MARKET RECAP

November 2022

Rotman Commerce
Trading Group

CONTENTS

GLOBAL MARKETS INSIGHT

IN THIS ISSUE

- Fixed Income Markets – As investors move money away from long-term debt instruments, Canadian 10 year government bonds see the largest inversion since 2004. Similarly, Treasury yield spreads on US short term and long-term bonds reach recession level. Meanwhile, ESG bonds remain a popular trend in the muni market as November marks the fifth green bond issuance by the City of Toronto.

- Commodity Markets – Gold prices end the month near its 50 and 200-day moving averages and silver prices rise more than 8%. November marks over 6 months of plummeting oil prices as global economies prepare for possible recessions, and OPEC supply cuts do little to help prices recover.

- Equity Markets – American equities rally thanks to increased confidence at the prospect of a soft landing by the Fed. Gains from energy and mining companies support the European equity market despite the ongoing war and harsh macroeconomic environment, and Asian stock markets are at their highest peak since 1993.

- Industry Overview – Macroeconomic uncertainty continues to hit the real estate market with home prices expected to continue dropping into the new year. Meanwhile, supply shortages and inflation are to blame for soaring rent prices. The S&P Global REIT underperforms the S&P500 by over two basis points, and a new Foreign Buyer Ban is expcted to change the Canadian Housing Market in 2023.

FIXED INCOME

Month in Review

In November, the yield on Canadian 10 year government bonds fell 100 bps below the 2 year yield – the biggest inversion since 2004. Similarly, for the first time in almost 2 decades, the US sees the spread between the 1-3 year and 10 year yield reach recession level. Inflation and yield curve inversion have led the Bank of Canada to indicate that they will likely have more hikes before easing on contractionary monetary policy, still targeting a 2 percent inflation rate. On the other hand, Eurozone inflation remains strong, leading to eurozone sovereign bonds underperforming US treasuries.

Due to rising interest rates bond prices are remarkably low, with 90% of investment grade index trading below par compared to around 80% in previous years. Unsurprisingly, 2022 remains one of the worst years for bond market performance. Despite the underperforming credit market, ongoing inflation, and recession concerns, cash continues to flow into junk bonds as investors observe corporate performance to be better than expected. However, with interest rates this high, junk bond returns are not enough to satisfy high yield investors.

Looking at recovery in the rest of the world emerging market countries like Sri Lanka and Ghana are facing difficulties in the restructuring of government bonds due to the weakening of their local currency and slowing economic growth.

Munis

Muni yields trend lower this month with the benchmark AAA curve decreasing by 3-10 bp. However, the year-to-date AAA "benchmark" muni yields are 175-245 bp higher compared to last year. Though year-to-date returns remain negative, the S&P Municipal bond index posted a positive 0.43% monthly return.

A growing trend in the muni market is ESG bonds, with issuance expected to reach $45b to $50B in 2023. This month, the City of Toronto issued its fifth green bond for $300M to finance climate action projects. The bond has a 20-year maturity and 4.4% coupon rate, garnering the interest of 34 investors from Canada and the US. The city has a AA credit rating, and the 2.1 times oversubscribed green bond demonstrates confidence in economic recovery and demand for munis

COMMODITIES

Metals

Gold saw gains in November with prices seeing a four-week uptrend and finishing at $1780 at the end of the month near its 50 and 200-day moving averages. However, the possibility for a potential slowdown remains as the US central bank continues raising rates. The market expects this metal to remain on a downward trend throughout the ongoing tightening cycle.

Similarly, silver prices rose more than 8% this month following China's slow reopening of its economy and the US Federal Reserve indicating a slowdown in rate hikes. Investors are keeping their eye out on the Fed's projections for growth, inflation, and interest rates moving forward, as a prolonged period of high rates may cause metals to see some setbacks.

Platinum experienced a bit more volatility but generally trended upwards, spiking from $935 at the beginning of the month, and reaching $1070 on November 11.

Energy

November marks over 6 months of Oil prices trending like a falling knife. Prices continued to decline throughout this month with WTI futures closing at around $80 per barrel on November 30th. Price-cap speculations earlier in the month generated pessimism surrounding the commodity, with large reductions in demand carrying over from last month. As China continues to face coronavirus restrictions and global economies prepare for possible recessions, the supply cuts initiated by OPEC have done close to nothing in rebounding prices. Market jitters could soon turn into an all out explosion as any further supply cuts to oil from OPEC (in retaliation to lower price caps set by the EU) could cause supply to implode and inflation to erupt.

Despite rocky markets, some relief can be found in consumer welfare as individuals are comforted by drops in energy prices. Families are now paying energy bills - which skyrocketed earlier in the year - with gas prices around the world easing as well. While a potential pivot by the Fed could decrease looming pessimism, the majority of investors remain on edge.

EQUITIES

US

November saw a 5.81% jump in the S&P 500 as investors become more hopeful in regards to the prospects of a soft landing. In fact, the VIX index for volatility has dropped over 20% throughout the month indicating an increase in confidence in the economy supported by strong job and housing reports. When it comes to the NASDAQ, slower movement was observed towards the start of November despite closing the month around 5.2% higher. This was partly due to a 5% rally in the final 2 days of the month caused by Jerome Powell hinting at a 50 basis point rate hike in the upcoming December meeting. This is an encouraging sign which many believe to be the beginning of a fed pivot.

European

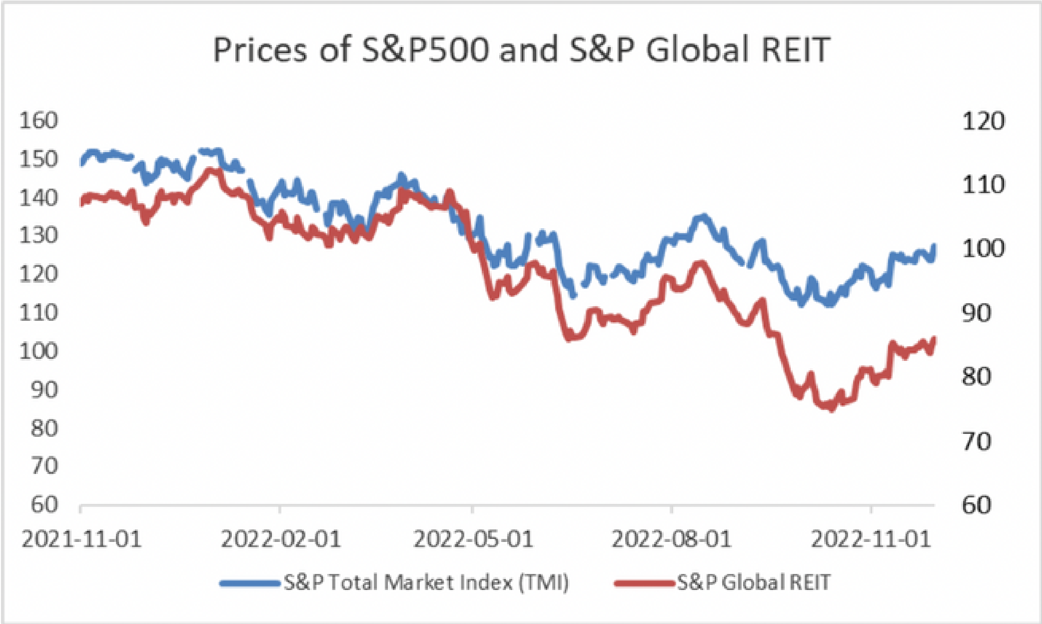
In Europe, the macro environment continues to be harsh, with the PMI (Purchasing Manager Index) at 46.4 and the record high of October inflation at 10.7% YoY, up from 9.9% in September, driven mainly by core goods like energy and food prices. Luckily, the UK market remained relatively stable after new prime minister Rishi Sunak's arrival in office. Despite the harsh macro however, the European Equity Market started the month with several rallies. The STOXX 600 was up 6.3%, mainly driven by the gain from the energy and mining companies. Oil and gas stocks increased by 4.6%, and basic resources stocks rose by 3.3%. On the other hand, sectors like telecommunications and financial services all slipped by 0.1%. Even in the face of a harsh macroeconomic environment and an ongoing war the European equity market boomed with the oil and gas stocks in the month of November.

Asia & Australia

For the month of November, Asia stock markets are at their highest peak since 1993. In Australia, the ASX200 fell 0.42% as a continuation from the previous month.. At the start of the month, the CSI300 was at 3,634 and rose to 3,853 by the end, increasing 6% growth during the month. The MSCI Asia Pacific Index increased by 15% during the month as a result of the intention for a gradual reduction of China's zero-Covid policy. Another factor that is driving stocks upwards are expectations that the Federal Reserve will implement a slower pace of increasing interest rates. The People's Bank of China is expected to cut the reserve ratio by 7.8%. As rumors arise of a Covid-zero exit plan, traders and investors are eager to invest in Chinese assets causing stock prices to rise.

INDUSTRY OVERVIEW

REAL ESTATE



The S&P Global REIT comprises publicly traded equity REITs listed in both developed and emerging markets

INDEX NAME	1 YR RETURN
S&P 500	-15.11%
S&P Global REIT	-17.13%

Industry Trends and Performance

Current real estate trends point to slowing momentum despite the post-pandemic recovery with record-high funding levels and investment volume. The market is faced with new challenges and uncertainty due to slowed growth and rising interest rates. Investors became concerned with the macroeconomic environment pointing to a recession, with reduced GDP by 0.6% in Q2 2022, the second consecutive quarter of contraction. Investors are pressured to rely on creative solutions to overcome present challenges while also taking advantages of emerging opportunities.

Despite macoeconomic uncertainty, investments in commercial real estate remained mostly steady with U.S. real estate investment increase by 10% to $167B YOY in Q2 2022. This was driven by economic recovery post-pandemic and the return to office trend, with New York ($67B) and Loss Angeles ($65B) as the top markets in investment volume. In the first quarter, sales for multi-family sector reached record-high of $277.2B, $114.7B in office spaces, $127.7B in industrial and $96.9B in retail. As for property prices, the recent market conditions have led to a slight decrease in prices by 5% in the third quarter.

Experts estimate that price drops will continue by the end of 2022 and into 2023. On the other hand, rent prices have grown driven by supply shortage, high wages, inflation, and post-pandemic demand. Thus, this presents promising potential for invetors, however, the increased borrowing costs will weaken profitability. Lastly, a continued trend will be firms cutting costs, innovating technology to streamline processes, and boosting efficiencies with borrowing costs and uncertainty on the run. In spite of everything, rising interest rates, slowing economic outputs, and decreasing commercial prices, will continue to affect the industry growth in the future with great uncertainty.

Industry Spotlights

Foreign Buyer Ban set to hit the Canadian Housing Market

In an effort to combat the post-pandemic crisis of housing unaffordability, the Trudeau government passed The Prohibition on the purchase of residential property by non-Canadians Act in June of 2022. Set to change the landscape of the Canadian real estate industry starting on January 1st, 2023, the two-year ban will make it illegal for non-Canadian investors to purchase property anywhere in the country- handing out fines of $10,000 to those in violation of the law. However, rising mortgage rates have seen house prices continue to tumble since the act was passed. Already deteriorating housing activity brought on by BoC interest rates hikes is expected to further weaken into 2023 with the implementation of this new act.

Blackstone REIT Under the Magnifying glass?

After being bombarded with redemption requests on its $69 billion real estate income trust (REIT), private investment banking firm, Blackstone, had no choice but to limit withdrawals. This action on the part of the IB giant alarmed investors, and pushed Blackstone shares down 7.1%. While the publicly traded REIT index fell 3.2% YTD, Blackstone's REIT reported a 9.3% return (net of fees) in the same period. It is precisely this overperformance that has investors concerned about how the firm values its REIT, putting Blackstone at risk of losing the trust of its investors as it sells assets to fulfill redemptions.

DISCLAIMER

Any analysis or conclusions drawn in this article were developed through the use of publicly available information and resources. This document was curated solely for educational purposes and should not be constituted or substituted as professional investing advice; the Rotman Commerce Trading Group (RCTG) is not liable for use of the information or suggestions embedded in this article made by viewers.

The information contained in this report is made up of data collected by RCTG from sources considered to be reliable, but no representation or warranty, whether expressed or implied, is made by RCTG or its associates in coherence with its accuracy or correctness.

The content within this document is in no shape or form associated with the opinions or views of the University of Toronto or the Rotman School of Management.

Information or visuals within this report shall not be redistributed or replicated by any such person without the consent of the owner, RCTG and its affiliates.

SOURCES

- https://www.jpmorgan.com/wealth-management/wealth-partners/insights/november-wrapped
- https://www.cbc.ca/news/business/bank-of-canada-1.6677004
- https://www.nytimes.com/2022/12/09/business/bond-market-economy-investing.html
- https://www.wsj.com/articles/poor-countries-feel-sting-of-local-currency-debt-11670106942
- https://www.wsj.com/articles/junk-bonds-rally-as-investors-speculate-inflation-has-peaked-11669782119
- https://capital.com/is-silver-finally-out-of-the-woods-as-china-reopens-and-the-fed-slows-its-rate-hikes
- https://www.kitco.com/news/2022-12-08/Gold-silver-see-price-pauses-ahead-of-Friday-U-S-PPI.html
- https://am.jpmorgan.com/sg/en/asset-management/institutional/insights/market-insights/market-updates/monthly-market-review/
- https://www.cnbc.com/2022/11/22/european-markets-open-to-close-stocks-data-and-earnings-news.html
- https://www.bnnbloomberg.ca/november-is-the-best-month-for-asia-stocks-in-a-long-long-time-1.1852755
- https://www.cnbc.com/2022/11/28/asia-markets-china-covid-currencies-stocks-oil-politics.html
- https://www.scotiabank.com/ca/en/about/economics/economics-publications/post.daily-publications.daily-points.daily-points.capital-markets.2022-issues.november-30-2022.htm
- https://www.raymondjames.com/-/media/rj/dotcom/files/wealth-management/market-commentary-and-insights/bond-market-commentary/bond_investor.pdf
- https://www.toronto.ca/news/city-of-toronto-issues-fifth-green-bond-to-help-fund-transformative-climate-action/
- https://www.spglobal.com/spdji/en/indices/fixed-income/sp-municipal-bond-index/#overview

CREDITS

Fixed Income Markets & Design Team

Lea Wu
Co-Director of Marketing
Amanda Rattle
Co-Director of Marketing
Grace Bogdani
Marketing Associate
Gabrielle Chu
Marketing Associate

Commodities Market

Julie Mark
Co-Director of Corporate Relations
Kejun Xiao
Co-Director of Corporate Relations
Akash Umasuthan
Corporate Relations Associate
Mary Guan
Corporate Relations Associate

Industry Overview

Isabella Morales
Co-Director of Professional Development
Ashley Kim
Co-Director of Professional Development

Equity Markets

Raihan Woodhouse
Co-Director of Events
Peter Tsimicalis
Co-Director of Events
Livia Wu
Events Associate
Edouard Larouche
Events Associate
Sunny Chen
Events Associate

Editorial Team

Emily Koroneos
President
Gerald Tan
Vice President

RCTG