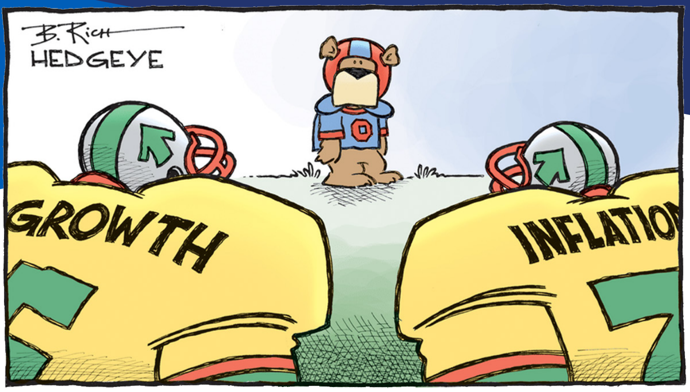
9-Month Market Review

(as at September 30, 2023)



Financial Markets React to Interest Rates and Government Spending

Latest Developments

- **U.S. Treasury Bond Prices Plunge:** The prices of United States (U.S.) Treasury bonds, essentially government IOUs, have plummeted, leading to a significant rise in interest rates, the highest since 2007.
- **Global Stock Market Declines:** As a consequence of rising interest rates, major stock markets worldwide experienced declines over the most recent quarter, although they still maintain overall gains for the year. The MSCI World Index gained 10% since the start of the year, and the S&P 500 Index and the Bloomberg European 500 Index rose by 13% and 8%, respectively.
- **Inflation on the Rise**: The U.S. Consumer Price Index recorded a 3.7% increase in September year-on-year, surpassing the U.S. Federal Reserve's 2% target. Globally, the International Monetary Fund (IMF) revised its global inflation forecast upward to 5.8% for the next year.
- **Improved U.S. Economic Outlook:** The IMF upgraded its expectations for U.S. economic growth to 2.1% from the previous estimate of 1.8%. The U.S. Labor Department reported strong employment data with 336,000 jobs added in September, exceeding expectations.
- **Geopolitical Tensions in Israel:** Recent events in Israel have heightened geopolitical tensions, potentially leading to instability in the region.

What this Means

- **Impact of Treasury Bonds on Interest Rates:** U.S. Treasury bond prices influence interest rates, impacting various loan products, including mortgages and car loans. Rising rates raise concerns about corporate debt and vulnerable sectors like regional banks and commercial real estate.
- **U.S. Economic Dilemma:** Positive employment and economic growth predictions contrast with the bond market's lack of trust, causing interest rates to surge, potentially straining the broader economy.
- **U.S. Deficit's Influence:** High interest rates are limited in coming down due to the U.S. deficit, which leads to increased Treasury bond issuance (supply), driving bond prices down and interest rates up.

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