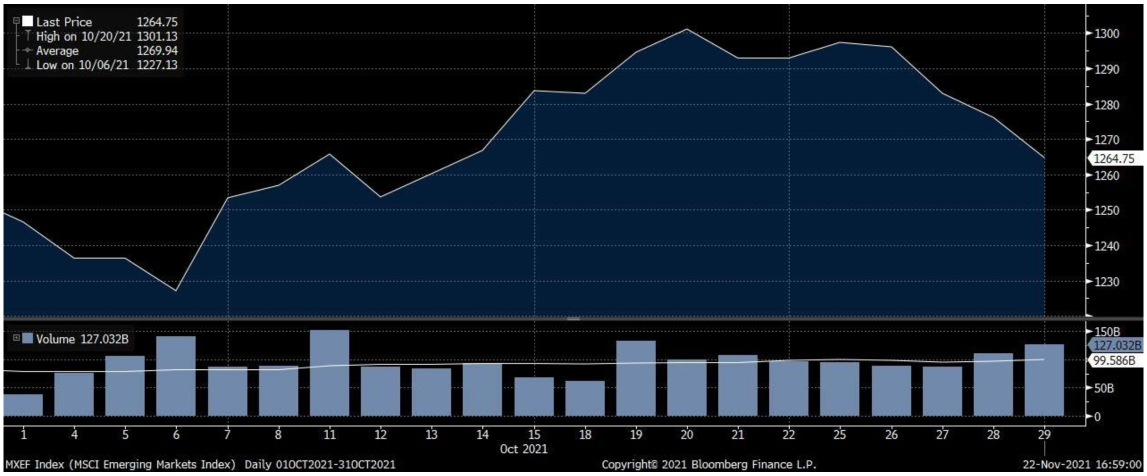
Markets returned to a risk-on environment as institutional flows into equities resumed following expected interest rate and repo news from a plethora of central banks around the world. This is decisive for markets as it appears a continued Chinese debt crisis alongside turmoil for land developers is already priced in and unlikely to continue to weigh down equity prices as the state makes a point to resolve the issue.

October 2021: S&P 500 Index



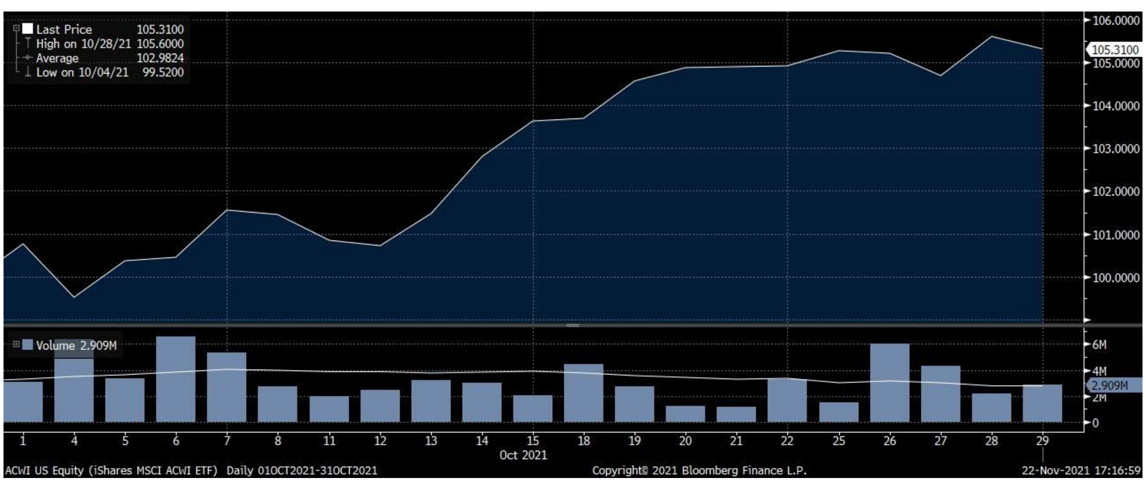
Resultantly, the S&P 500 hit new highs during October as it blew past that key 4500 USD point level and on the last trading day of the month was floating at a new ATH of 4605 USD - returning just under 6% MoM. Further quantifying the above, early in October, the VIX came off the higher end of its range and oscillated from around 15 to 18 throughout the later weeks. Stemming from the acclamation of investors to the ongoing Chinese developer/debt crisis, EM was all the craze especially for Middle-Eastern and Asian equities. The MSCI EM Index went from a low of 1227 USD early on in October to a high of just over 1300 USD on the 20th before cooling off again. This was mainly attributed to the strength of equity prices in energy and commodity producing sectors of countries such as Egypt, Indonesia, Russia, Qatar, and Kuwait - which led to the rise of emerging markets.

October 2021: MSCI Emerging Markets Index



Continuing this trend throughout the broader world, with inflation being reported at the highest levels in decades during October, commodity prices everywhere continued to boom with supply chain issues presenting once again as the economy heads into the transportation and production heavy ending months of Q4. As a result, commodity producers were the big winners with a special shoutout to precious metal producers as investors continued to hedge against inflation with gold and bitcoin. Consequently, the world's commodity driven equities advanced 5% during October while gold producers traded up 15% before some profits were taken.

MSCI ACWI World Commodity Producers Index & iShares Gold Producers Index)



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SOURCES

1. Bloomberg News
2. Scotia Economics
3. RBC Wealth Management

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