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WOOD GUNDY

Economic Update:
AMCTO Zone 5 – Fall Session

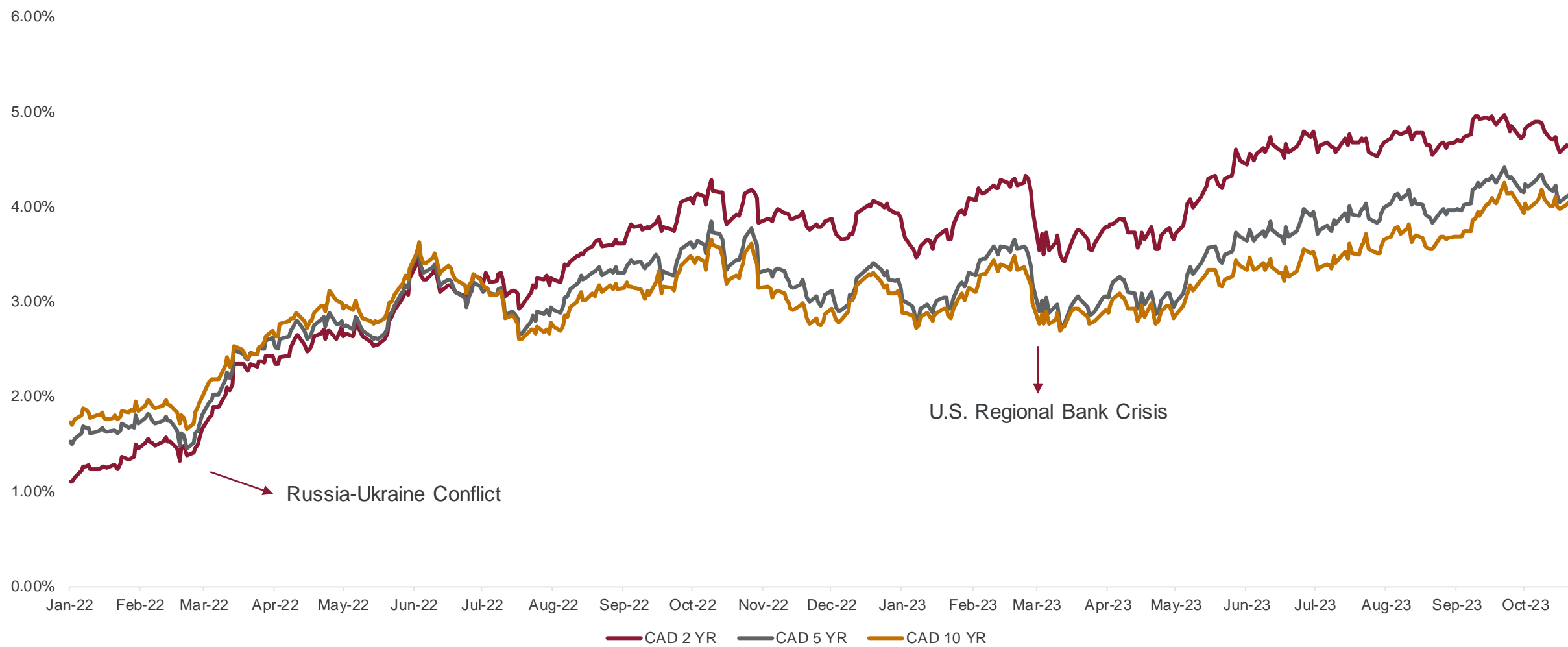


Prepared by:

Nick Poulias, MBA, Investment Advisor
Hobson Chahal Advisory Group
CIBC Private Wealth Management | CIBC Wood Gundy

Thursday, November 2, 2023

Rapid increase in bond yields since March 2022

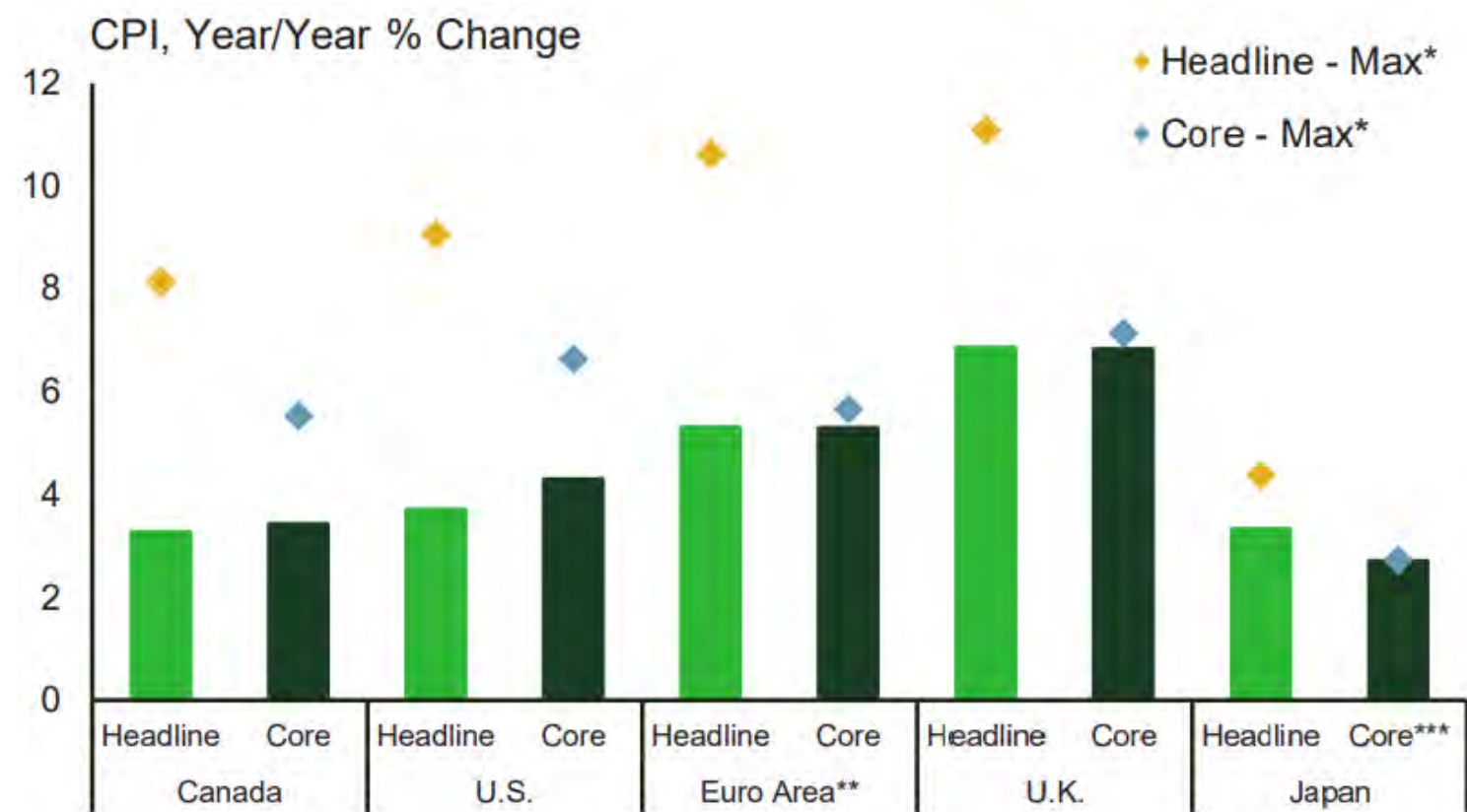


Source: Bank of Canada as of October 31, 2023



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Inflation cooling across G-7

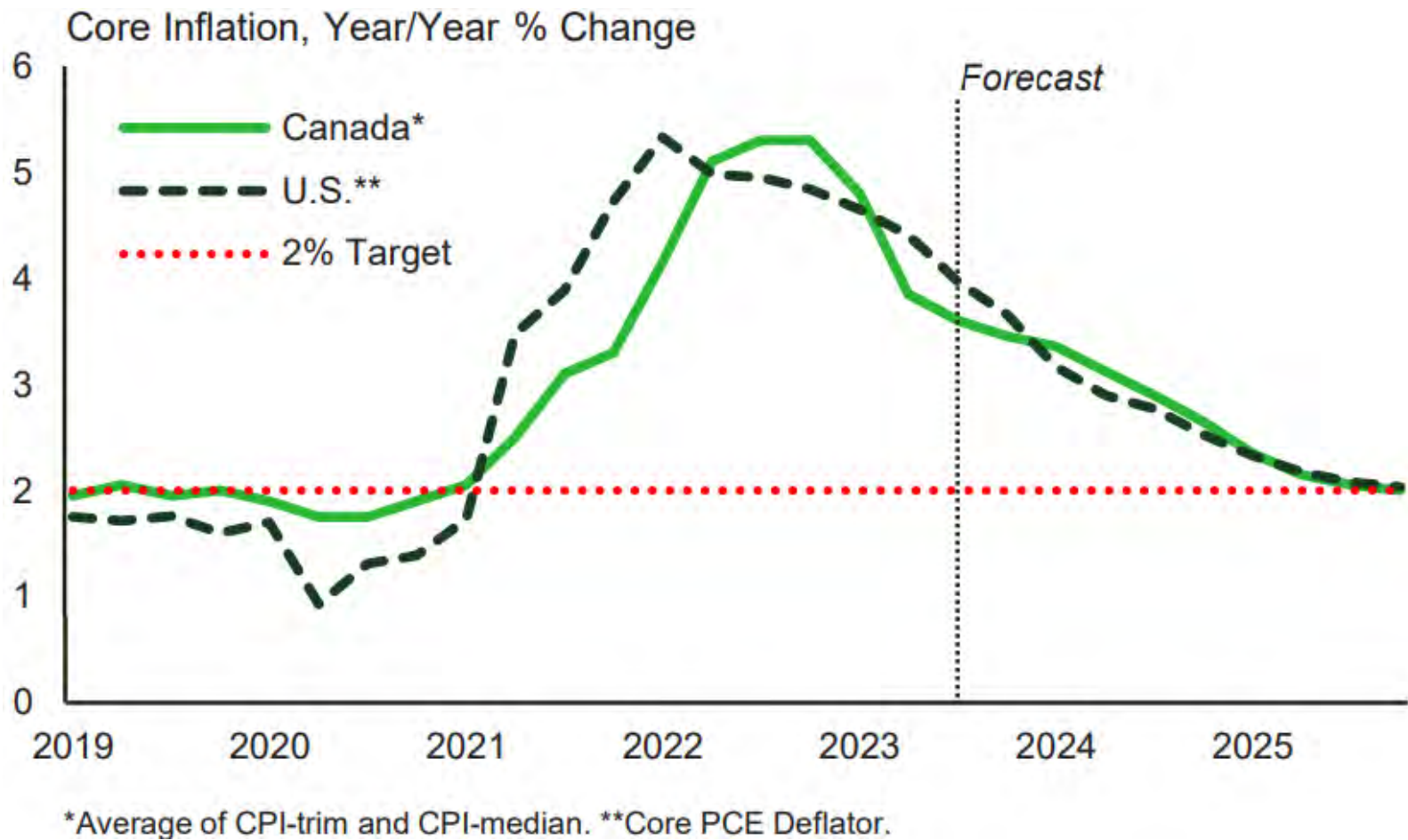


Source: National Statistical Agencies, TD Economics



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Core inflation has made progress, but still a ways to go

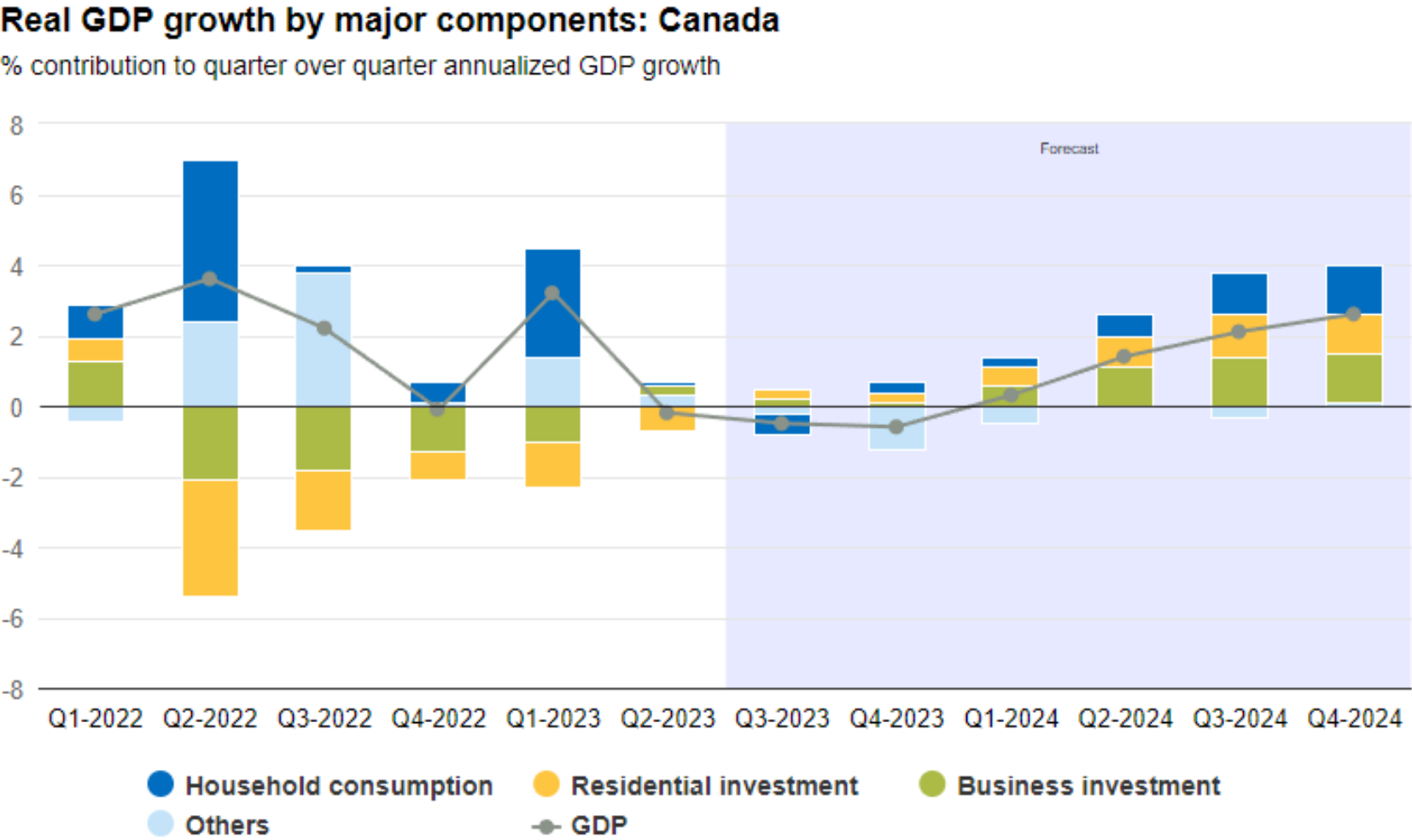


Source: Statistics Canada, Federal Reserve Board, TD Economics



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Real GDP growth has averaged 1% over the past year

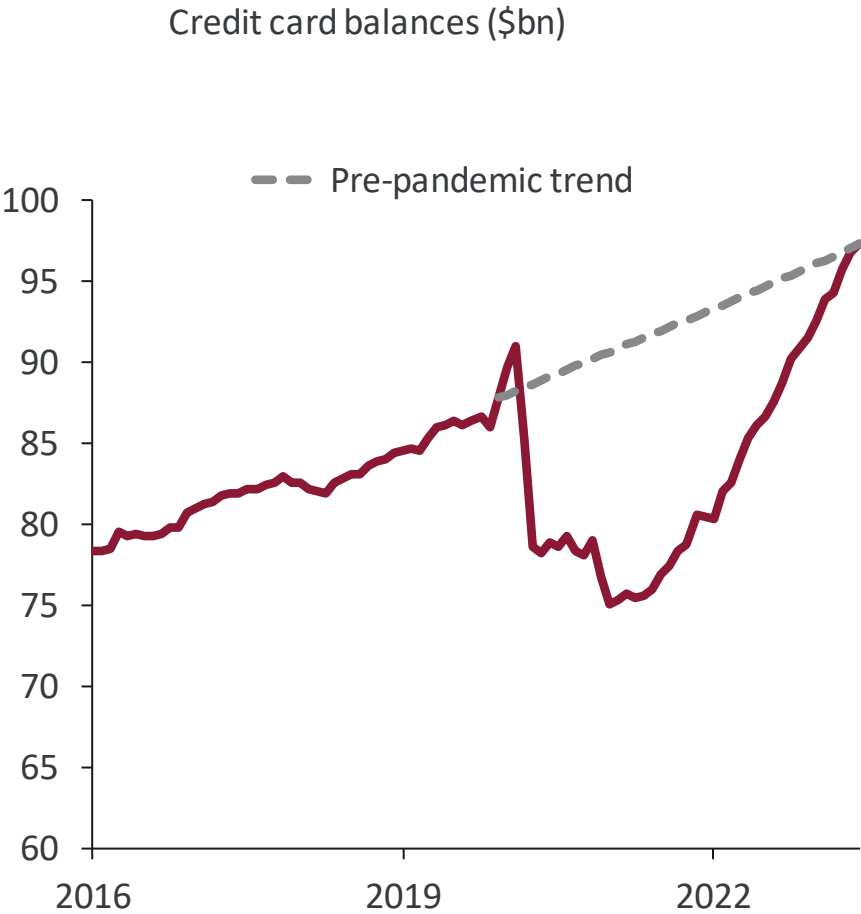
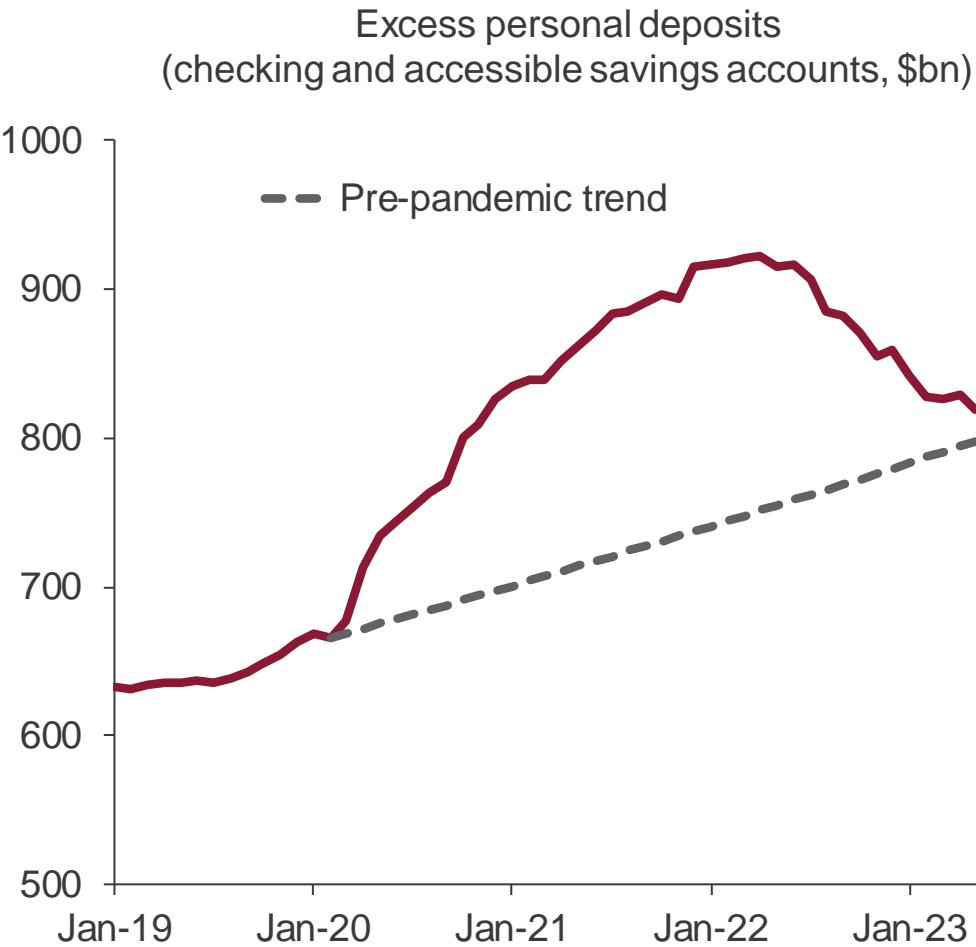


Source: Statistics Canada, RBC Economics



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Excess savings have been exhausted



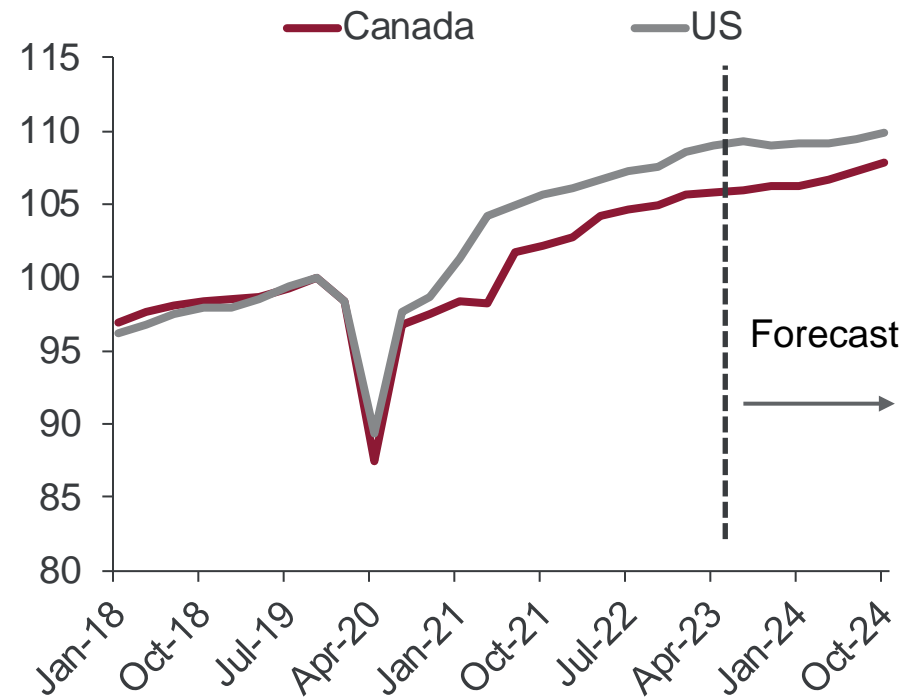
Source: Statistics Canada, CIBC



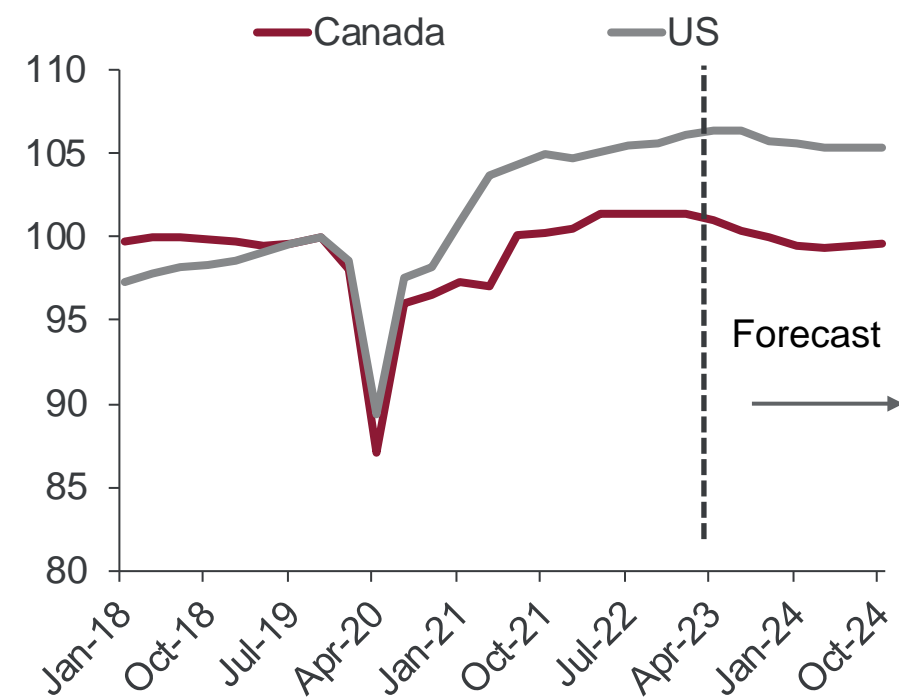
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Per capita spending highlights weakness

Real consumer spending
(index Q4 2019 = 100)



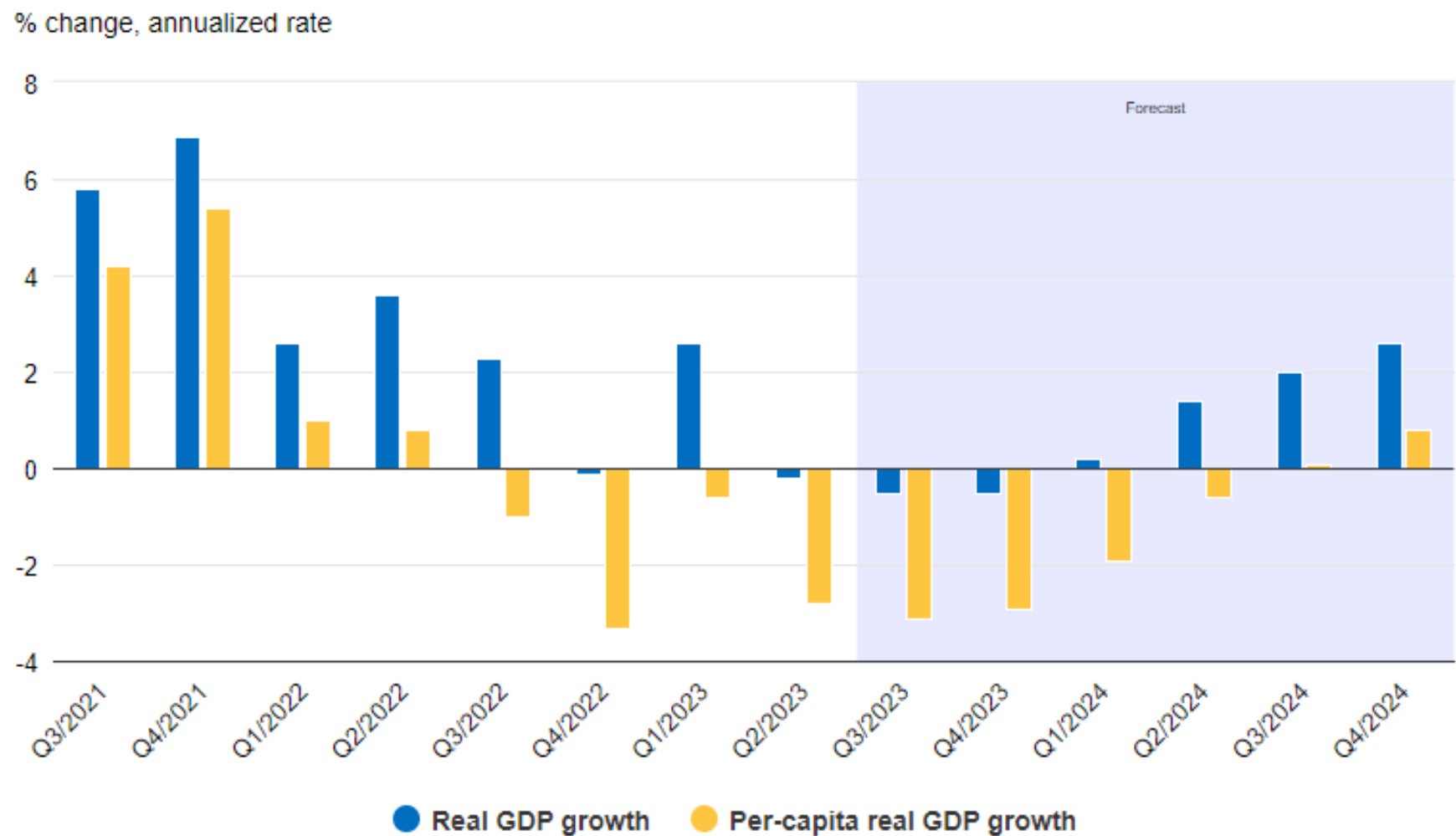
Real consumer spending per capita
(index Q4 2019 = 100)



Source: Statistics Canada, CIBC



Canadian GDP growth softens despite population surge

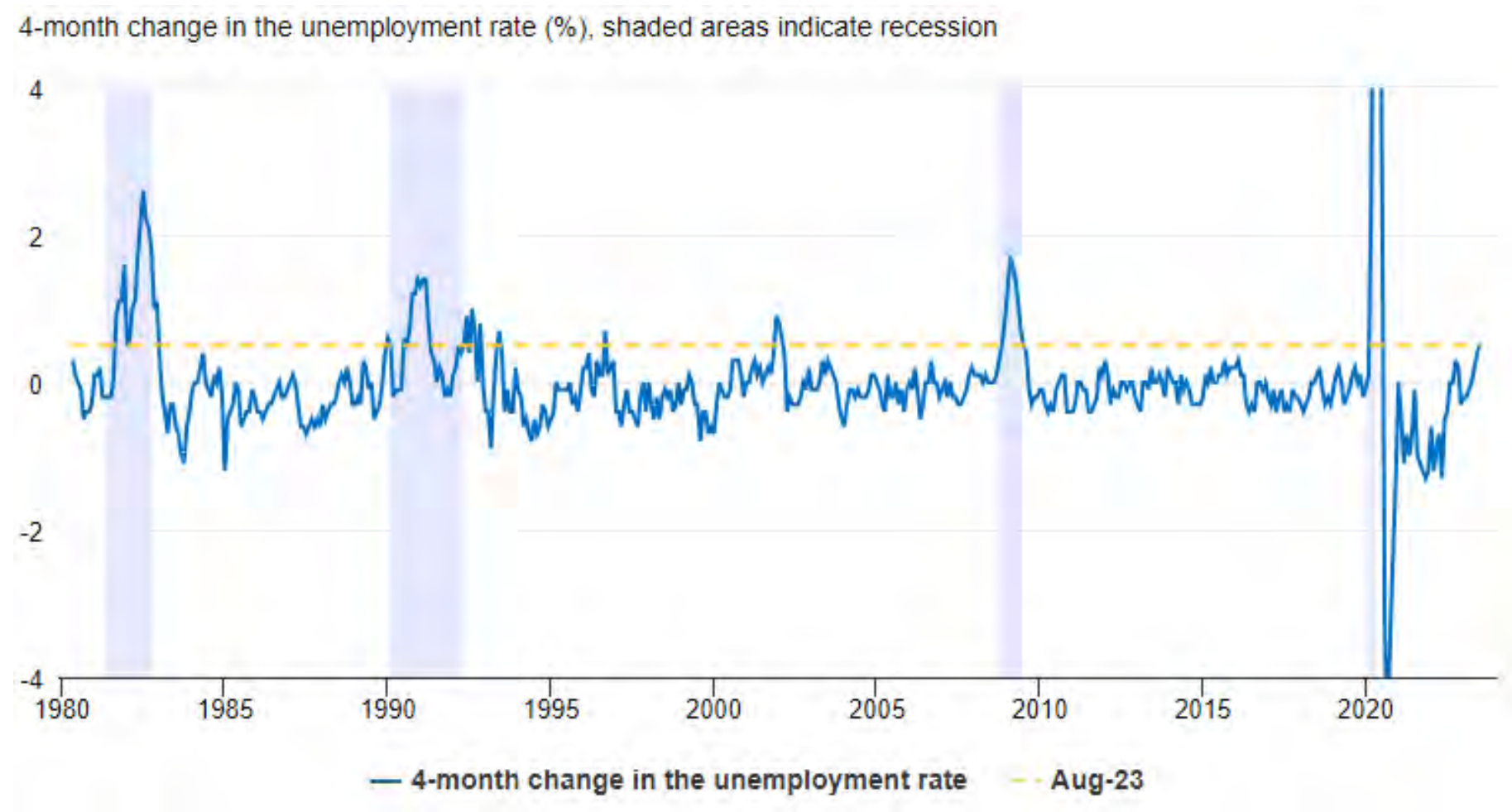


Source: Statistics Canada, RBC Economics



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Canadian labour markets are softening



Source: Statistics Canada, RBC Economics

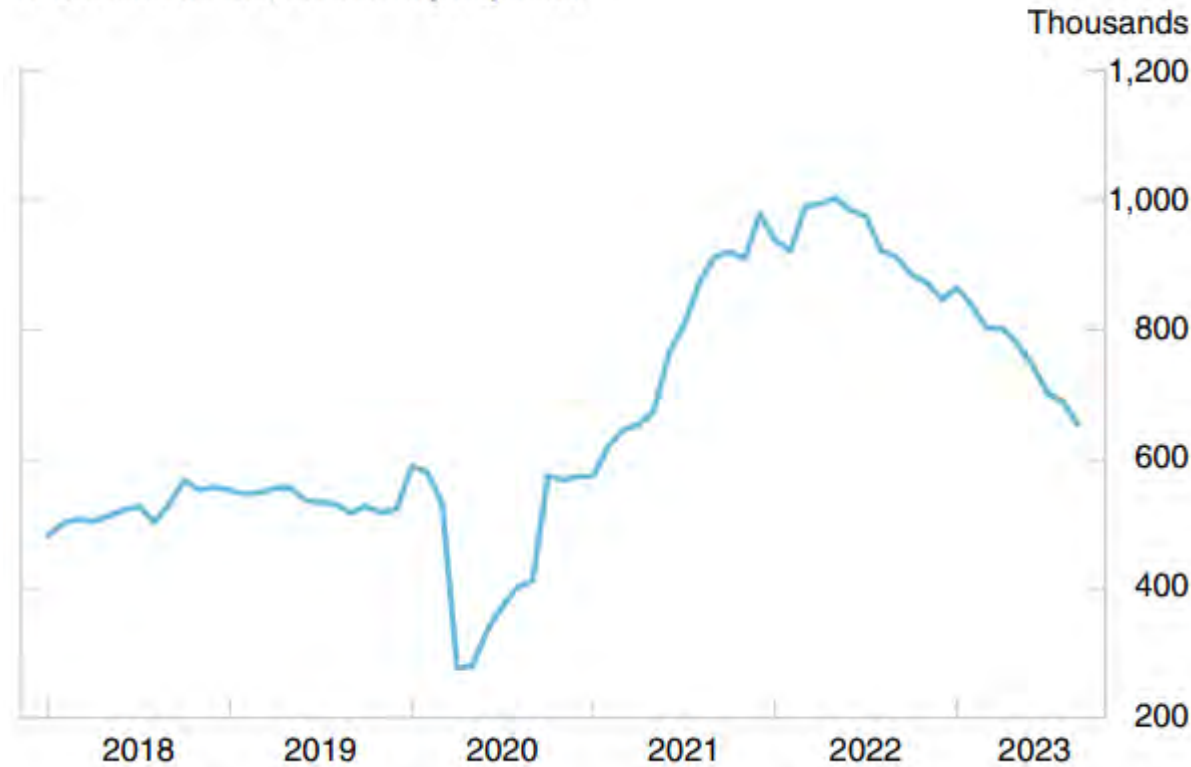


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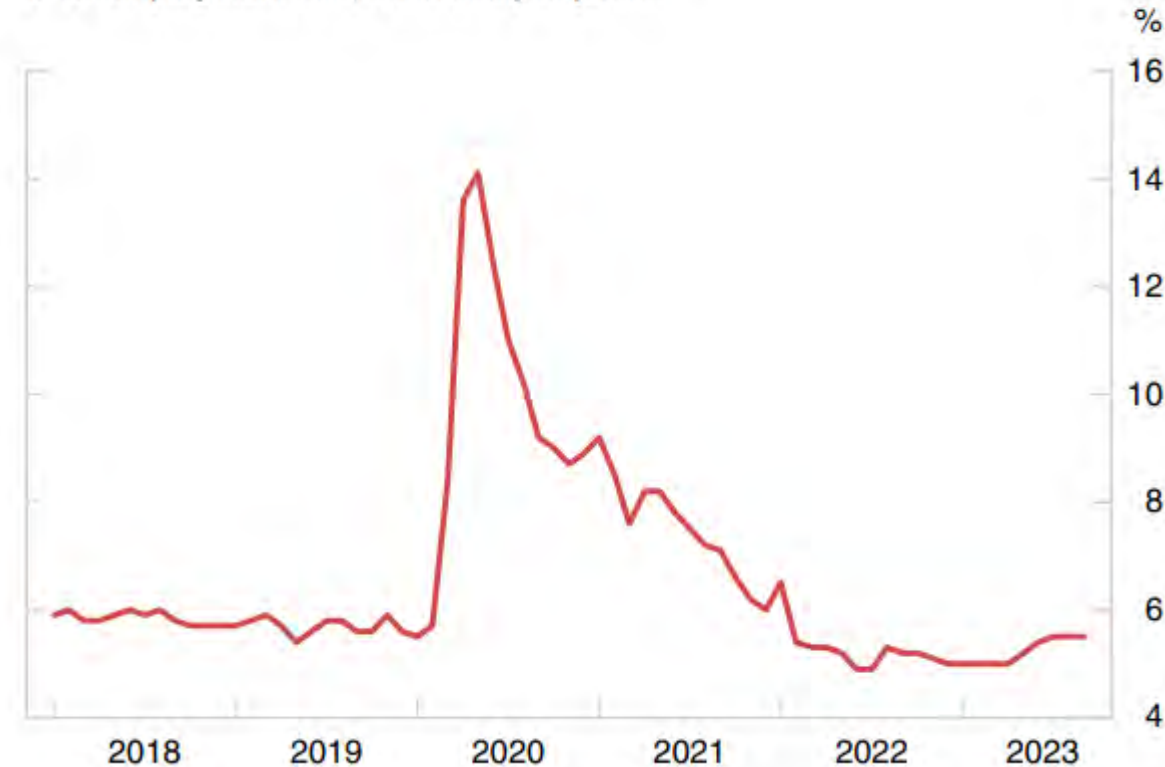
Rise in unemployment has come via slower hiring rather than faster firing

Monthly data

a. Job vacancies, seasonally adjusted



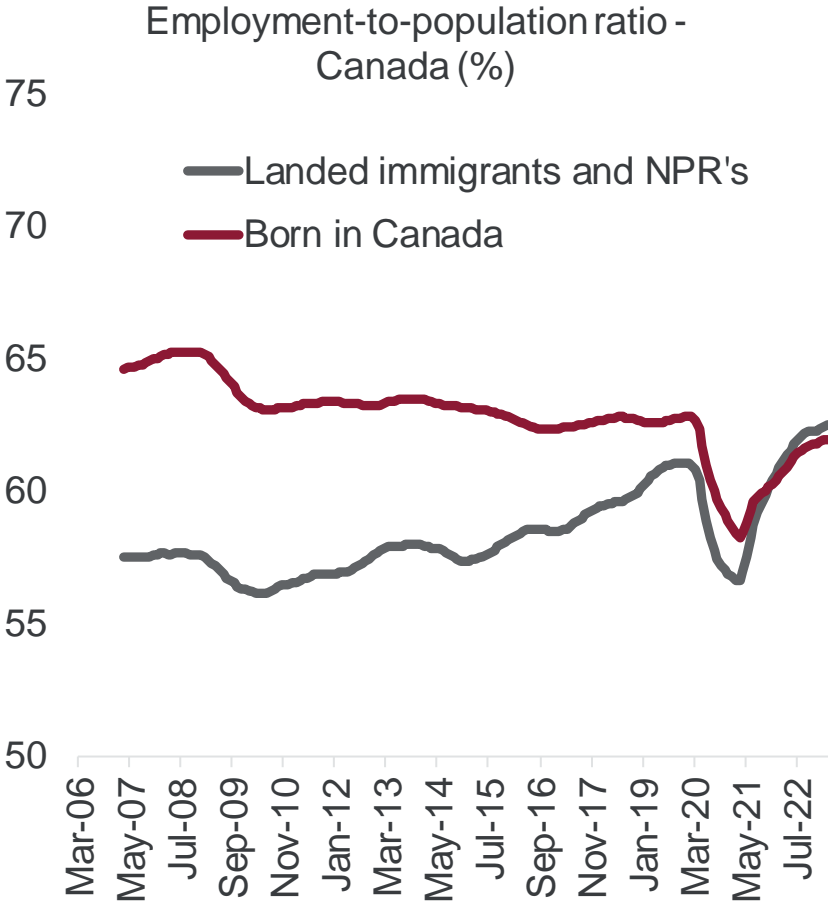
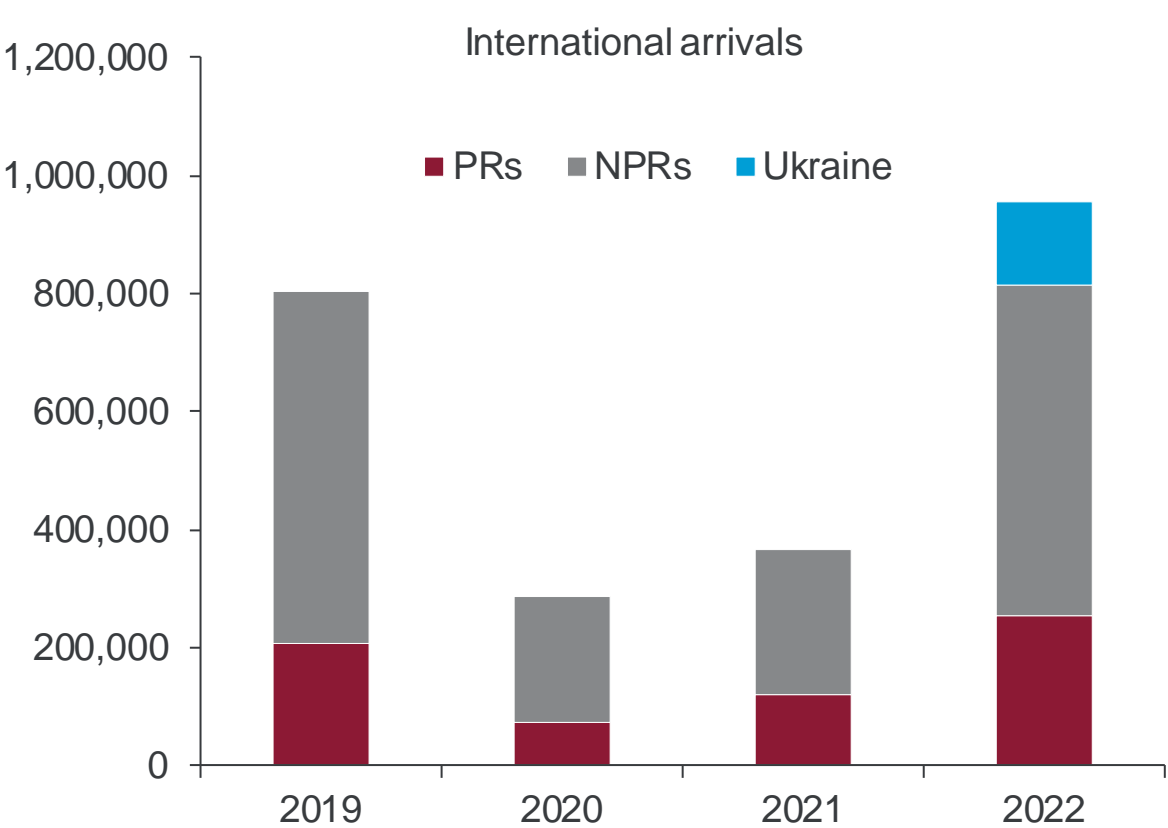
b. Unemployment rate, seasonally adjusted



Source: BoC Monetary Policy Report – October 2023



Population growth has gone way beyond immigration targets

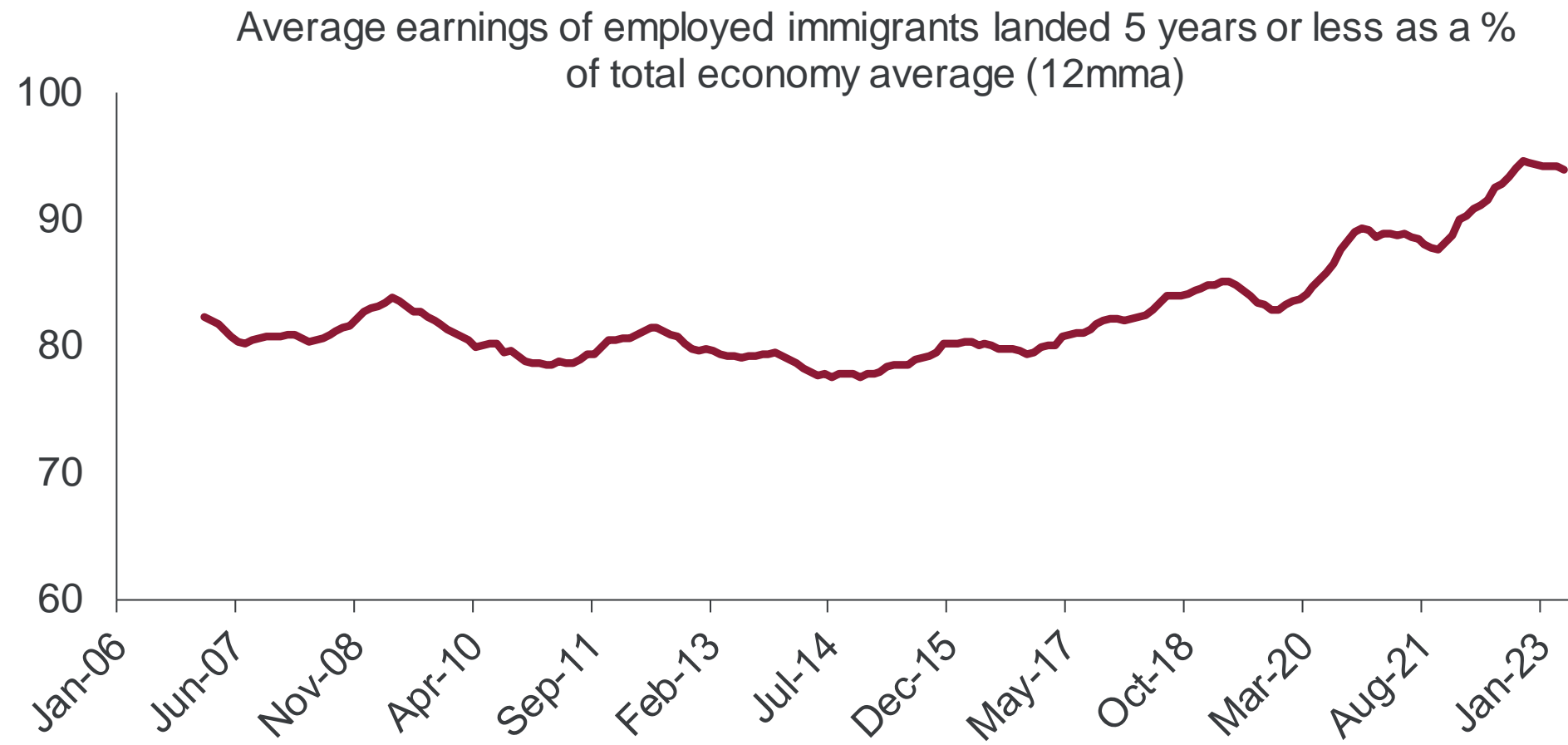


Source: Statistics Canada, CIBC



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Immigration is likely creating more demand per person

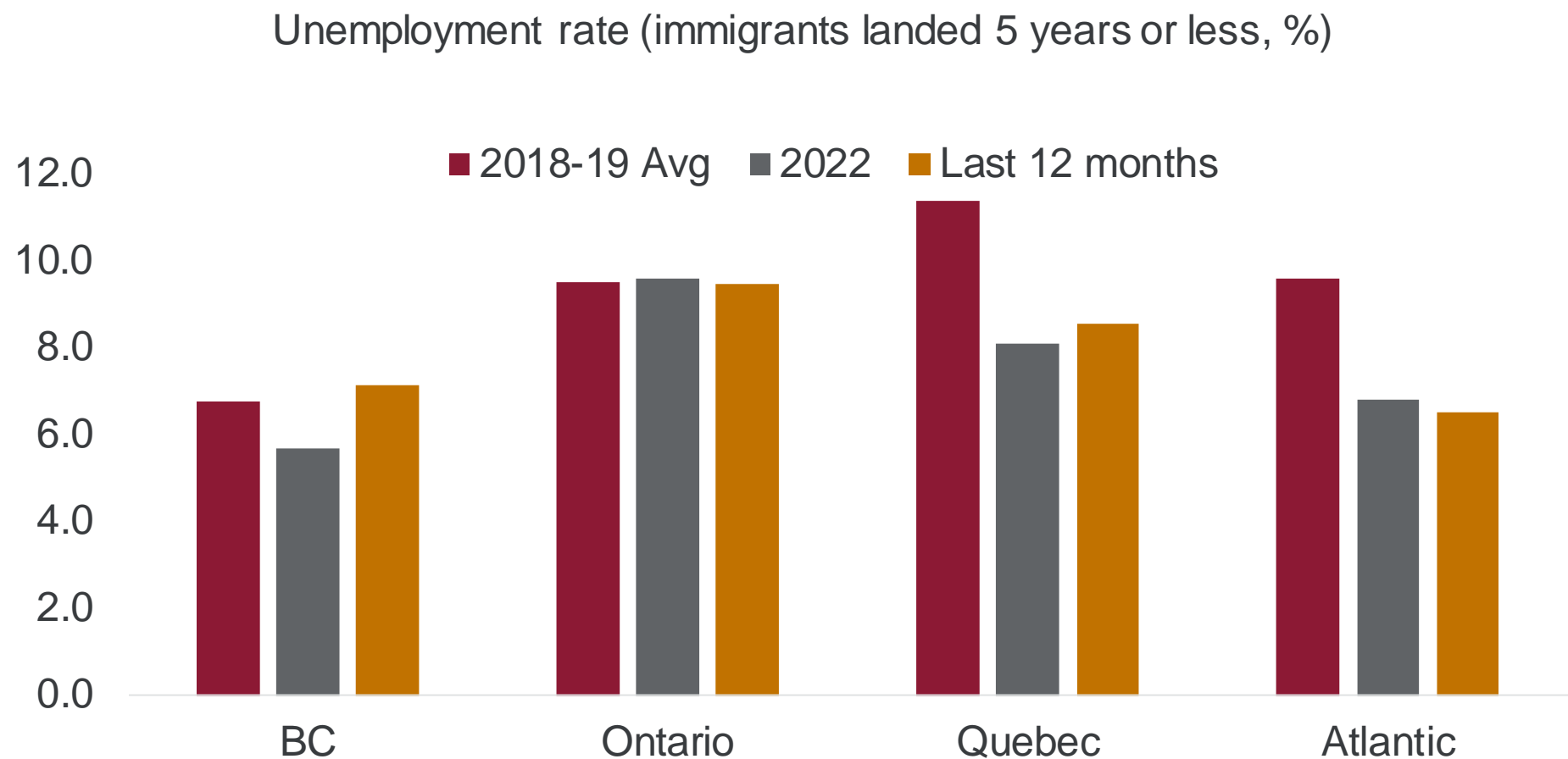


Source: Statistics Canada, CIBC



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Provincial differences emerging in unemployment rates for newest immigrants

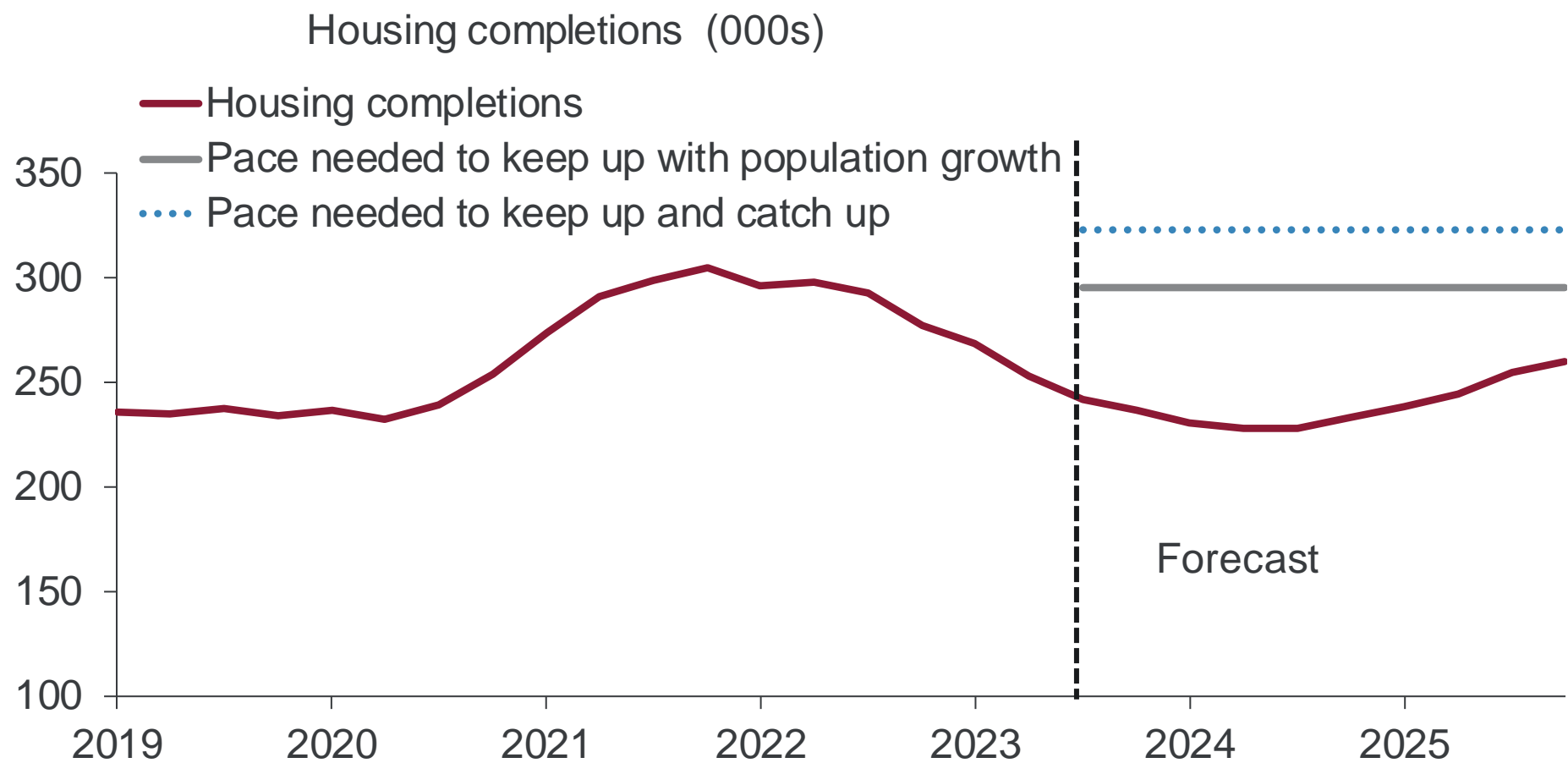


Source: Statistics Canada, CIBC



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Housing supply shortfall to remain prominent

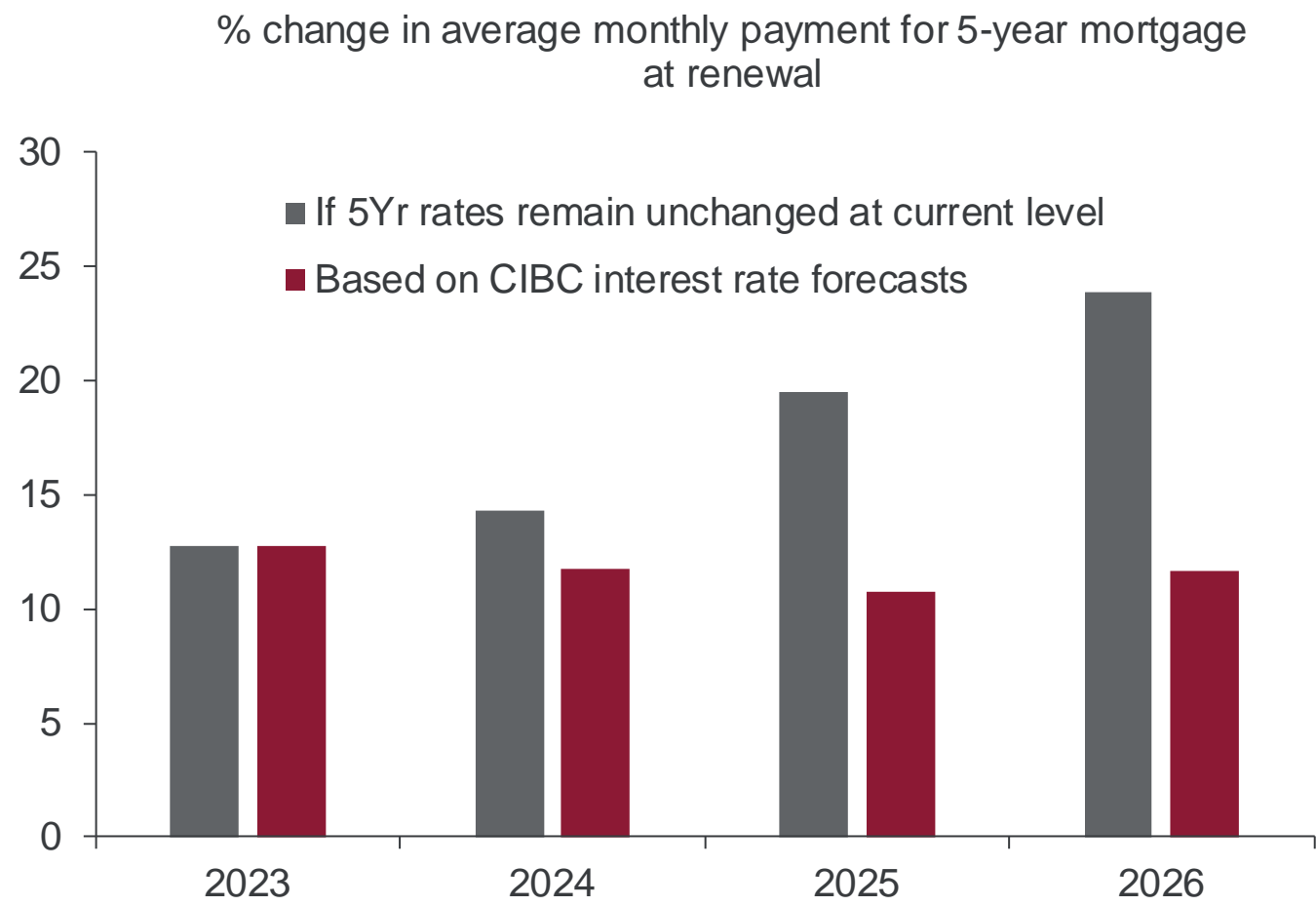
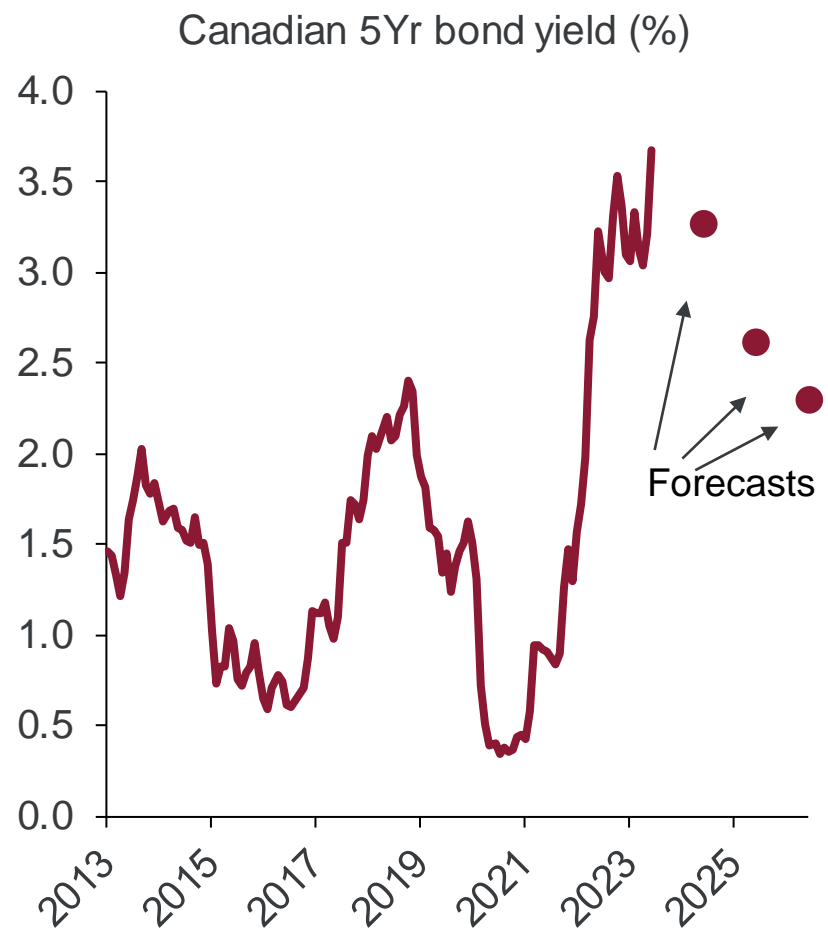


Source: CMHC, CIBC



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Lower rates needed by 2025 to avoid a big refinancing hit



Source: CIBC



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Prepare, don't predict



Interest rate and FX forecast

Canadian Interest Rates (end of period)

Variable	2023 Nov-1	2023 Dec	2024 Mar	2024 Jun	2024 Sep	2024 Dec	2025 Jun	2025 Dec
Overnight Target Rate	5.00%	5.00%	5.00%	4.75%	4.00%	3.50%	3.00%	2.50%
2-Year Government Bond	4.57%	4.50%	4.40%	4.00%	3.40%	3.00%	2.70%	2.60%
10-Year Government Bond	3.95%	3.80%	3.65%	3.50%	3.35%	3.20%	2.90%	2.95%
30-Year Government Bond	3.75%	3.65%	3.50%	3.60%	3.50%	3.40%	3.10%	3.05%

US Interest Rates (end of period)

Variable	2023 Nov-1	2023 Dec	2024 Mar	2024 Jun	2024 Sep	2024 Dec	2025 Jun	2025 Dec
Federal Funds Rate (Midpoint)	5.375%	5.625%	5.625%	5.625%	5.375%	4.875%	4.125%	3.625%
2-Year Government Note	5.00%	5.15%	5.00%	4.85%	4.40%	3.80%	3.30%	3.10%
10-Year Government Note	4.80%	4.75%	4.55%	4.30%	4.20%	3.95%	3.65%	3.30%
30-Year Government Bond	4.96%	5.00%	4.75%	4.55%	4.40%	4.30%	3.90%	3.65%

Exchange Rates (end of period)

Exchange Rate	2023 Nov-1	2023 Dec	2024 Mar	2024 Jun	2024 Sep	2024 Dec	2025 Jun	2025 Dec
CAD - USD	0.72	0.72	0.70	0.73	0.74	0.75	0.76	0.78
USD - CAD	1.39	1.39	1.42	1.37	1.36	1.34	1.32	1.29

Source: CIBC Economics as of October 27, 2023



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Economic outlook: a stumble, not a tumble

Canadian Forecast Detail (real % change, SAAR, unless otherwise noted)

Variable	23Q2A	23Q3F	23Q4F	24Q1F	24Q2F	24Q3F	24Q4F	2023F	2024F	2025F
Real GDP Growth (AR)	-0.2%	0.4%	1.2%	-0.7%	1.2%	1.8%	2.0%	1.2%	0.7%	2.1%
Real Final Domestic Demand (AR)	1.0%	0.2%	1.0%	-0.3%	1.4%	2.2%	2.3%	0.6%	0.9%	2.3%
Household Consumption (AR)	0.2%	0.5%	1.1%	-0.8%	1.2%	1.7%	2.1%	2.1%	0.6%	2.0%
All items CPI Inflation (Y/Y)	3.5%	3.7%	3.0%	3.0%	2.3%	1.7%	1.8%	3.8%	2.2%	1.9%
Unemployment Rate (%)	5.2%	5.5%	5.7%	6.2%	6.3%	6.1%	5.9%	5.3%	6.1%	5.6%

US Forecast Detail (real % change, SAAR, unless otherwise noted)

Variable	23Q2A	23Q3F	23Q4F	24Q1F	24Q2F	24Q3F	24Q4F	2023F	2024F	2025F
Real GDP Growth (AR)	2.1%	4.9%	0.9%	-0.1%	0.6%	0.6%	0.5%	2.4%	1.1%	1.4%
Real Final Sales (AR)	2.1%	3.5%	1.8%	0.1%	0.6%	0.5%	0.5%	2.8%	1.1%	1.4%
All items CPI Inflation (Y/Y)	4.0%	3.5%	3.7%	3.4%	2.9%	2.7%	2.3%	4.2%	2.8%	2.1%
Core CPI Inflation (Y/Y)	5.2%	4.4%	4.1%	3.4%	2.8%	2.8%	2.4%	4.8%	2.9%	2.2%
Unemployment Rate (%)	3.6%	3.8%	3.8%	4.1%	4.1%	4.2%	4.3%	3.7%	4.2%	4.1%

Source: CIBC Economics as of October 27, 2023



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Key takeaways

- Inflation in Canada has eased more than in other countries, which may allow interest rate cuts to happen earlier.
- Persistent supply constraints relative to pre-pandemic normal will mean that interest rates stay “higher for longer”. However, Canadian household debt refinancing risk may mean interest rates get closer to pre-pandemic norms in Canada than elsewhere.
- Rapid immigration and population growth is adding to inflation in housing, but also filling job vacancies and helping ease inflation in other areas.

Investment strategy

1. Reinvestment Risk

- What happens if/when short rates move lower?
- Clients are more willing to term out and limit their reinvestment risk

2. Diversifying Credit

- Later in the economic cycle – improve credit quality of investments
- Diversifying across “Big 5” bank + adding non-bank credit

3. Adding Duration

- Recent increase in 10yr bond yields have encouraged clients to start adding duration → Lock-in 5% to 6% for 5 to 10yrs
- Attempt to match investments with anticipated cash flow requirements

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