

Market overview

Global financial markets ended the third quarter of 2021 generally higher but rose at a much slower pace than earlier in the year amid concerns about the spread of the COVID-19 delta variant and sputtering economic growth.

Emerging markets were the worst performers in the period ending Sept. 30, 2021, with the MSCI Emerging Markets Index moving 5.97% lower in Canadian dollar (CAD) terms. China's clampdown on technology companies had a domino effect throughout the Asian region, as did concerns about the solvency of Chinese property developer Evergrande.

Investors were also cautious ahead of the U.S. government's budget discussions, and the political horse-trading that accompanies the annual event. As expected, the U.S. Congress passed a stopgap spending bill that keeps the government functioning until Dec. 3, but the focus now turns to the debt ceiling and passing President Joe Biden's stimulus initiatives – including a \$3.5 trillion infrastructure plan and a series of changes to the tax code. While a government shutdown is not expected and default risk low, the process is likely to continue roiling markets until the bill is passed. The S&P 500, representing U.S. stocks, ended the quarter 2.67% higher in CAD terms, and 0.48% in USD terms.

Canada's key equity benchmark, the S&P/TSX Composite Index, edged 0.17% higher in the third quarter. Canadian bonds – represented by the Bloomberg Barclays Canadian Aggregate Index – slipped 0.48% in the period as the Canadian dollar weakened. Market expectations for the Bank of Canada to begin tightening policy through interest-rate increases may ease as gross domestic product growth has come in below expectations. After a bumpy ride in the period, oil prices ended higher due to supply and demand imbalances in Europe and China. The Organization of Petroleum Exporting Countries (OPEC) and other major oil-producing nations agreed to increase crude oil production later this year.

The MSCI EAFE Index, which represents European, Australasia and Far East equities, added 1.85% in CAD over the first quarter.

Coronavirus concerns remain

Even with most of the population in the majority of developed countries now fully vaccinated against the COVID-19 virus, a number of concerns remain. The spread of the stronger delta variant, especially through Asia, has hurt the supply chain and subsequently slowed the nascent economic recovery. The reluctance of certain groups to get vaccinated has led to rising infections in some regions, sparking a renewal of some restrictions. This trend has the potential to become a

greater worry as colder weather approaches in North America and the population is forced indoors. However, more data about the efficacy of booster shots as well as news of a potential coronavirus treatment seemed hopeful.

China a focal point

Events in China dominated headlines throughout the quarter. Relations with the U.S. remain frosty, and the Biden Administration has stood firm on tariffs and existing trade conditions. Markets were jolted by the Chinese government's crackdown on technology giants as well as Evergrande's missed bond payment.

Meanwhile, the release of Meng Wanzhou, chief financial officer of Chinese telecommunications giant Huawei from custody in Canada and the release of two Canadian men from custody in China, has raised concerns about the precedent that may have been set.

Monetary policy remains in spotlight

With inflation rising globally, market watchers are keenly eyeing the world's major central banks for signs of policy tightening even as the delta variant and supply chain concerns have nipped at economic growth.

The U.S. Federal Reserve (Fed) maintained its current monetary policy although it noted that "a moderation in asset purchases may soon be warranted" and that the tapering of asset purchases could end in mid-2022. Interest rate increases are also possible in 2022 the central bank said. This is a faster timeline than had been baked into market expectations and led to a jump in U.S. bond yields. Along with the early tapering possibility, rising energy prices and expectations of growth rebounding as delta cases fade also had an impact on bond yields moving higher.

The Bank of England noted that UK inflation could peak above 4.0% and remain elevated until the second quarter of 2022, which has strengthened the case" for modest tightening of monetary policy over the next few years.

The Bank of Japan and the European Central Bank (ECB) also maintained their accommodative monetary policy.

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