Economic Commentary

Third Quarter 2023

Inflation Bounces Higher, Breaking Trend

Inflation continues to dominate global financial markets as levels remain elevated. The consistent moderating trend that had been in place since inflation peaked in June of last year came to an end in North America as inflation moved higher during the quarter. Inflationary pressures remain persistent and core readings continue to be elevated. Inflation in Canada is now 4.0%, after hitting a low of 2.8% in June. Inflation in the U.S. is running at 3.7%, with core inflation higher, at 4.3%. Inflation in Europe continues to decline from the double-digit levels that both the U.K and the Eurozone experienced last year. Inflation is currently 5.2% in Europe and 6.7% in the U.K. The strong upward movement in oil prices during the quarter also contributed to inflationary fears. The price of WTI crude oil ended the quarter at USD90.79, an increase of over USD20 during the quarter.

Global Central Banks Maintain Hawkish Stance

Global central banks continued to raise interest rates during the quarter. Both the Bank of Canada and the U.S. Federal Reserved raised rates by 25 bp in July and then paused at their meetings in September. Despite not raising rates in September, Fed Chair Powell was very hawkish in his comments regarding the potential for a further rate hike before year-end. The summary of economic projections also pushed back expectations for interest rate cuts to the latter part of 2024. Powell also reiterated the fact that any future movement in administered rates will be data dependent, opening up the possibility that interest rates could move even higher, if warranted. Despite the hawkish comments, it is expected that the terminal level of interest rates for most global central banks is not too far from current levels. The key takeaway from the Fed, however, is that interest rates will remain higher for longer. Over in Europe, the Bank of England increased interest rates by 25 bp in August before pausing in September, while the European Central Bank was more aggressive, increasing rates by 25 bp each in July and September.

Economic Activity Remains Resilient

Economic conditions have not declined as much as had been anticipated, given the significant number of interest rate increases that have occurred in the market over the past two years. North American labour markets have cooled somewhat, but remain relatively strong. Central banks would like to see continued weakness in this sector, with unemployment rates increasing further from the current pre-pandemic levels. The U.S. consumer sector remains resilient, reducing the possibility that a recession will occur later this year. Economic conditions are not quite as strong in Canada as they are in the U.S., with the latest Canadian GDP data for June showing a weak print of (0.2%). The debt burden in Canada is impacted more severely by higher interest rates than in the U.S. as mortgages are more short-term in nature. As interest rates continue to rise, mortgages are rolling over at much higher rates, putting additional pressure on the Canadian consumer, particularly when combined with higher inflation levels. The potential for strikes in the U.S. auto sector could dampen economic activity going forward. In addition, although the threat of a near-tem government shutdown in the

(Continued ...)

Key Metrics

Indicator	Value	Chg Q3	Chg 1Y
S&P/TSX Composite	19,541.27	-2.2%	9.6%
S&P 500 (USD)	4,288.05	-3.3%	21.6%
iShares MSCI EAFE ETF (USD)	68.92	-4.9%	25.8%
USD/CAD	$ 0.74	-2.5%	1.9%
WTI Crude ($/bl))	$ 90.79	28.5%	14.2%
GoC 10Y Bond	4.03%	76 bps	85 bps
GoC Deposit Rate	5.00%	25 bps	175 bps
Cdn CPI YoY	4.0%	1.2%	-2.9%
US 10Y Treasury	4.57%	73 bps	74 bps
Fed Funds Rate	5.50%	25 bps	225 bps
USD CPI YoY	3.7%	0.7%	-4.5%

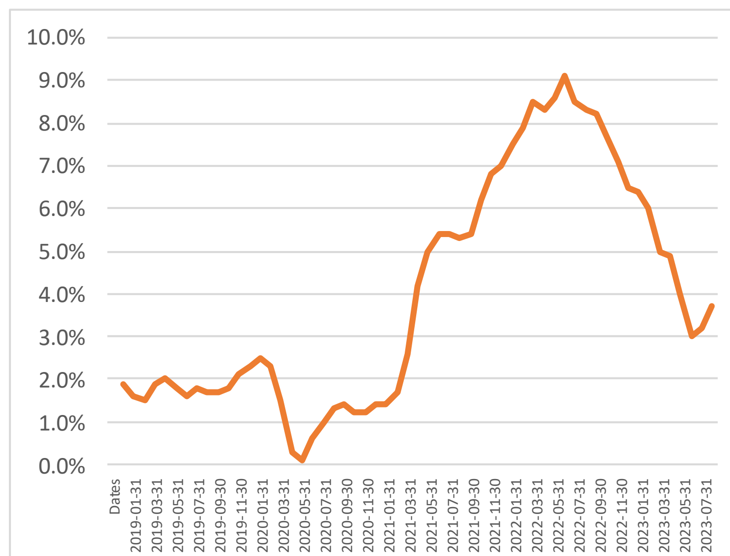
Top Themes

Inflation bounces back, breaking its moderating trend

Central Banks remain hawkish, signaling interest rates higher for longer

Spike in oil prices contributes to inflationary fears

Top Chart: U.S. CPY YoY %



Source: Bloomberg, Lincluden

(...Continued from page 1)

U.S. has been averted for now, the potential for a shutdown to occur in mid-November could impact economic activity Also, if a government shutdown were to occur, this would delay the release of important economic data, adding a degree of uncertainty as the U.S. Federal Reserve contemplates any further changes in monetary policy.

Equity Markets Modestly Down, Bonds Yields Move Dramatically Higher

Equity markets were choppy and finished the quarter down modestly from the end of the second quarter. Given the magnitude of interest rate increases that have occurred over the past two years, equity markets have performed quite well. Stronger equity returns have helped buoy the consumer sector in the U.S. Bond yields moved dramatically higher during the quarter as inflation bounced higher after declining consistently from the peak levels reached last year. Hawkish comments by central banks was a major contributor to the higher level of bond yields. Bond yields did not react well to the potential for an additional interest rate hike by year-end as well as an environment where interest rates remain higher for longer. As a result, the benchmark 10 year U.S. Treasury yield increased by 73 bp, finishing the quarter at 4.57%. After hitting a low of 3.31% in March, the yield on the 10 year Treasury has moved higher by 126 bp, sitting at a 16 year high.