Monthly Investment Monitor

October In Review

Equity markets showed continued weak performance in October, declining for the third month in a row. Elevated interest rates are thought to remain elevated for the near term, while turmoil in the Middle East could provide headwinds for the global economy. Canadian stocks ended October down 3.2%, although still slightly positive year-to-date. Ten of eleven market sectors finished the month in negative territory. Health Care, Real Estate, and Information Technology sectors suffered the biggest declines, with Consumer staples the lone positive sector. Commodities diverged, as natural gas climbed 7.9%, gold gained 6.9, WTI crude oil dropped 8.8%, and copper declined 2.4%. U.S. stocks declined 2.1% in U.S. dollar terms, with all S&P 500 sectors negative for the month with the exception of Utilities. Canadian bonds gained 0.37%, as the Bank of Canada kept interest rates steady for the second month in a row, and there is growing optimism that central banks may pause on hiking interest rates further. Emerging Market equities dipped by 3.9%.

Here are some of October's most notable events:

Inflation appears to have moderated. After a recent uptick in inflation in the U.S. and Canada, October's Consumer Price Index (CPI) reports indicate that inflation is moderating. U.S. CPI rose by 3.7% year-over-year, unchanged from the previous month, but core inflation (which excludes volatile food and energy prices) decreased to 4.1% from 4.3% in August. More improvement was seen in Canada, as September CPI was up 3.8%, down from 4.0% in August. Canadian core inflation was 2.8%, down significantly from 3.6% the previous month. In response to an easing of inflation, the Bank of Canada left interest rates unchanged at its October meeting.

Recent turmoil in the Middle East has led to oil price volatility. The ongoing conflict involving Israel in Gaza has raised concerns about potential supply disruptions, while tensions with Iran could further strain the oil market if the U.S. imposes more sanctions. Both the International Energy Agency and the Organization of the Petroleum Exporting Countries anticipate a significant supply deficit in the near future. This could impact consumer spending and present inflationary challenges for central banks aiming for price stability.

U.S. economy sees 4.9% growth in Q3, driven by consumer spending. The U.S. economy grew at a 4.9% quarter-over-quarter (QoQ) pace in Q3, ahead of the median consensus estimate of 4.5% and Q2's reading of 2.1%. The main driver of the expansion was consumer spending, which accelerated to 4.0% QoQ annualized from Q2's pace of 0.8%, in line with consensus expectations. Services spending advanced by 3.6% (1.0% previously), goods improved to 4.8% (0.5% previously), and business investment grew by 8.4% (5.2% previously). Despite the strong economic momentum, many economists see an easing in growth in the final quarter of the year.

Index†	1 Mth	Change (%) YTD	1 Yr	Index Level
Treasury Bill (FTSE Canada 60 Day T-Bill)	0.46	3.93	4.57	176
Bonds (FTSE Canada Universe Bond)	0.37	-1.09	0.01	1,040
Canadian Equities (S&P/TSX Composite)	-3.21	0.12	0.50	18,873
U.S. Equities (S&P 500, US$)	-2.10	10.68	10.12	4,194
Global Equities (MSCI World, US$)	-2.88	8.36	11.07	2,769
Emerging Markets (MSCI Emerging Markets, US$)	-3.88	-1.85	11.20	915

Currencies†	1 Mth	Change (%) YTD	1 Yr	Exchange Rate
C$/US$	-2.15	-2.32	-1.81	0.72
C$/Euro	-2.17	-1.13	-8.23	0.68
C$/Pound	-1.74	-2.77	-7.34	0.59
C$/Yen	-0.61	12.99	0.21	109.33

Commodities (US$)†	1 Mth	Change (%) YTD	1 Yr	Price
Gold Spot ($/oz)	6.87	4.63	15.44	1,994
Oil WTI ($/barrel)	-8.76	4.80	5.99	81.02
Natural Gas ($/MMBtu)	7.94	-26.70	-35.78	3.58

† Total Return, as at October 31, 2023. Indices are quoted in their local currency.
Source: Bloomberg
Indices are not managed, and it is not possible to invest directly in an index.

Did You Know?

The financial landscape evolves continuously, and yesterday's leading companies might not always maintain their dominance. Case in point: in 1990, industry giants GE and AT&T were prominently listed among the top five stocks in the S&P 500. Similarly, Nortel Networks, a telecommunications powerhouse, once accounted for a staggering 35% of the S&P/TSX Composite. Fast forward to today, **ten stocks currently represent over 30% of the S&P 500** market capitalization.

A diversified investment strategy spreads assets across various sectors or industries, reducing the risk of a significant loss if one stock or sector underperforms. If an investor had heavily invested in GE, AT&T, or Nortel during their peak without diversifying, they might have experienced substantial losses when the fortunes for these companies changed. By diversifying, investors can help safeguard their portfolios against such unforeseen market shifts. Learn more about diversification by visiting scotiafunds.com.

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