MARKET RECAP

October 2022

Rotman Commerce
Trading Group

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- Commodity Markets: In the metal markets, prices experienced volatility across the board following weaker movements in the US dollar, inflation data, and rate movements. Gold and silver rose significantly this month reaching two-week highs during the last week of the month. Oil continues to struggle after a slightly volatile month due to recession fears and weakened demand

- Equity Markets: Market sentiment from September did not carry on over to the month of October for North American or European equity indices. Overall, despite a disappointing earnings season—especially amongst tech companies—equity markets responded positively to recent inflation data releases as central bank policies gradually take effect. On the contrary, Asian markets signalled deep skepticism after Xi Jinping secured a historic third term in power and declared to continue maintaining a strict "zero-COVID" policy.

- Industry Overview: Developments in cloud services, electric vehicles, and artificial intelligence remain strong industry trends, while Big Tech falls short in Q3. The tech-heavy NASDAQ composite index underperforms the S&P500 index YTD by over 10 percentage points.

FIXED INCOME

Month in Review

The month of October saw the Bank of Canada (BoC) continue its policy of quantitative tightening, increasing its target overnight rate to 3.75% as of October 26th. Global inflation remains high, with global supply disruptions and elevated commodity prices — particularly for energy— due to Russia's ongoing attack on Ukraine.

At the start of this month, the Fed indicated that rate hikes were likely to continue. According to policymakers, inflation has taken a large toll on low-income Americans, prompting the discussion of more restrictive policies in order to "promote maximum employment and price stability." Furthermore, due to constant inflation, bond market volatility is expected to stay elevated in the next 6-12 months. Treasury yields also rose this month, but fell 16 basis points after news of inflation easing at the end of October.

Rates

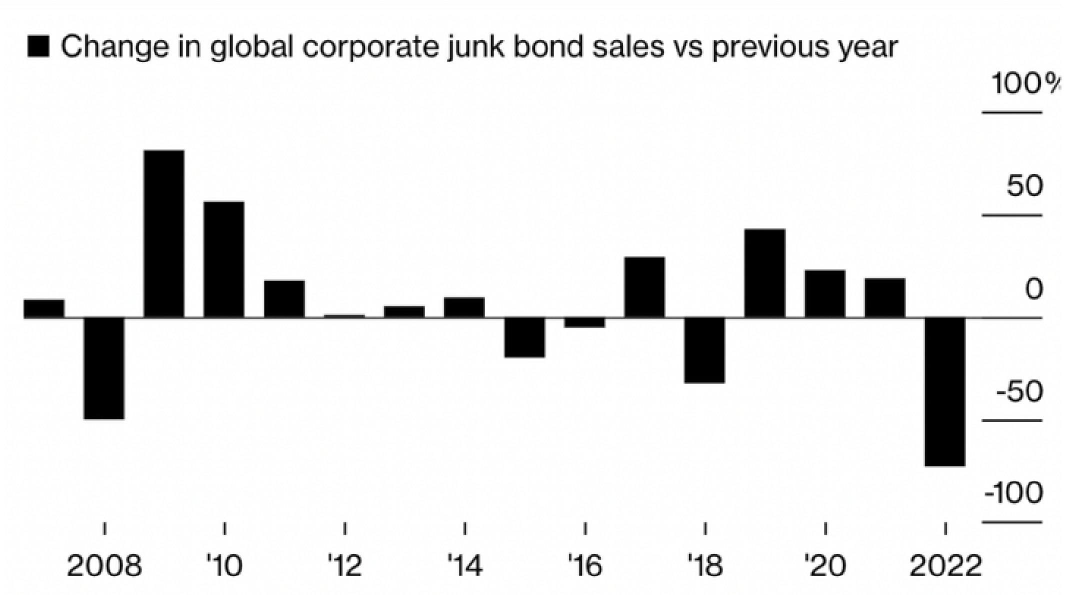
We saw another month of frequent rate hikes amidst the high inflation all across the world. BoC surprised everyone by increasing the overnight rate to 3.75%, an increase of 50 bps. Although gas prices have come down, the CPI still shows that inflation is high. BoC made it clear that adjusting the inflation is not an easy job, however, many homeowners are concerned about the high borrowing cost. ECB also increased the overnight rate by 75 bps, which is one of the fastest rate hikes they have done. Inflation from natural gas resulting from the Ukraine war was the key reason behind the rapid hike.

Munis

The muni market has seen its 13th straight week of fund outflows after yields continue to rise dramatically. Total returns remain negative, with the S&P Municipal bond index posting an average return of -0.92% this month. However, muni sales are expected to rise with the midterm election approaching on November 8th as 36 governor seats are up for re-election.

Credit

Corporate credit conditions are worsening as conditions are "flashing red" according to Janus Henderson Investors. The amount of bonds and loans trading at levels indicating distress reached 271.3 billion USD which is its largest since September 2020 causing increased default worry for investors. Globally, junk bonds fell at an unprecedented rate due to rising interest rates. Issuance for high yield corporate bonds has decreased 73% in comparison to last year. Additionally, with the announcement of Rishi Sunak being confirmed as the new prime minister, UK bond yields fell and, "perceptions of fiscal credibility had improved, though not fully" (BlackRock).



COMMODITIES

Metals:

Metal markets experienced volatility throughout October and finished the month higher than September on the back of dollar, inflation data, and rate movements. Both gold and silver made substantial climbs reaching two-week highs during the last week of the month.

Gold prices ran upwards following weaker movements in the US dollar and Treasury yields falling lower. The precious metal is testing a critical support level of $1650 following the U.S. PCE print which rose an expected 0.6% in September. Inflation data is placing some selling pressures on gold as core inflation increased 5.1% from August's annual increase of 4.9%. A decrease in the speed of the rate hiking cycle would strengthen the metal’s position. In order for gold to turn bullish, the metal will need to break past the $1,730 level for confirmation.

Silver completed the month higher but is continuing to move bearishly from a technical point of view. Nevertheless, recent price movements are suggesting the market has reached a bottom with the next technical resistance at October’s high of $21.31.

Platinum deteriorated by 1.3% to $947.50. However, in the long-term, the metal may run into a supply deficiency as key producers including South Africa and Russia experience output risks and shortfalls. Global supplies of the metal are projected decrease by ~10% in 2023.

Energy

Oil prices continue to struggle amid weakened global demand as well as continuing fears of a global recession looming over energy markets. Although WTI futures seemed to rally in the beginning of the month due to supply cuts announced during the OPEC meeting, the commodity has struggled to gain footing as tireless Covid-19 restrictions in China have restricted imports of oil coming into the nation, suppressing overall consumption.

With WTI futures now trading at $88 per barrel, expected interest rate hikes as well as speculations on the potential sanctions that may be imposed by the EU have all been contributors to price struggles. However, to end the month, oil prices have surged 3% as the US recorded record-level exports indicating hope of a possible surge in demand as the US economy rebounds. In addition to this, the price-cap plan suggested by the US and EU on oil prices to curb Kremlin revenues has been scaled back due to the potential implications it could have on this fiscal quarter, thus giving a slightly more positive outlook for November.

EQUITIES

US & Canada

During October, gains were seen throughout every major North American index. The Dow Jones closed up 12.5% over the month hitting an all-time record for October and the S&P 500 was up 7.1% after losses sustained in both August and September. This came following the slowing in tightenings around the world which gave hope that the Federal Reserve would follow suit in the foreseeable future. In addition, investors saw great value in equities as P/E multiples drifted towards lows and fund cash balances reached highs.

In other news, earnings season (Q3) is once again upon us. The big five tech firms all reported figures significantly below analyst estimates, causing major drops in valuations. Meta dropped over 25% in the span of one day while Alphabet, Google, and Microsoft all dropped over 10% in the days following earnings reports. Despite all of this, the Nasdaq still closed up 9% over the month as investors felt that forecasted growth premiums in the sector were underpriced. In Canada, we saw a 50 basis point rate hike which was below the predicted 75 points expected by most of the market. This fueled a rally in the TSX with the index up 5.57% for the month as of October 28.

Asia

Asian equity markets underperformed in the month of October. With Taiwan (-8.5%) and Korea (-10.5%) leading the drift down. On average, equity markets of other Asian countries dropped about 2-5% on a weaker export outlook. Weaker demand from the West dragged down exports in Asia and potentially added pressure on corporate earnings. Besides, it is worth mentioning that the Chinese CSI300 decreased by 5.4% in the past month. Other than the weaker export outlook, the slump was also caused by the continued strict COVID-19 policy, announced by China's newly elected 20th communist party congress. It was expected that the economy and consumer confidence would keep on the downside for the short term. Also, as the manufacturing centre of the world, the strict policy in China will continue to influence the global markets.

Europe

October was a decent month for European equities. The European Stoxx 600 index began the month clocking in at 390.83 and ended up around 20 points to 410.64, an increase of around 5%. The resignation of the UK's prime minister, Liz Truss, affected equities as it triggered sentiment to increase as the new PM, Rishi Sunak, began a fiscal turnaround that will be implemented aggressively. Additionally, the UK's government has been implementing a reversal in fiscal policies to alleviate inflation, driving investor demand. In addition, the new exchequer is reversing the tax cuts imposed by Liz Truss and her ministers. Overall, the increase in European equity indices can be attributed to the change of political leadership and fiscal policies in the UK as well as sustained sub-90 oil prices.

INDUSTRY OVERVIEW

TECHNOLOGY

INDEX NAME	1 YR RETURN
NASDAQ Composite	-29.57%
S&P500	-15.07%

Industry Trends and Performance

Technologies of tomorrow, Artificial Intelligence and Machine Learning, are continuing to blend with business processes, with estimated additional economic output of $13 trillion by 2030 as well as increasing affordability (McKinsey). It is notable that what cost more than $1000 in 2017, cost $7.43 in 2021and since 2018, the cost to train an image classification system decreased by 63.6% (Fortuine).

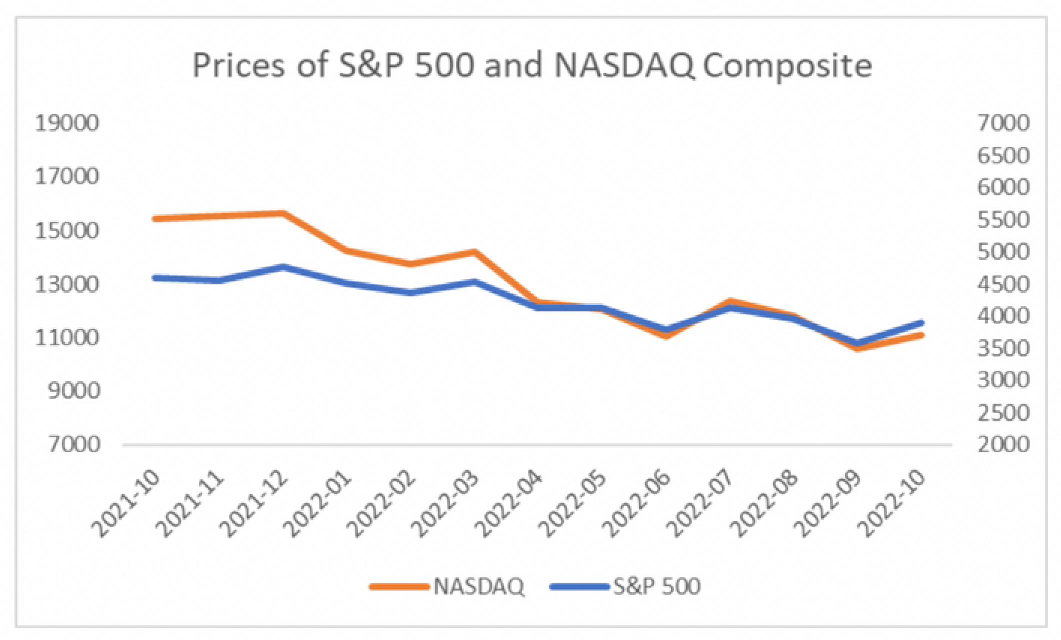
Technological developments in electric vehicles (EVs) were prominent with more travel distance without a recharge where the average battery charge soared from a range of 70-100 miles to 250 miles today. Demand will further grow due to stricter environmental regulations, for example, it is estimated that more than 90 percent of light vehicle sales in Europe by 2035 will be EVs.

Following record high tech M&A deals in 2018 and dip in 2020, the number of transactions has recovered and private equity firms are now record returns and expect to record highs.

The drivers for higher transaction levels are increasing technological advancements and strong buyer demand from tech companies that saved up cash during the last couple years and have capital available for transactions. Cloud continues to become the preferred platform for spurring innovation, powering AI capabilities, intelligent edge services and advanced wireless connectivity. Cloud services in Canada's software market are forecasted to grow by 15% annually until 2024, where businesses are rapidly adopting edge computing architecture and leveraging providing software-as-a-service (SaaS). CAGR for the edge computing sector is expected at 40% in the $50 billion range along with the growth in the tech industry expected at 22.4% during the two years into 2024.

INDUSTRY OVERVIEW

TECHNOLOGY



The tech-heavy NASDAQ composite index underperforms the S&P500 index YTD by over 10 percentage points

Industry Spotlights

Musk Takes Over Twitter

Elon Musk's court-ordered deadline on the closure of the $44 billion acquisition of social media platform Twitter, marked the end of the company's lawsuit against the tech mogul. In anticipation of the takeover, Twitter Inc shares were suspended from trading on the New York Stock Exchange, however, not before closing at $53.86 on October 27th - 54 cents shy of the agreed upon takeover price. Twitter's last day as a public company marked a nearly 65% surge in stock price up from the four-month low experienced after Musk's announcement that he would be terminating the deal in July of 2022. After announcing his official ownership of the company, the new "Chief Twit" wasted no time in firing top executives, albeit offering no details on how he will create a "spambot"-free, limited censorship future for the company.

Disappointing Meta Earnings put Zuckerberg in the hotseat

In a series of underwhelming Q3 earnings reports by major American tech companies, Meta Platform Inc.'s release of its latest quarterly results on October 26th saw the stock drop more than 20% in value. While comparable shares of Google and Microsoft have plummeted 35% and 39% YTD respectively in the midst of the current global economic downturn, Meta's shares have fallen a whopping 65%. After two consecutive quarters of declining revenue, investors are concerned that Zuckerberg’s focus in the ongoing virtual reality project, the “metaverse”, is detracting from the company’s core business. Zuckerberg, however, remains confident that the billions of dollars invested in the project thus far are pivotal to the future of the company, despite having little to show for it.

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