

Economic and financial update

**CSTA Conference
Kananaskis, AB**

Stéfane Marion
Chief Economist & Strategist

August 18, 2023

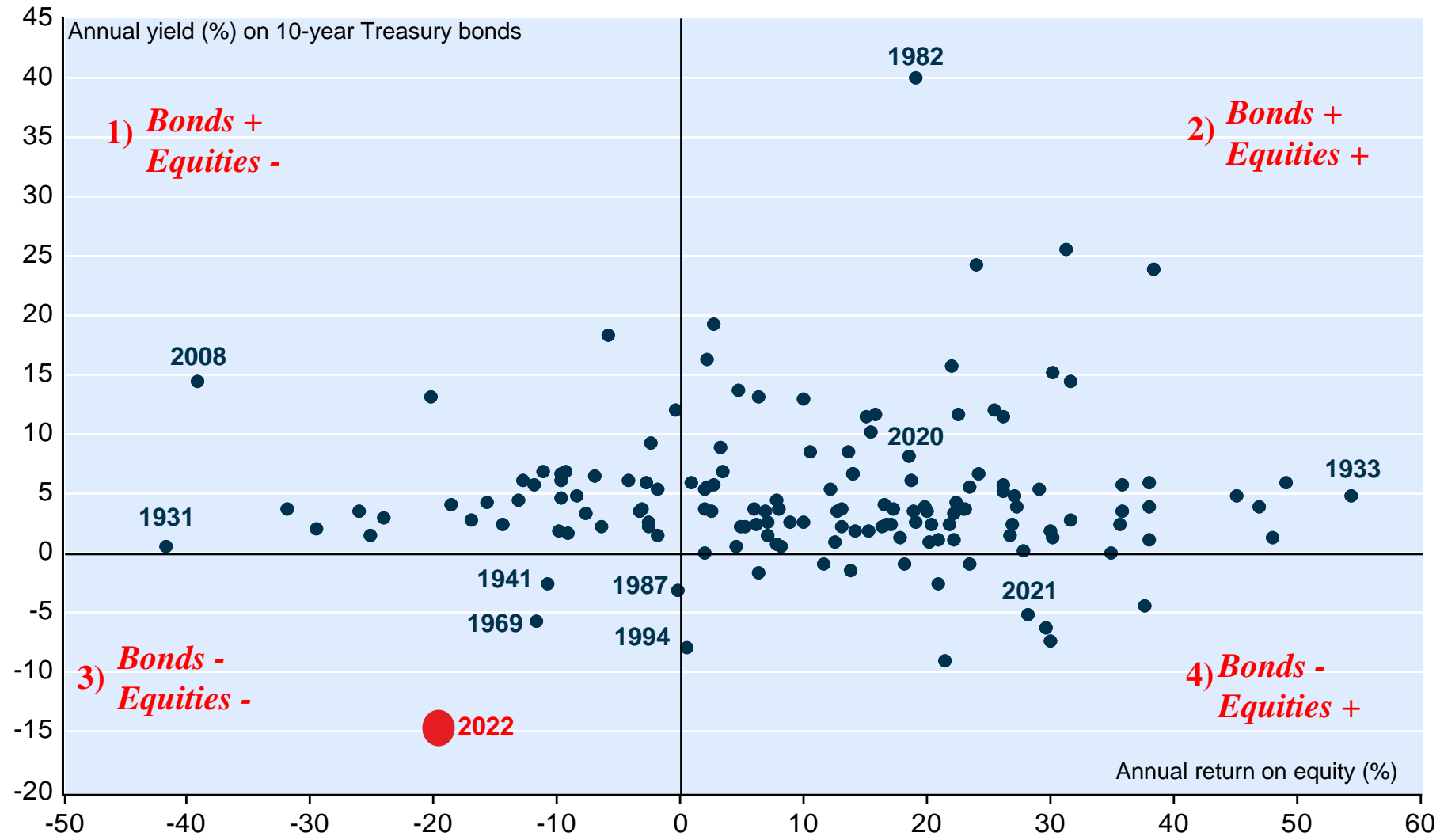


"What we anticipate seldom occurs: but what we least expect generally happens."

*Benjamin Disraeli, British Prime Minister
(1868, 1874-1880)*

United States: Worst annual performance in 150 years in 2022

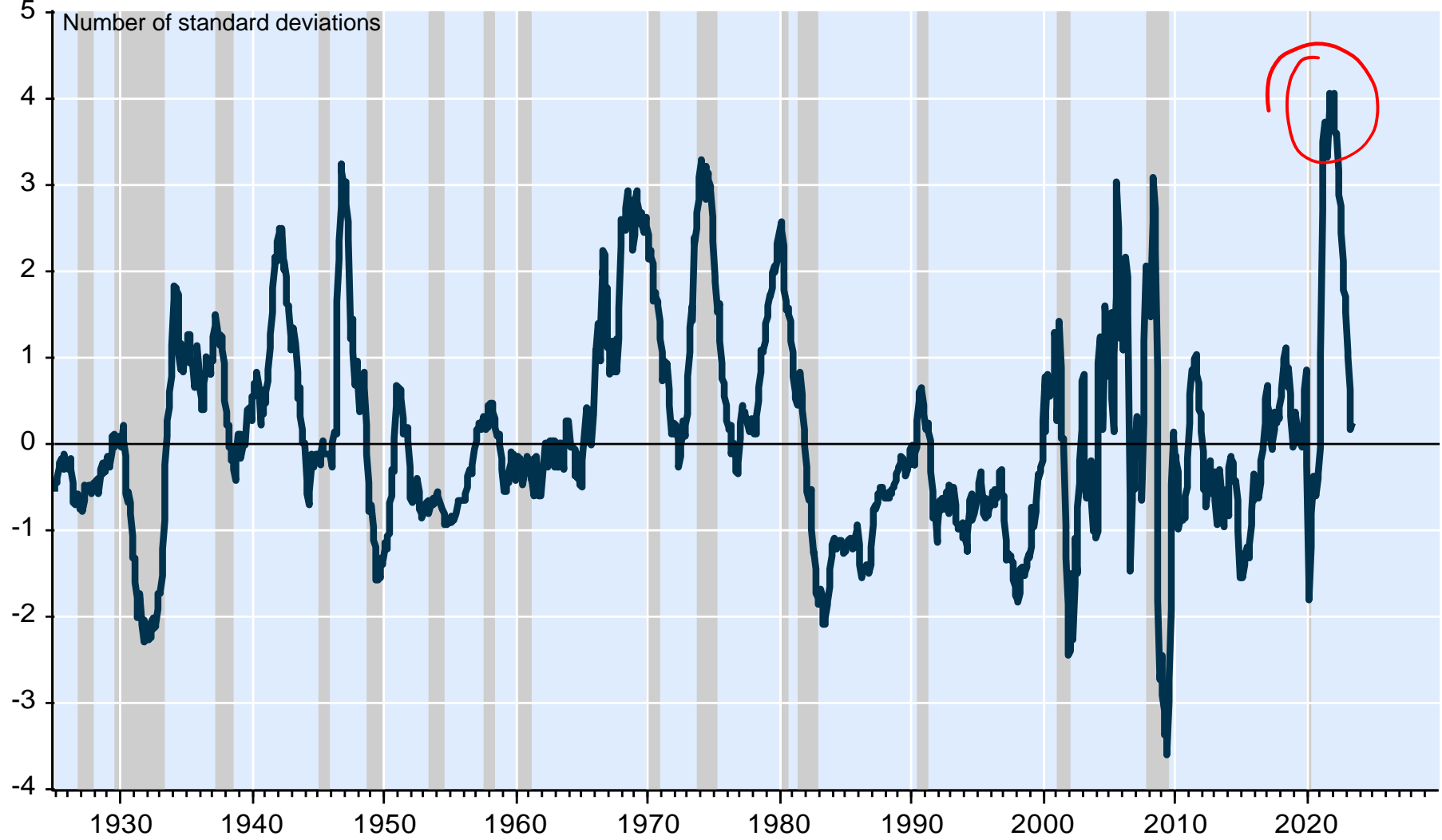
Nominal annual total returns for U.S. Treasury bonds and equities, 1871-2022



NBF Economics and Strategy (data via Robert J Shiller)

U.S.: Unprecedented deviation in inflation

Deviation of annual CPI inflation from its 10-year moving average

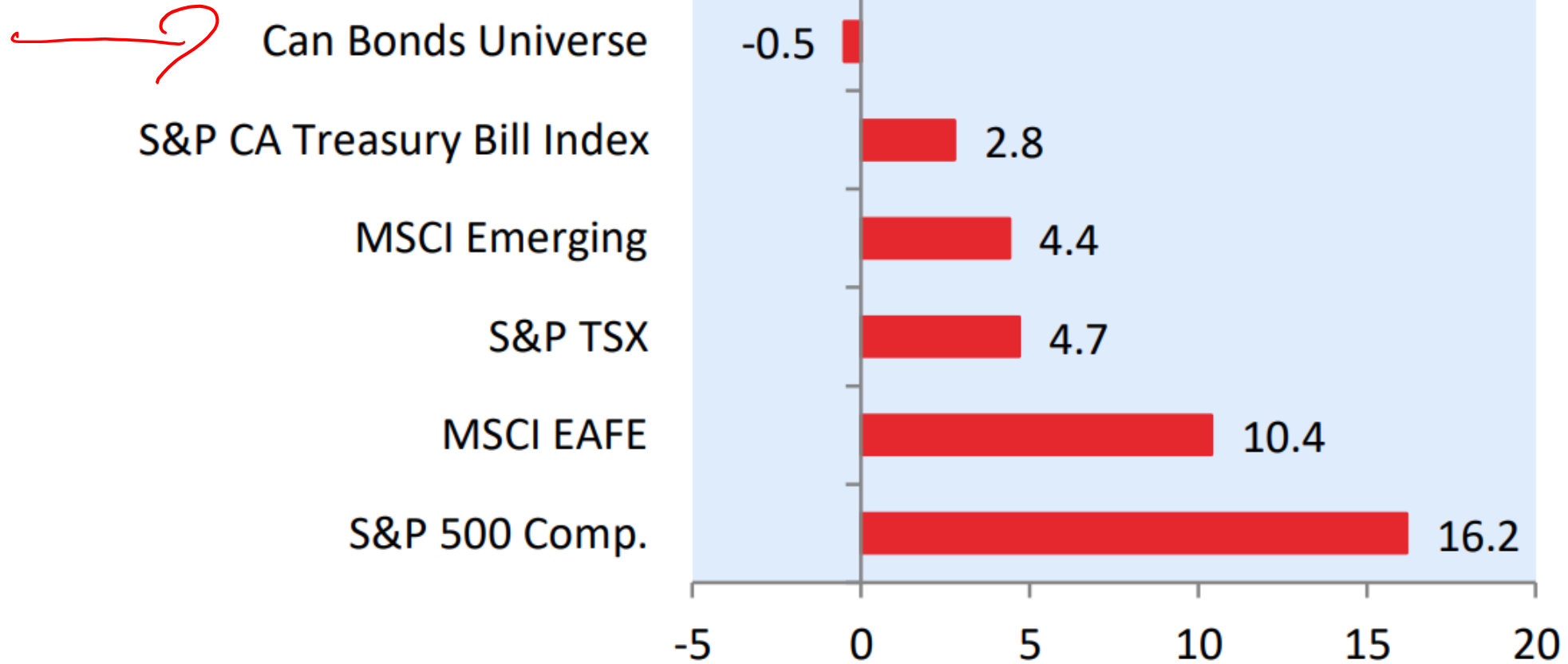


NBF Economy and Strategy (data via Refinitiv)

2023: A much better year than 2022

Nominal annual total returns in Canadian dollars (as of August 15, 2023)

YTD Total Return (% in CAD)

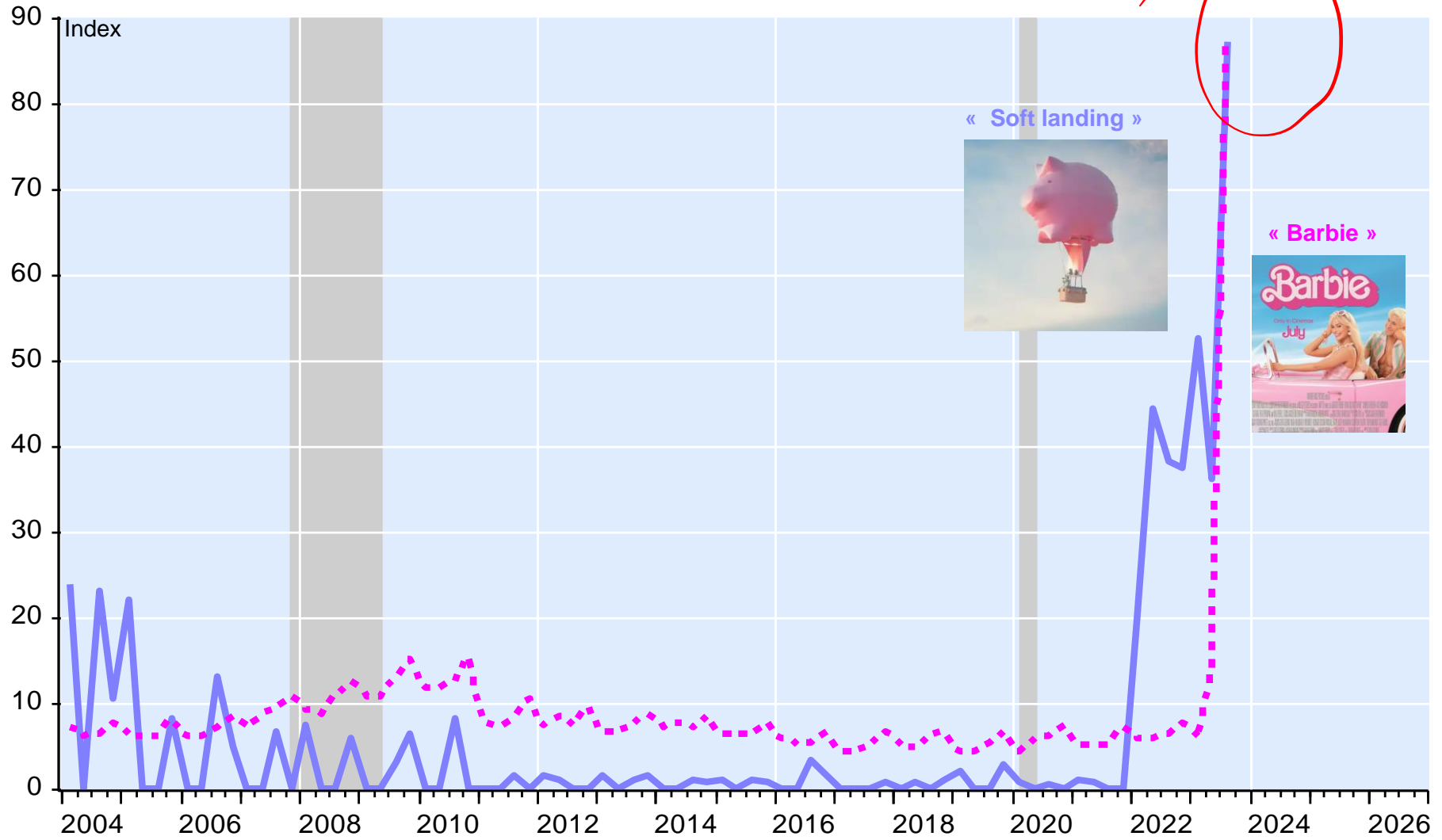


What's trending now?

Seeing the world in rose-coloured glasses

U.S.: Seeing the world through rose-coloured glasses

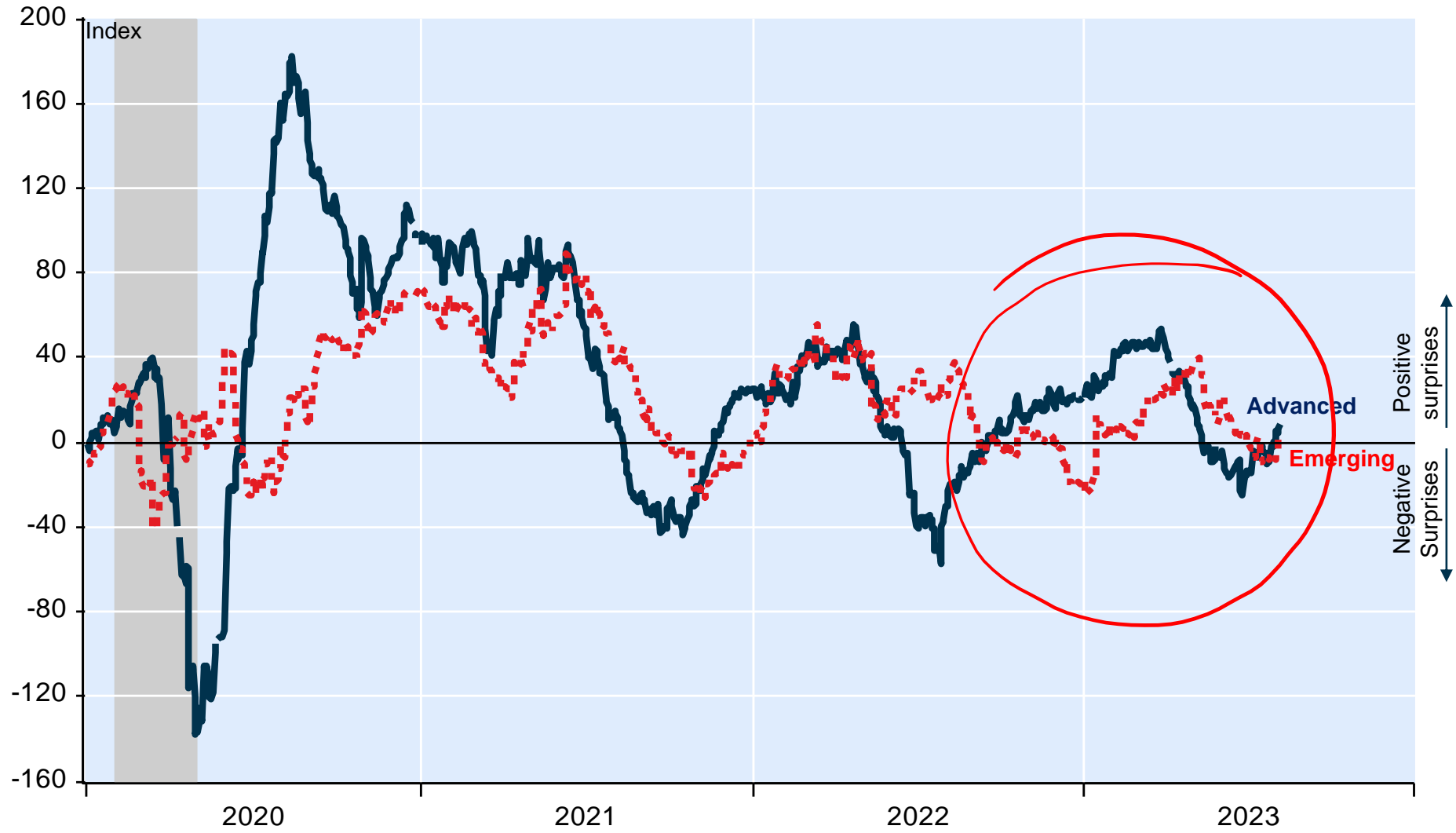
Google trends search index for « Barbie » and « Soft landing (economics) » in the U.S. (as of August 2023)



NBF Economics and Strategy (data via Google)

World: Economies show resilience

Citi Economic Surprises Index: Advanced vs. emerging economies

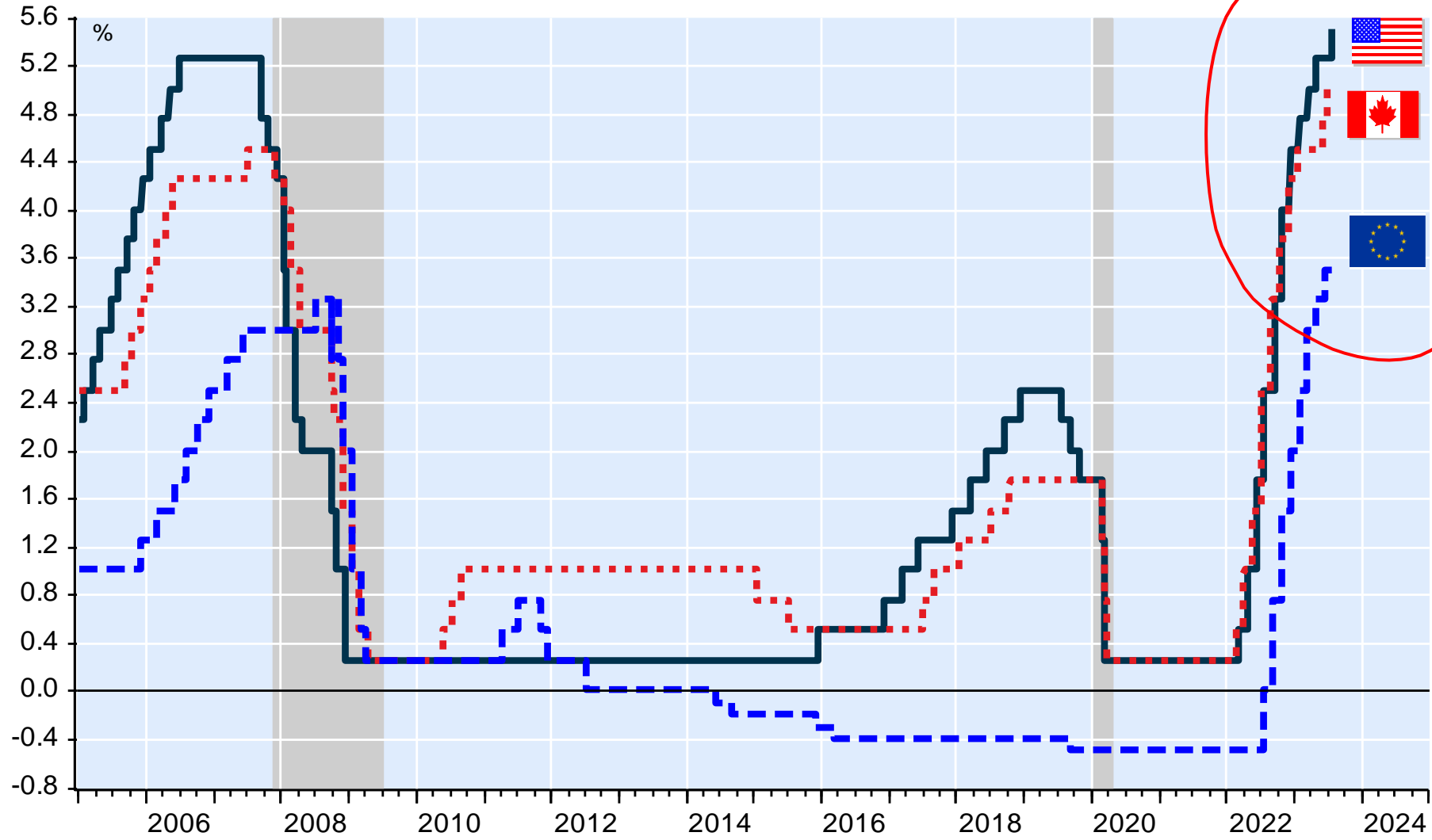


NBF Economics and Strategy (data via Bloomberg)



World: A very aggressive tightening campaign

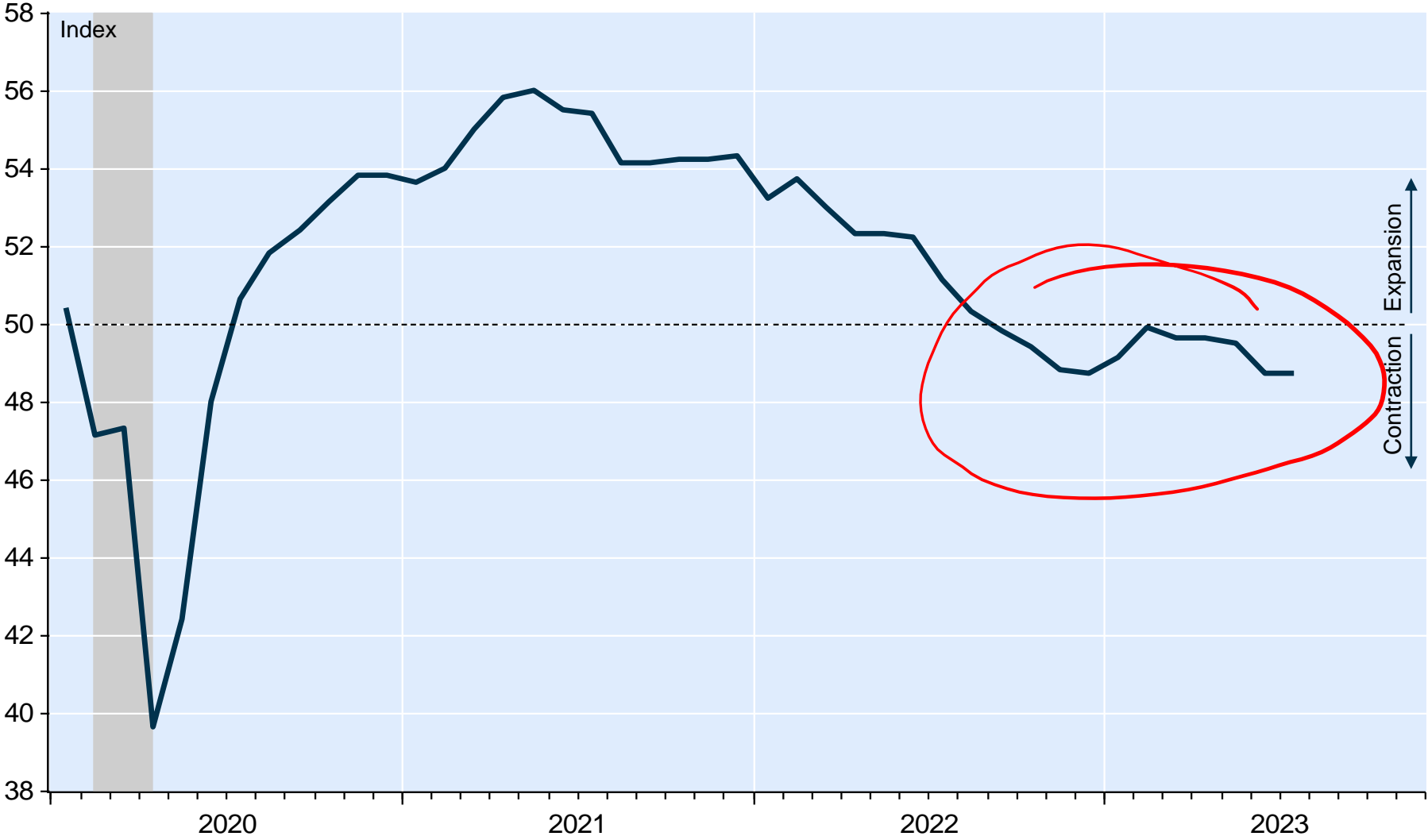
Policy rates: Federal Reserve, Bank of Canada, ECB



NBF Economy and Strategy (data via Refinitiv)

World: Global factory activity contracted for eleventh month running

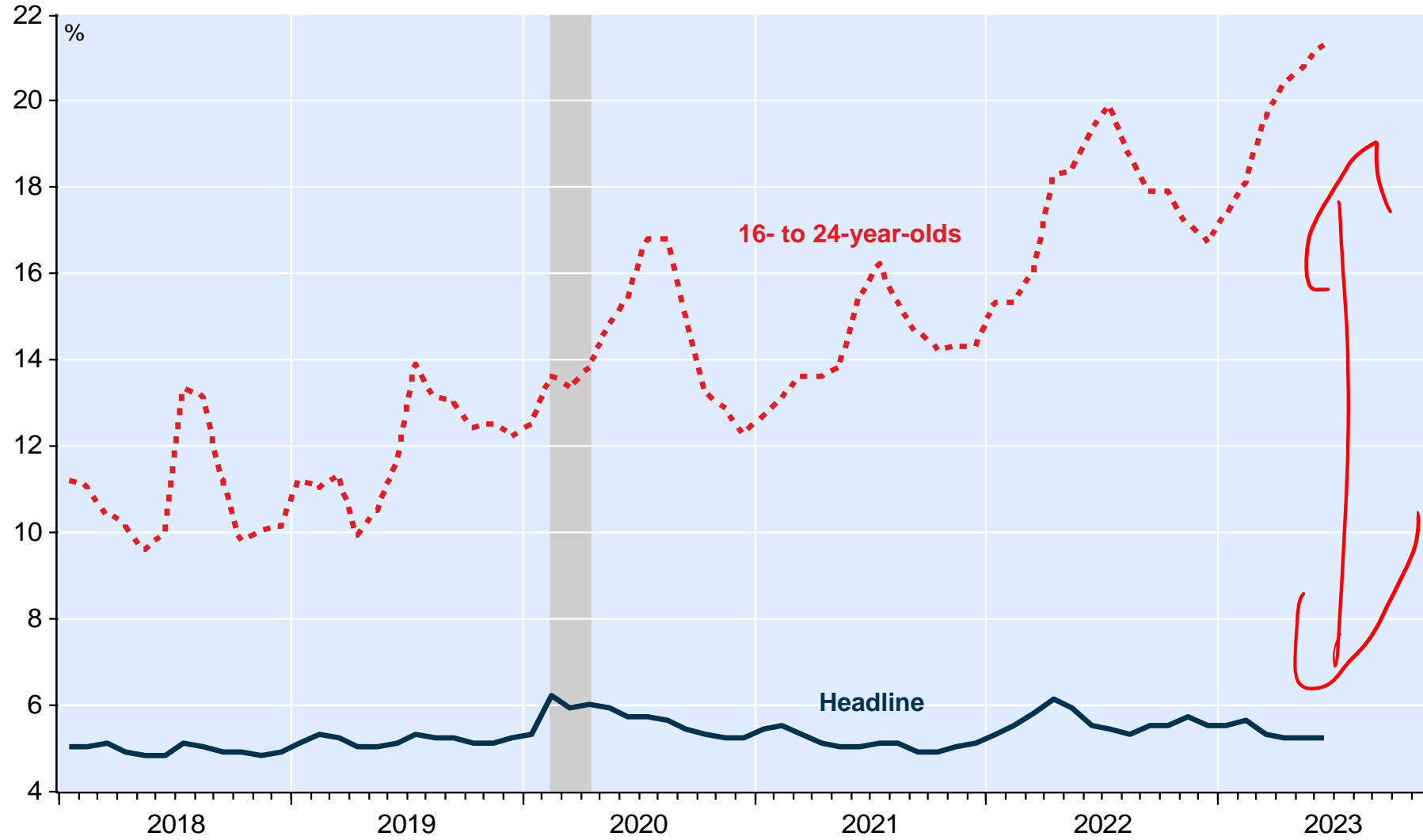
JPMorgan/Markit Global Manufacturing PMI. Last observation: July 2023



NBF Economics and Strategy (data via Refinitiv)

China: Jobs becoming harder to find for young Chinese

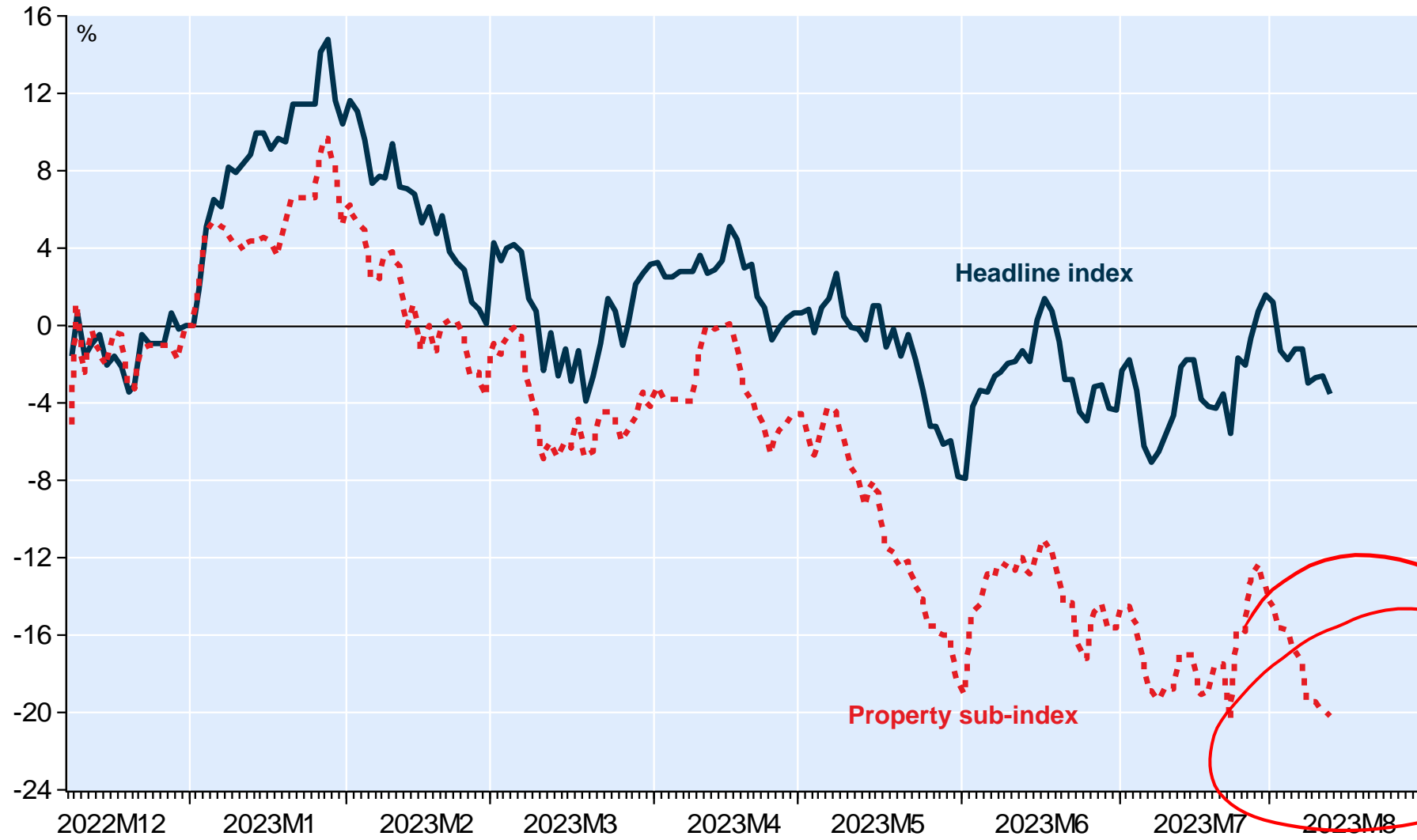
Surveyed jobless rate



NBF Economics and Strategy (data via Bloomberg)

China: Residential sector showing renewed weakness

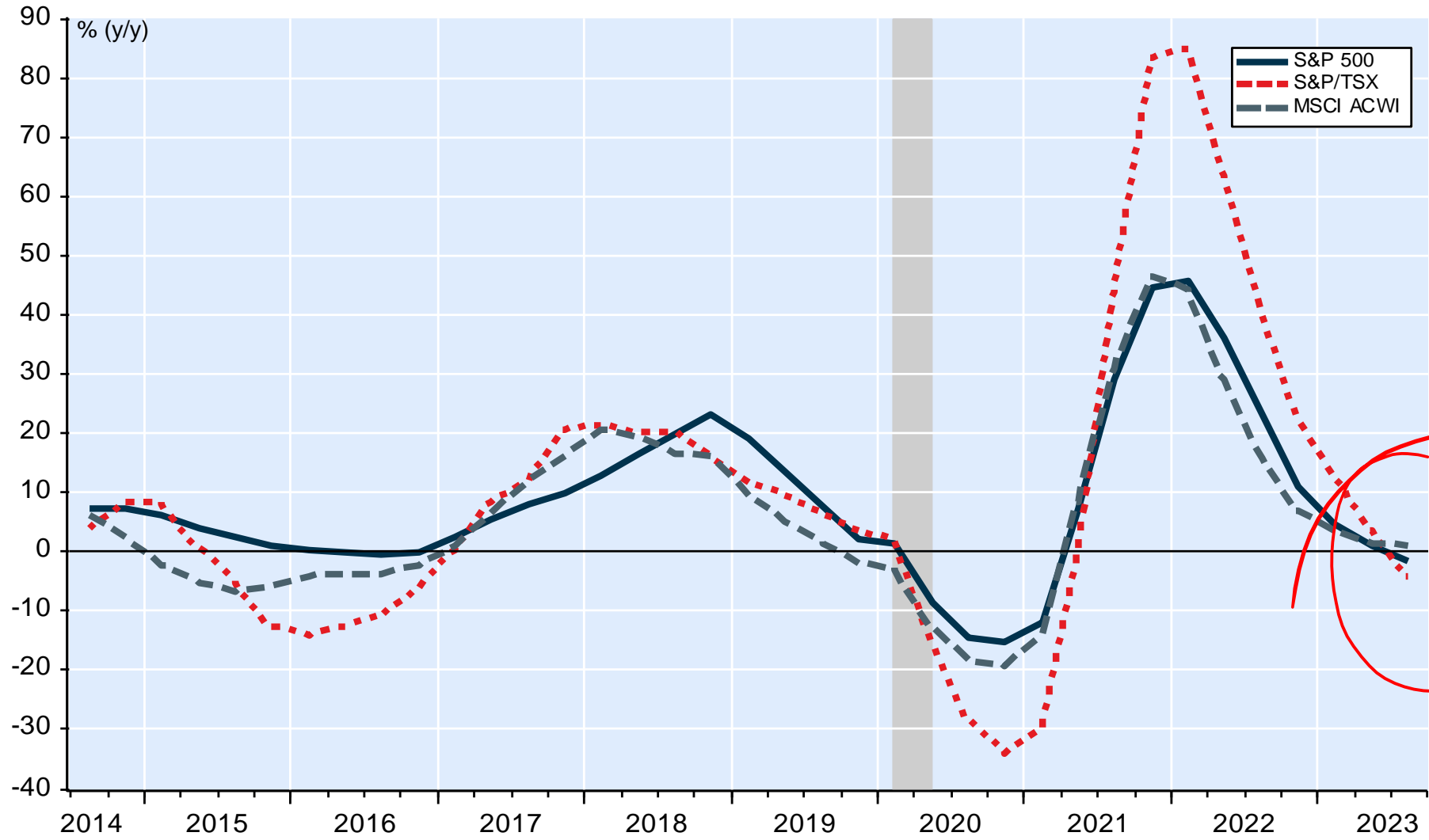
Hang Seng Index, performance since the first trading day of 2023



NBF Economics and Strategy (data via Bloomberg)

World: Earnings are contracting

Trailing earnings per share (EPS)



NBF Economics and Strategy (data via Refinitiv)

MSCI composite index: EPS Performance

	2022	2023	2024	2025	12 months forward
MSCI ACWI	9.3	-0.8	11.3	11.1	6.7
MSCI World	10.1	-0.5	10.2	10.7	6.2
MSCI USA	6.1	-0.5	12.4	12.6	8.0
MSCI Canada	17.8	-8.1	10.1	7.1	2.7
MSCI Europe	20.6	-1.7	6.8	8.1	3.0
MSCI Pacific ex Jp	15.6	1.8	3.7	4.4	4.4
MSCI Japan	NA	3.2	6.8	7.6	7.0
MSCI EM	4.7	-2.7	18.4	13.5	9.7
MSCI EM EMEA	18.9	1.2	8.2	7.7	5.7
MSCI EM Latin America	26.7	-18.8	5.5	6.7	-5.8
MSCI EM Asia	-1.9	0.3	23.1	15.7	13.8

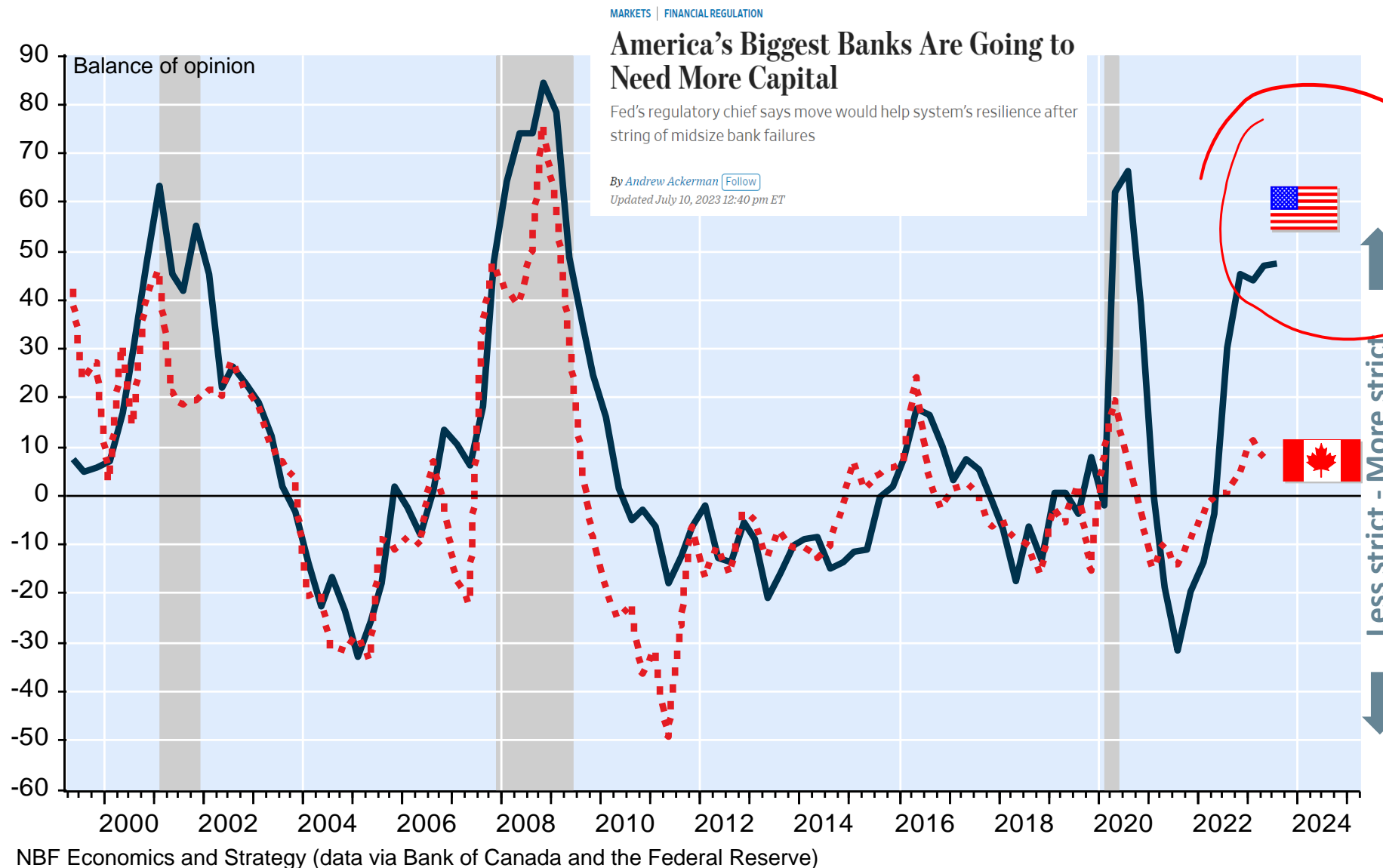
7/31/2023

NBF Economics and Strategy (data via Refinitiv)



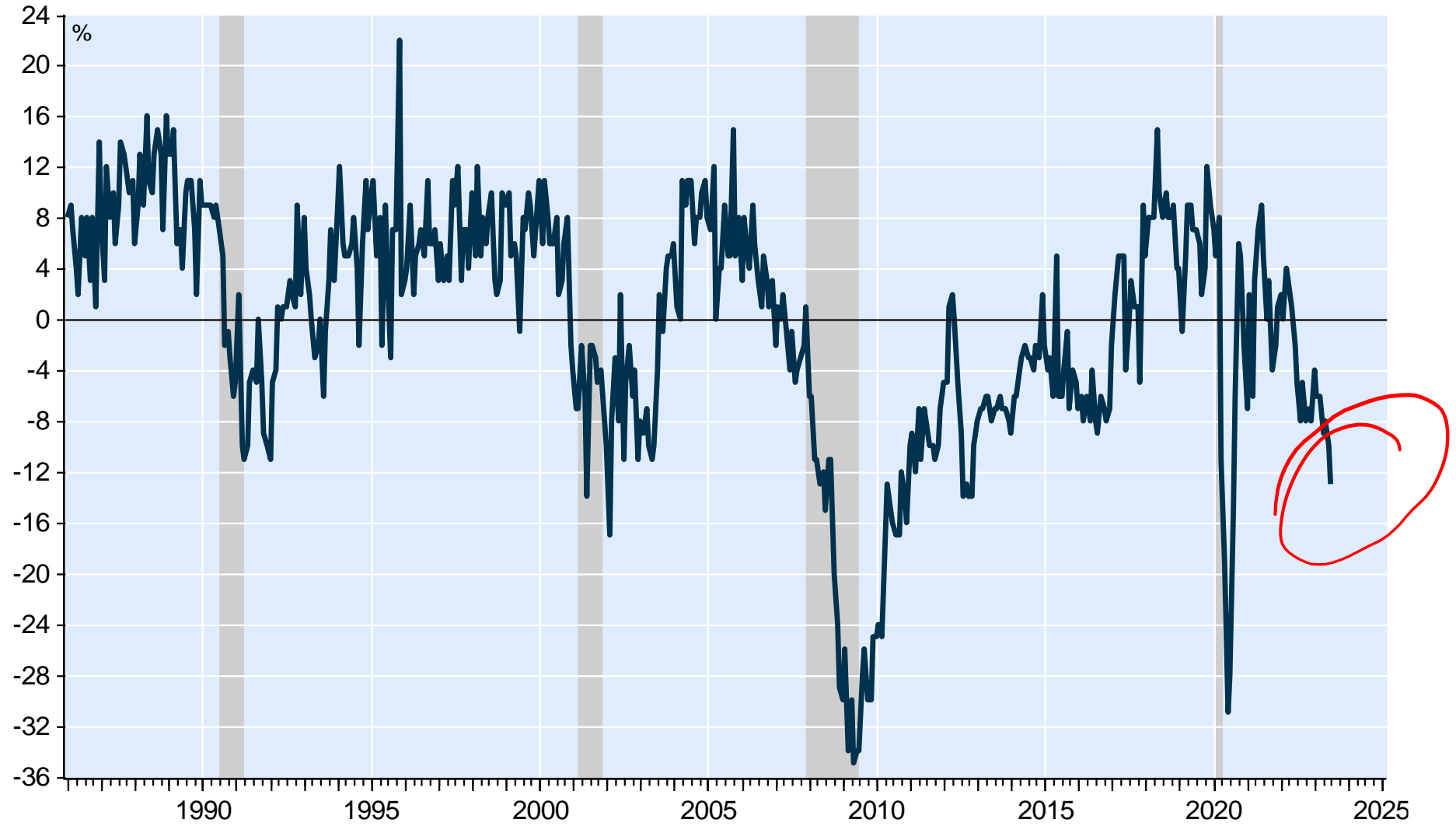
U.S.: Lending conditions now much stricter

General business credit conditions: Balance of opinion



U.S.: Small businesses still in the doldrums

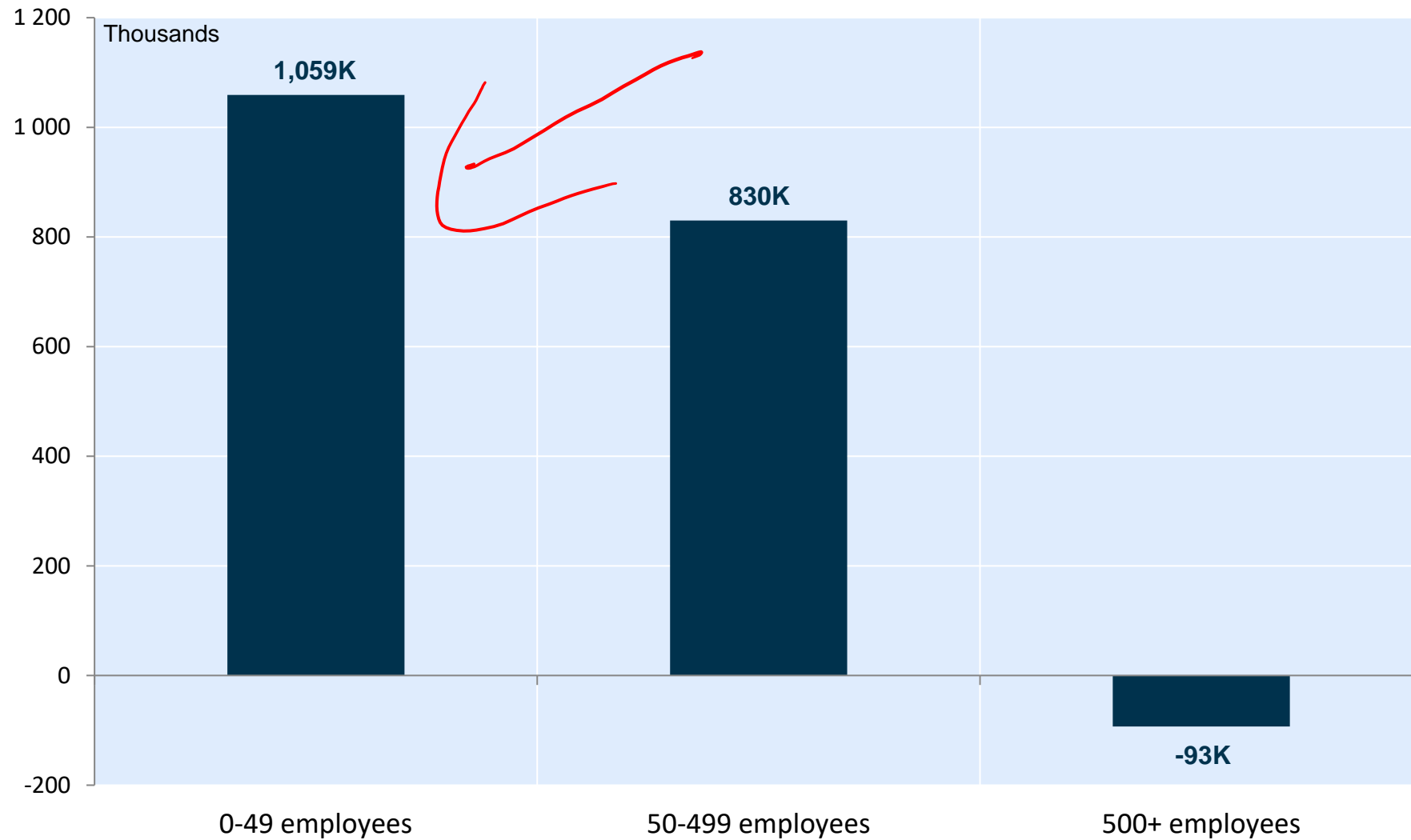
Net percentage of firms reporting higher sales, NFIB Small Business Optimism Survey



NBF Economics and Strategy (data via Refinitiv)

U.S.: Small/medium-sized enterprises have driven job creation this year

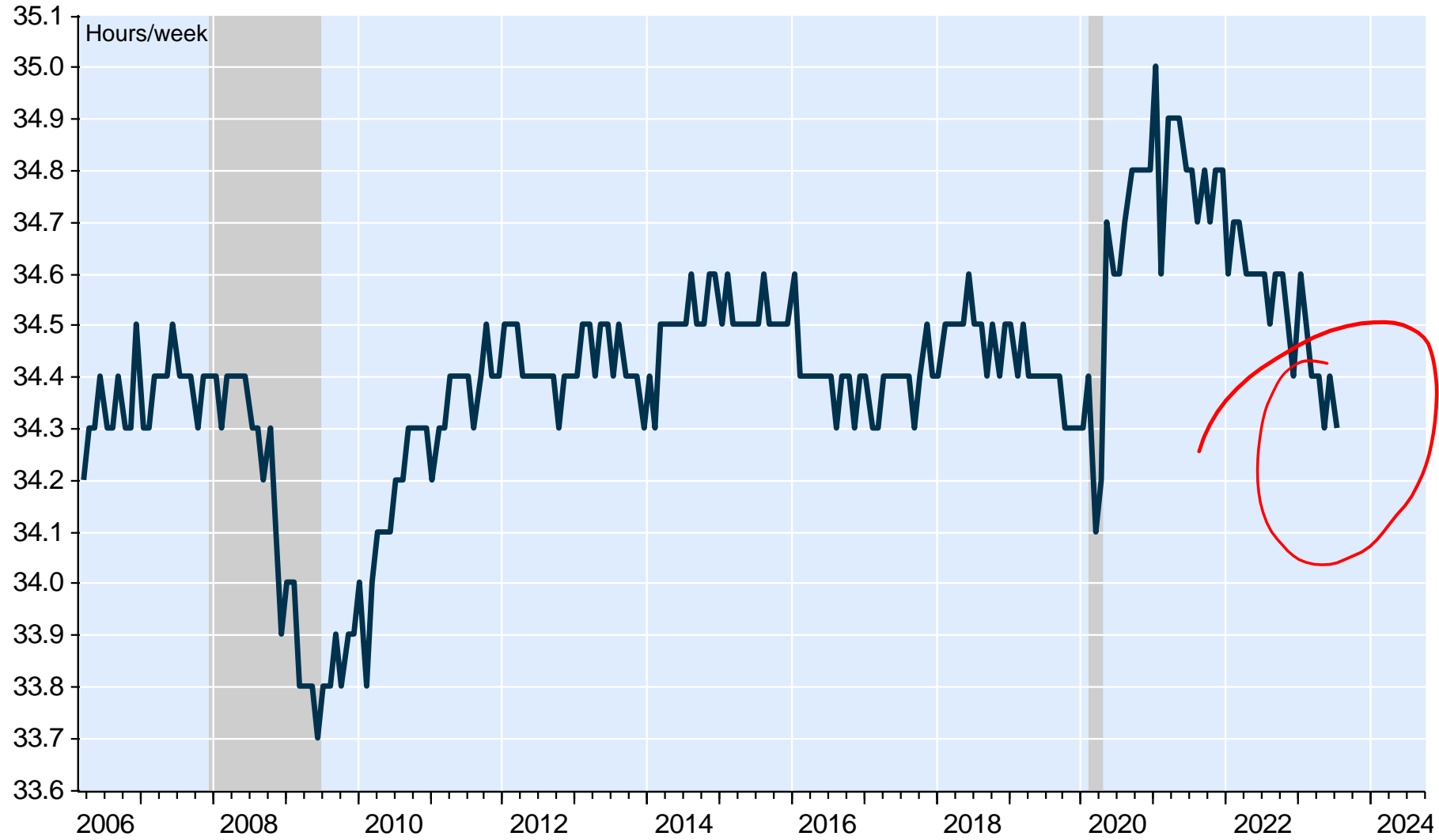
Employment change since the beginning of the year, ADP report



NBF Economics and Strategy (data via Bloomberg)

U.S.: Some advanced employment indicators are showing signs of weakness

Average weekly hours, establishment survey



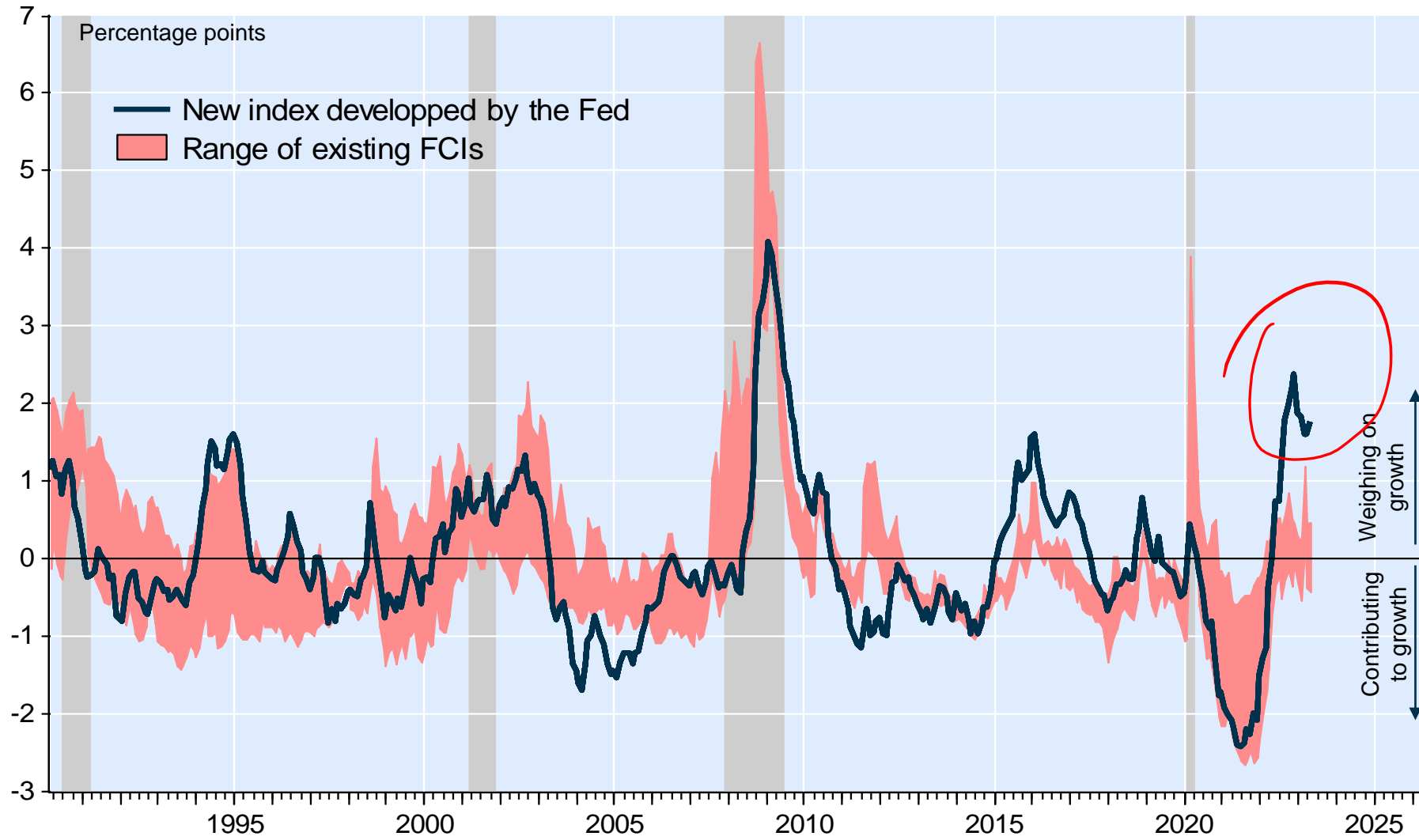
NBF Economics and Strategy (data via Bloomberg)

" I don't believe in the Tooth Fairy. And I am pretty darned skeptical about Jay Powell's soft landing, too. "

*Niall Ferguson, Historian
(August 12, 2023)*

U.S.: Tighter financial conditions to act as a significant drag on growth

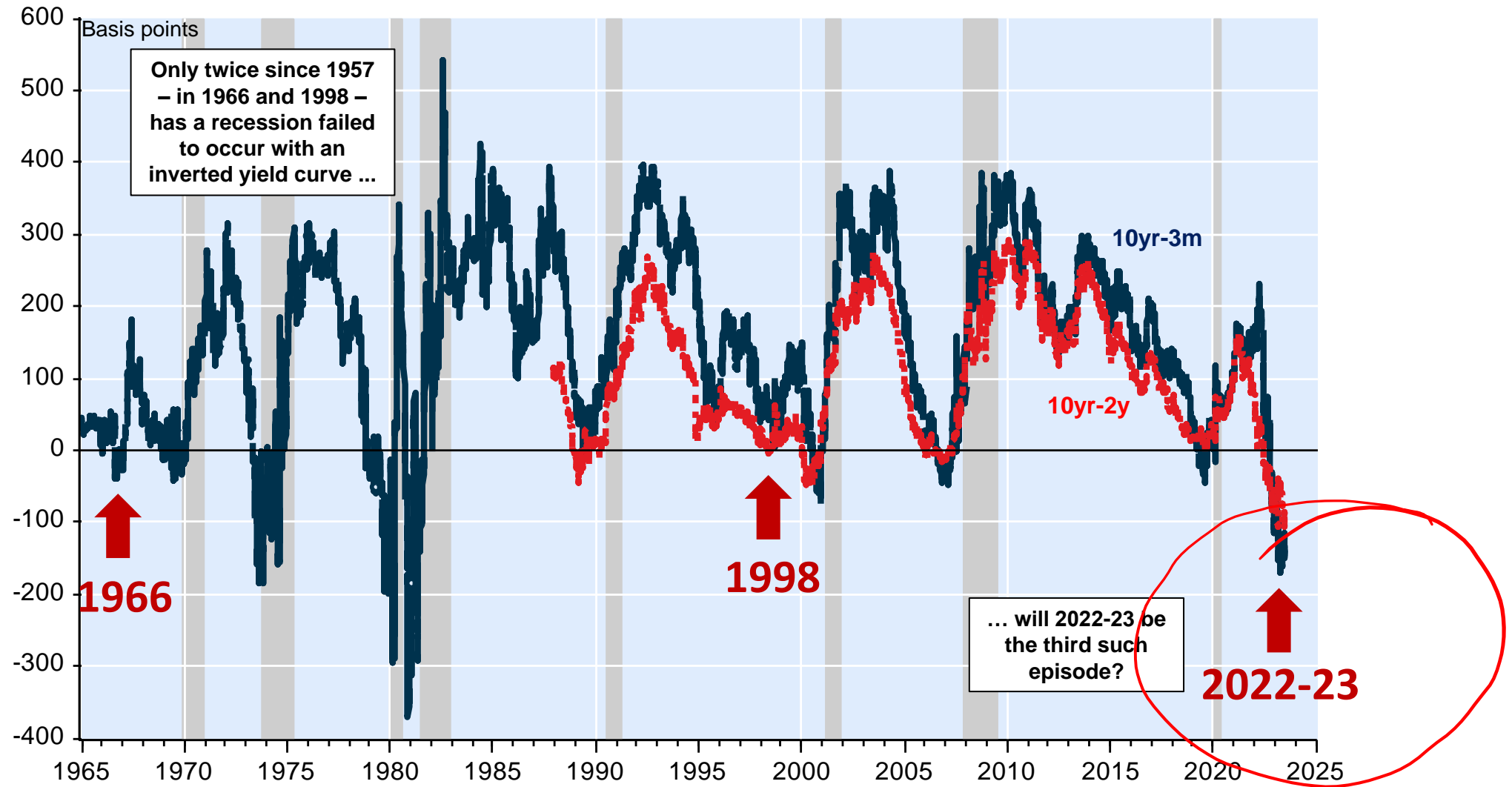
Contribution of financial conditions to GDP growth over the next 12 months



NBF Economics and Strategy (data via the Federal Reserve)

U.S.: Yield curve and business cycles

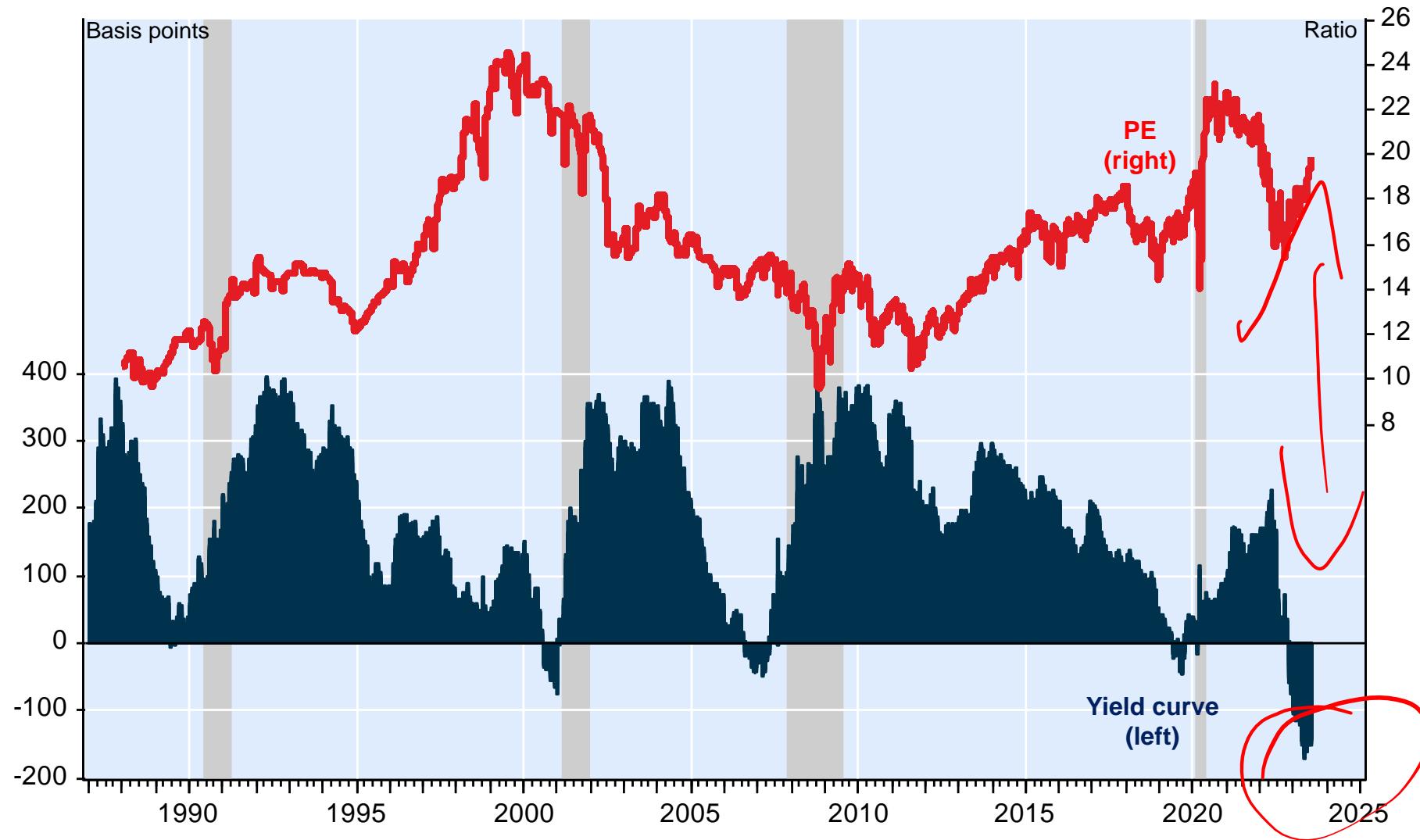
10-year Treasury yield minus 3-month T-bill and 2-year Treasury yields



NBF Economics and Strategy (data via Refinitiv)

S&P 500: Trading at 20x despite one of the most inverted YC ever

12-month forward PE vs yield curve (10-year Treasury yield minus 3-month T-bill)

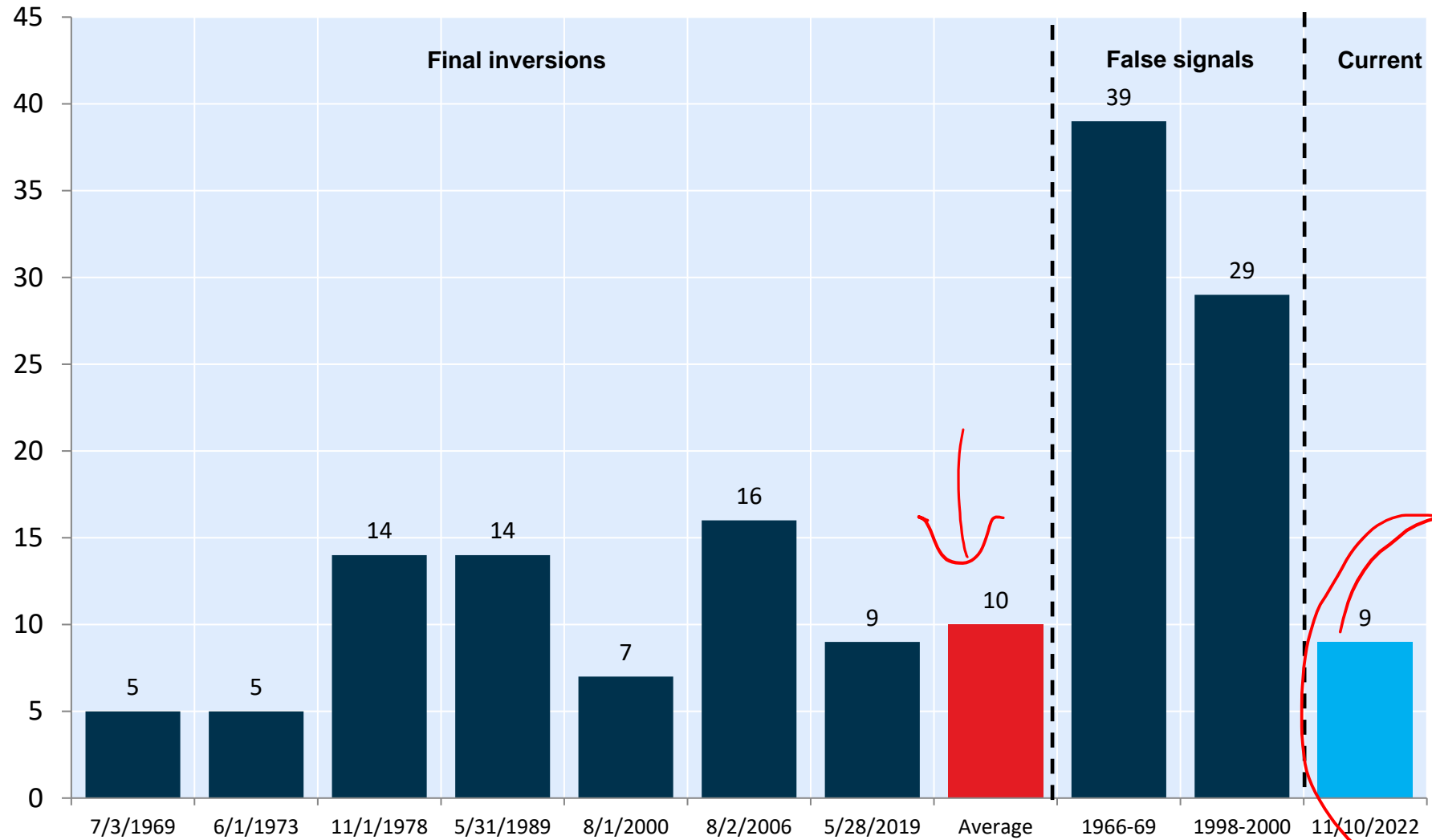


NBF Economics and Strategy (data via Refinitiv)



U.S.: Yield curve inversions and recessions

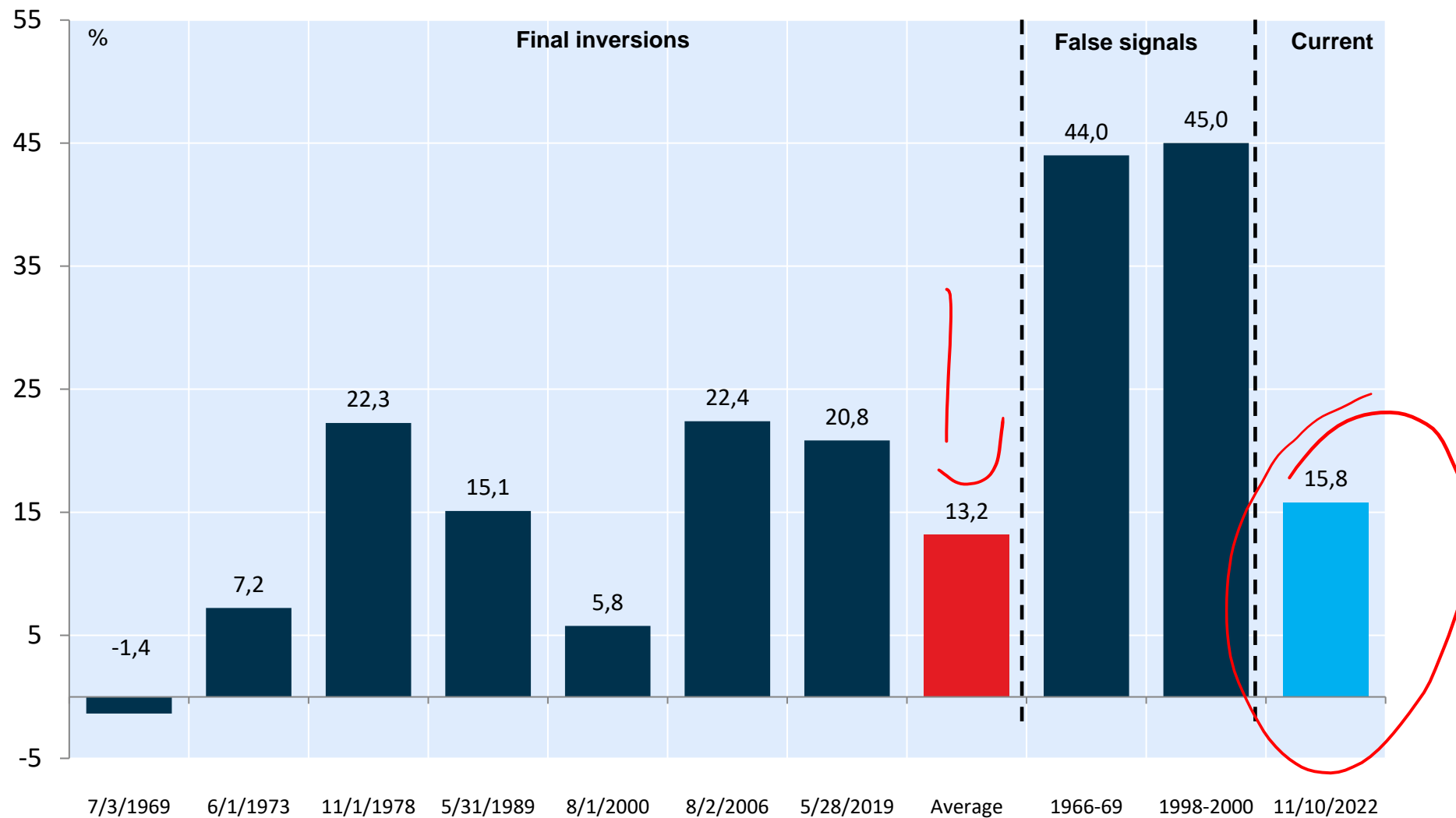
Months until recessions following the inversion of the yield curve (10y-3m)



NBF Economics and Strategy (data via FRED, NBER)

S&P 500: Historical performance following yield curve inversion

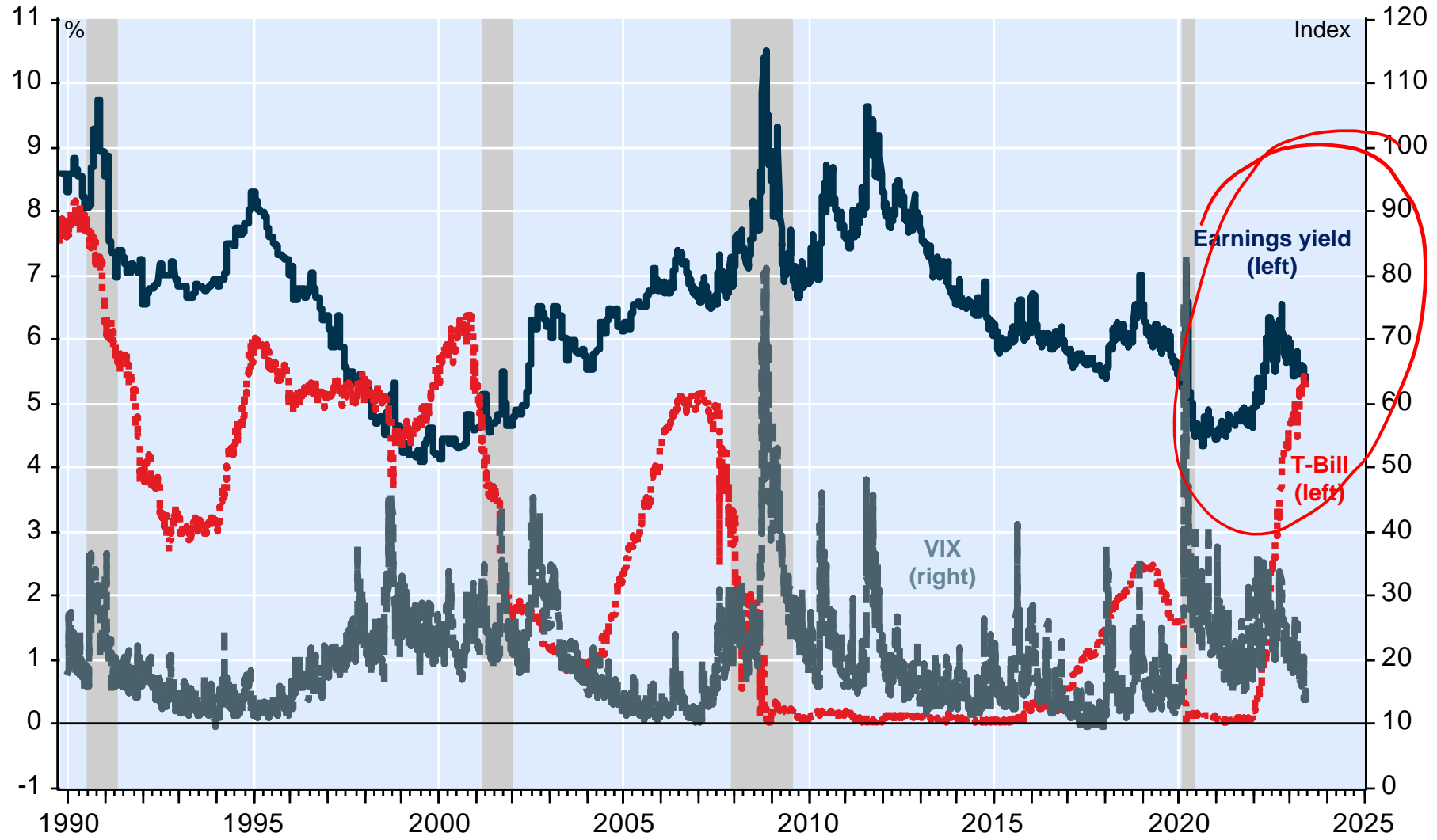
Cumulative returns of the S&P 500 until its cyclical peak after an inversion of the yield curve



NBF Economics and Strategy (data via Bloomberg)

U.S.: Return on cash exceeds earnings yield!

S&P 500 12-month forward earnings yield, 3-month T-Bills yield and stock market volatility (VIX)



NBF Economics and Strategy (data via Refinitiv and Fred)

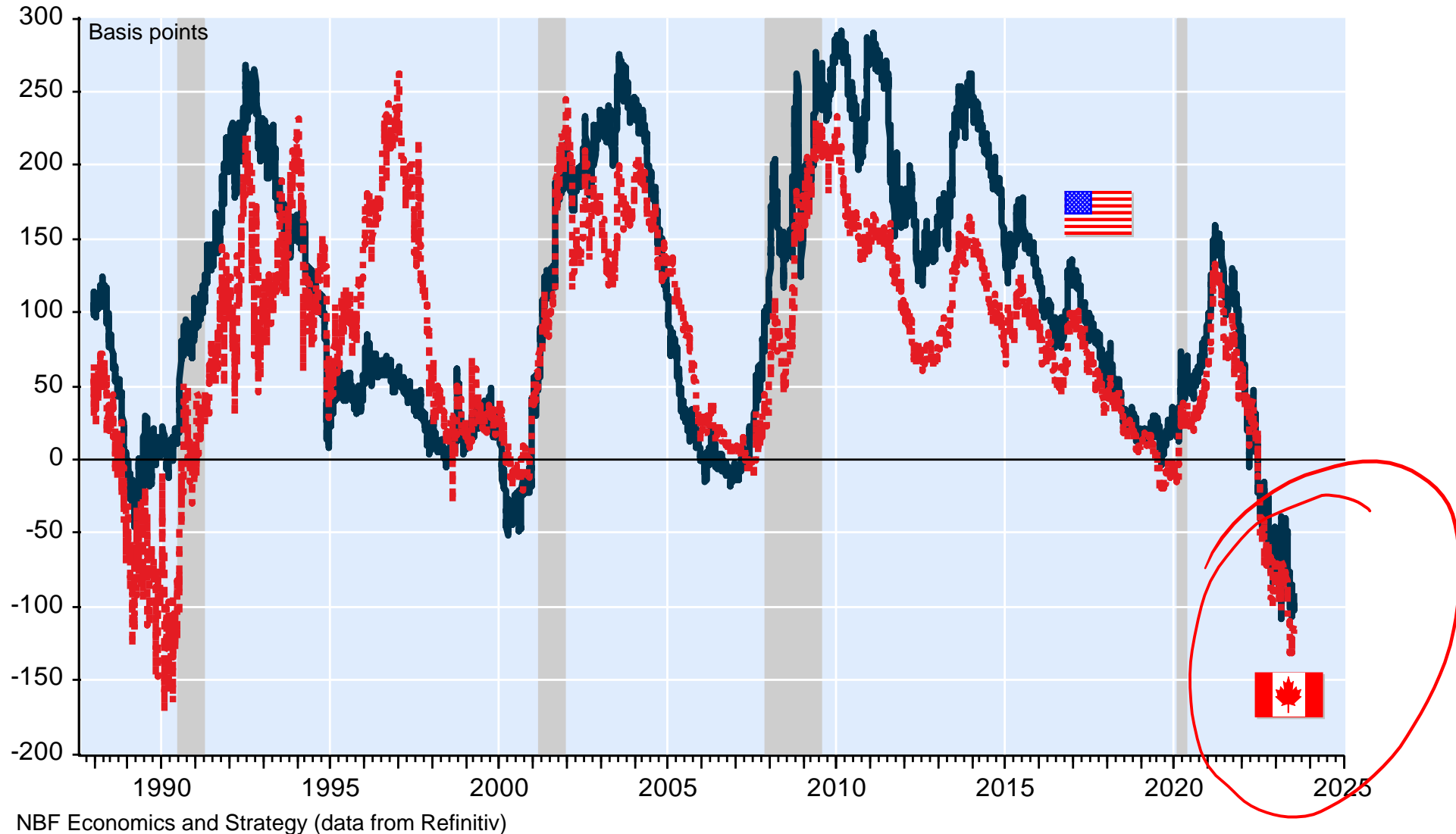
The background features abstract geometric shapes and lines. A large dark blue shape is in the top right corner. A white shape with a red outline is below it. A light blue line curves across the top left. A red line curves across the bottom right.

"If demography is destiny, population movements are the motor of history."

The Clash of Civilizations (1996), Samuel Huntington

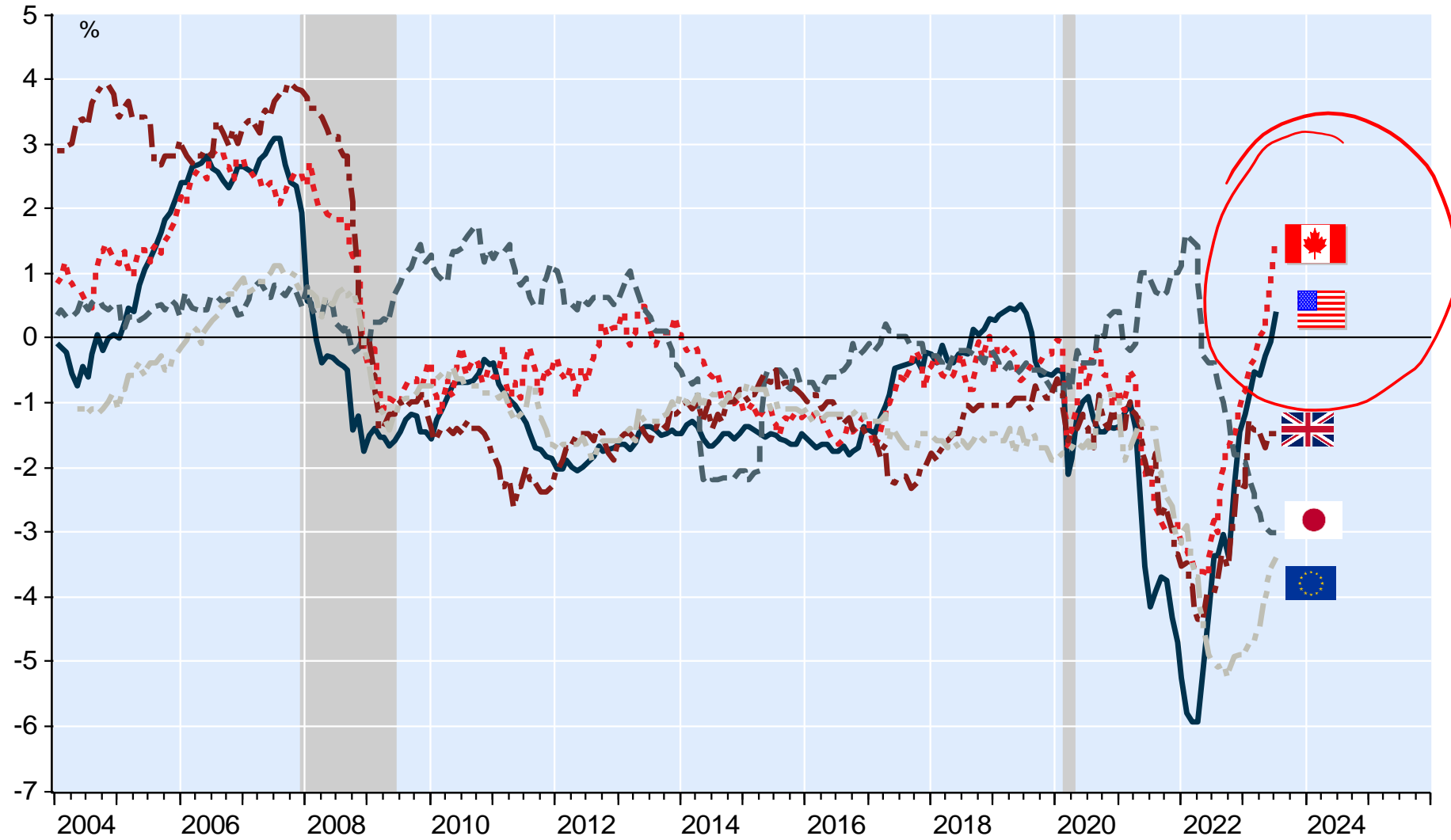
Canada: Worst yield curve inversion since the great recession

Canada and U.S. Treasury yield curve (2s10s)



Canada: BoC is the most restrictive central bank in the G7

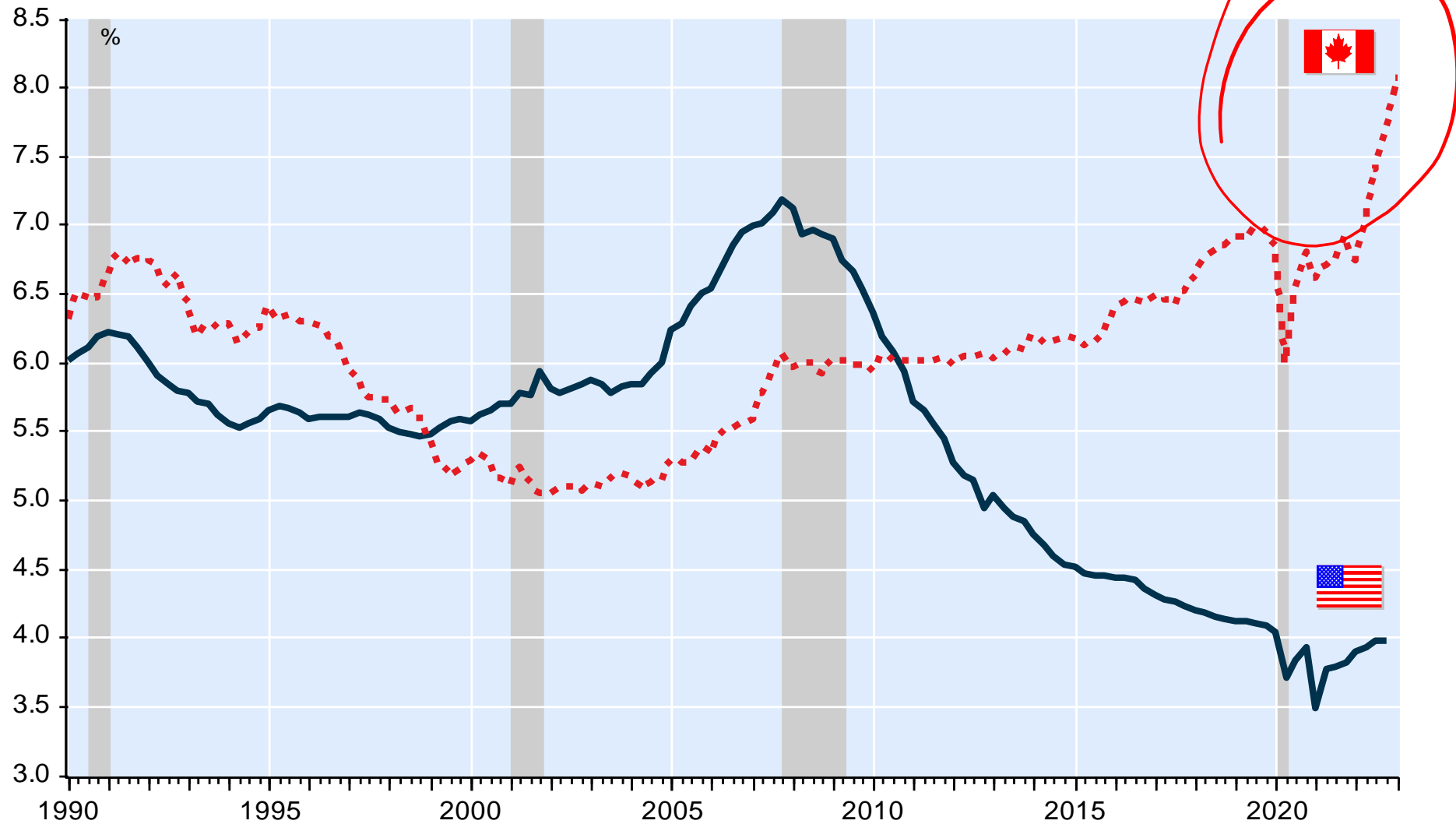
Policy rate minus CPI excluding food and energy (y/y, previous month) defined as real policy rate



FBN Économie et Stratégie (data from Refinitiv, OECD and Statistics Canada)

Canada & U.S.: Household* mortgage debt service

Interest and capital payments as a % of household disposable income**



*U.S. households as Canada's definition

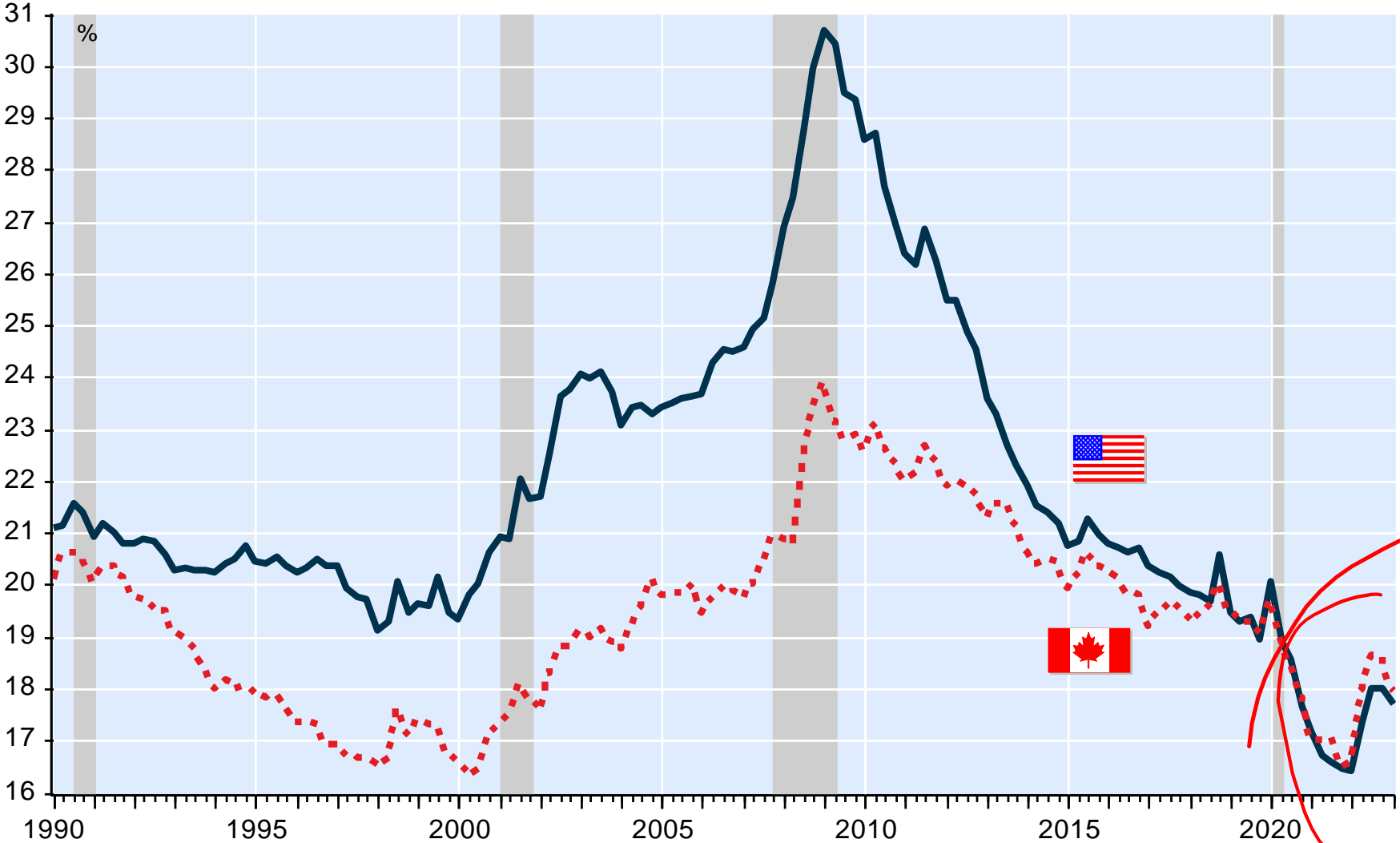
** Canada's disposable income as U.S. definition

NBF Economics and Strategy (data via Statistics Canada, U.S. BEA and Federal Reserve)



Canada & U.S.: Household debt to net worth

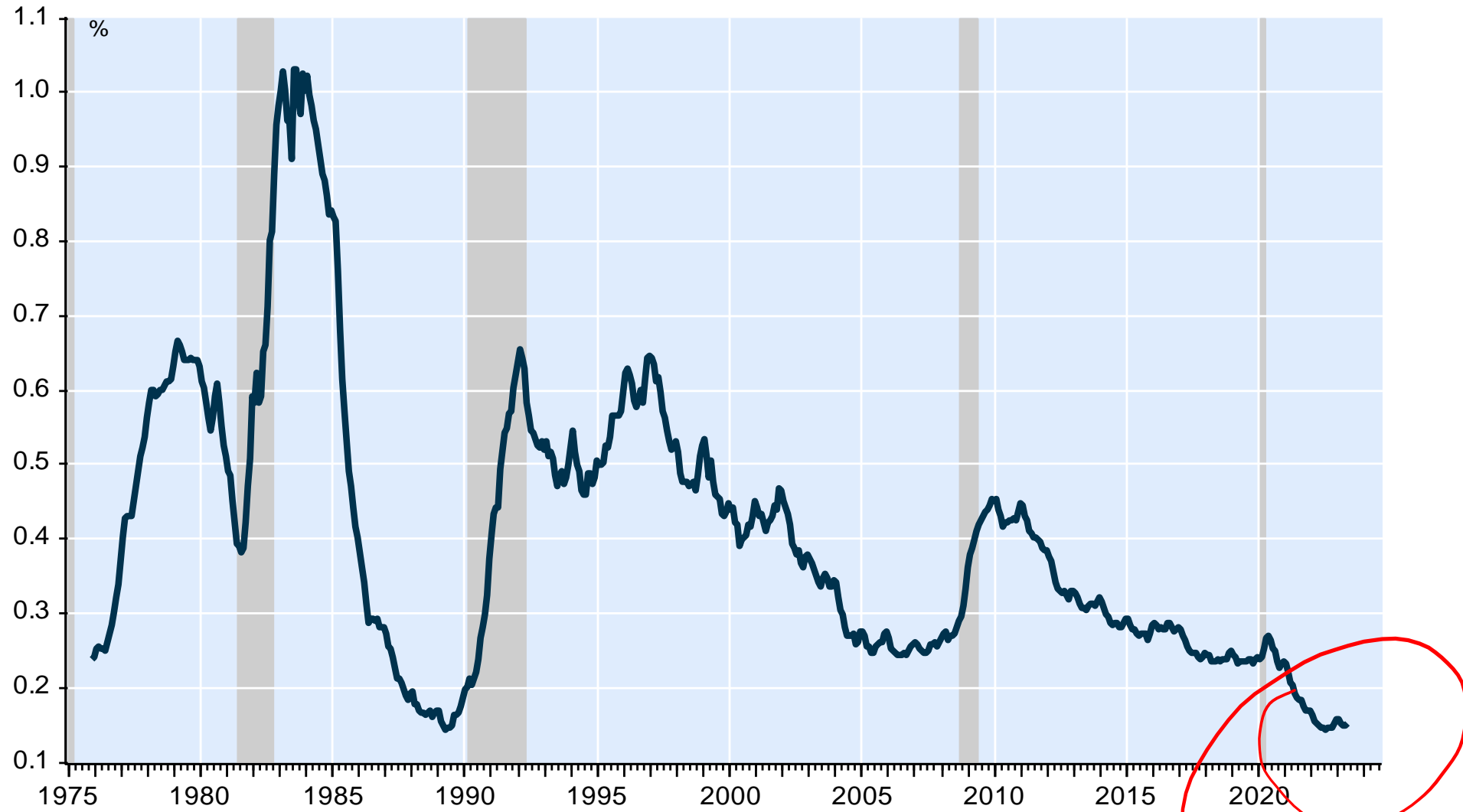
U.S. Household as Canada's definition



NBF Economics and Strategy (data via Statistics Canada, U.S. BEA and Federal Reserve)

Canada: Mortgage delinquency rates – June 2023

Number of mortgages in arrears 90 days or more as a % of the number of residential mortgages

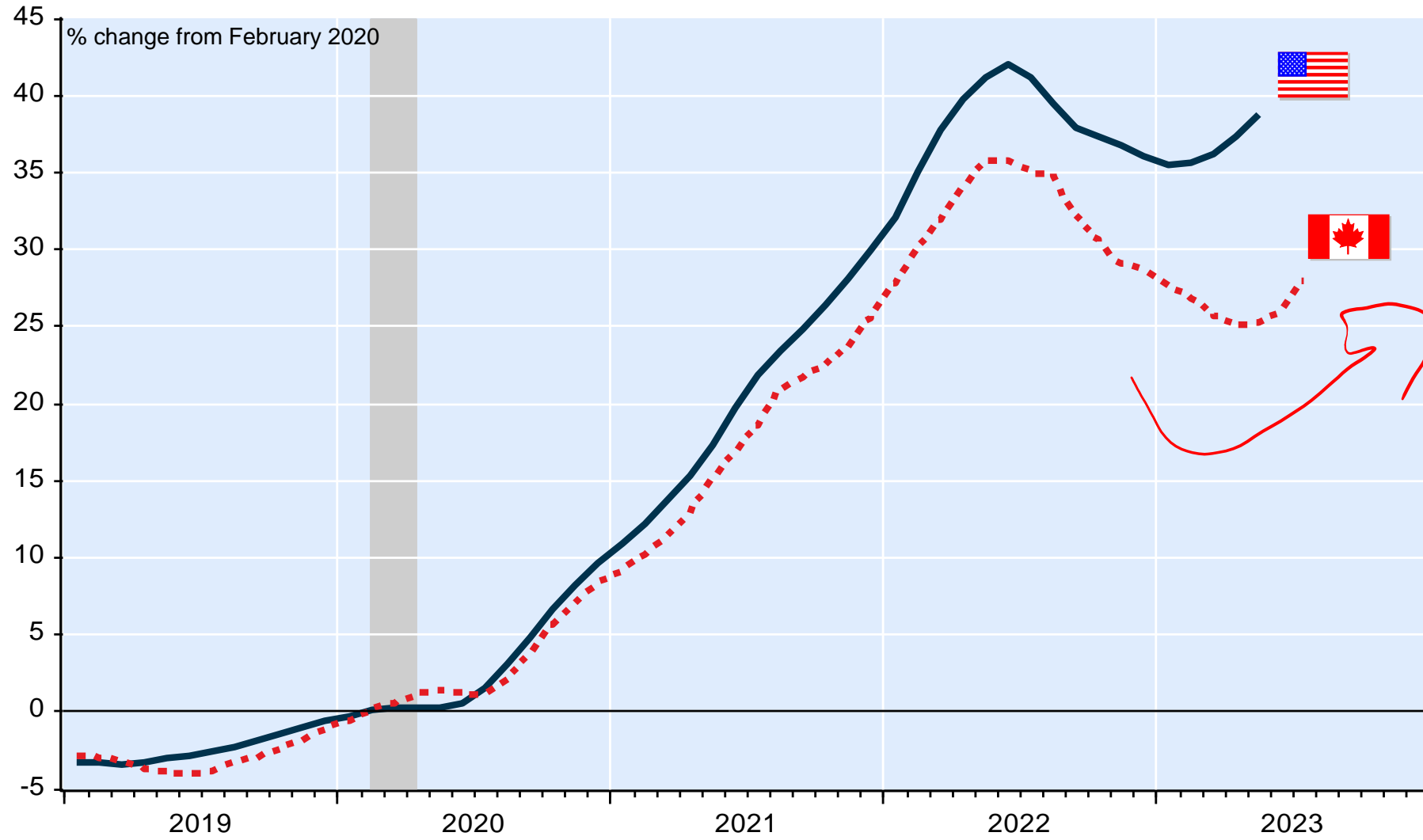


NBF Economics and Strategy (data Canadian Bankers' Association)



Canada-U.S.: Historical perspective on real estate prices

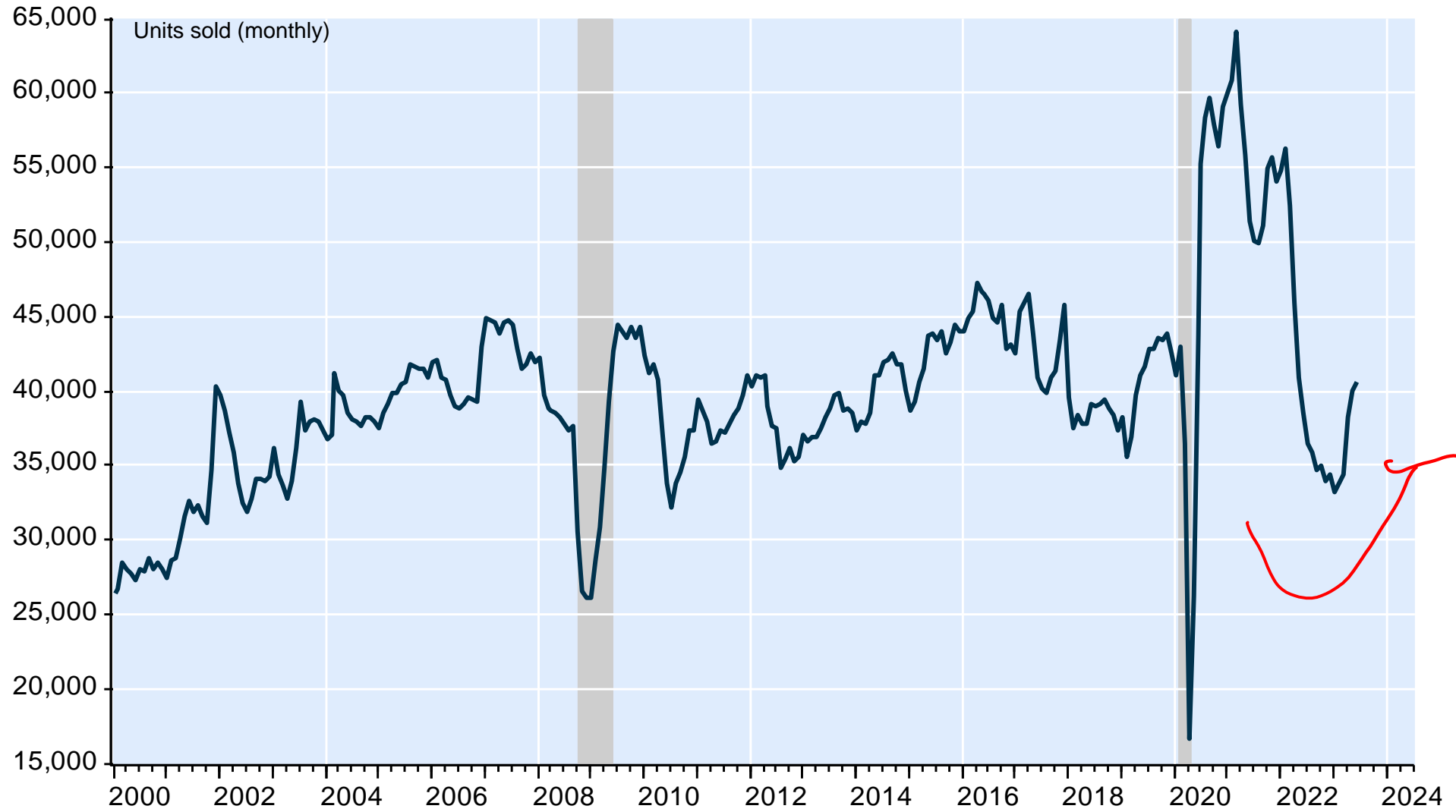
Teranet-National Bank House Price Index (composite-11) and Case-Shiller index (composite-20)



NBF Economy and Strategy (data via Teranet-National Bank and Refinitiv)

Canada: Residential sales

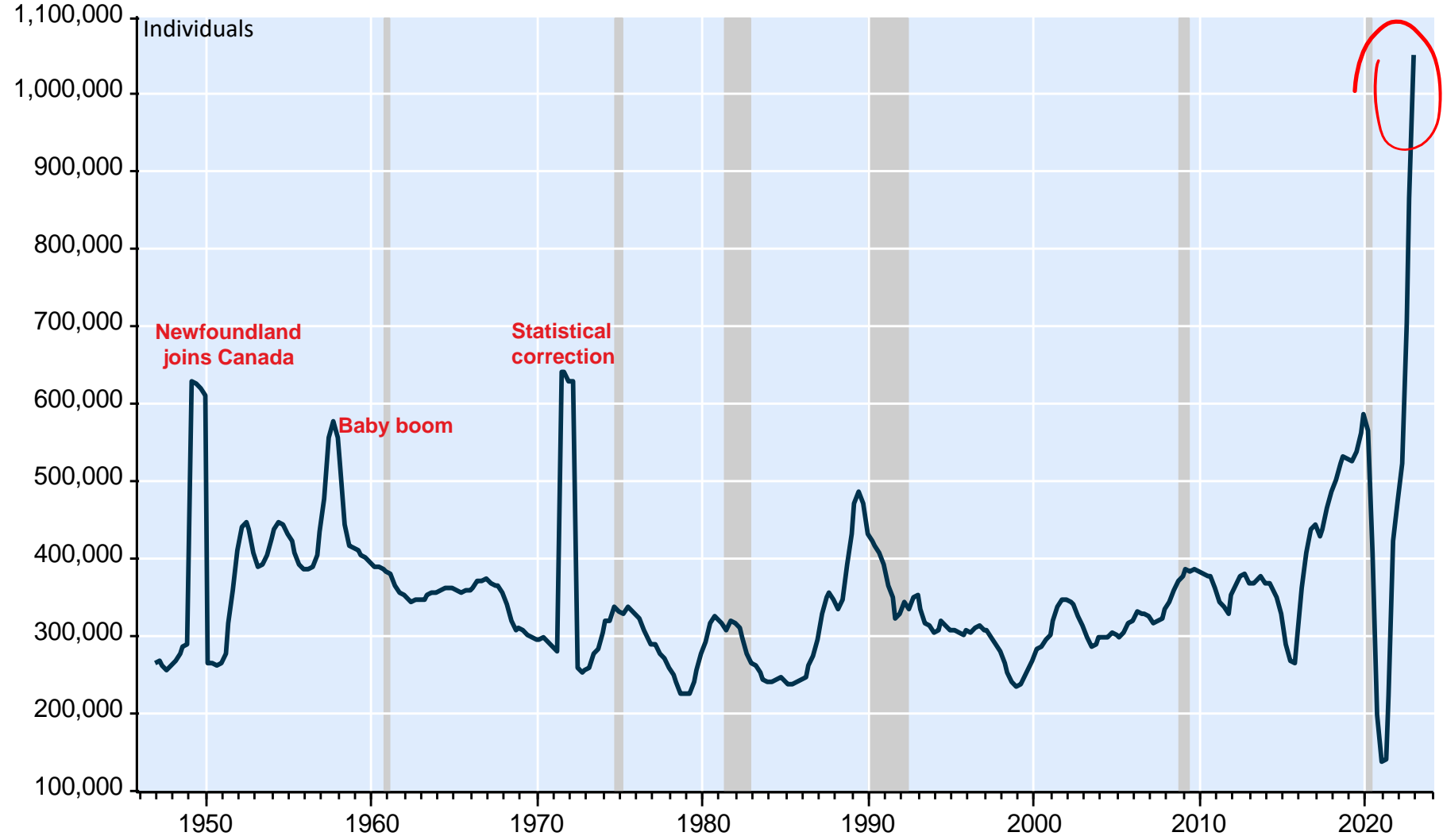
Seasonally adjusted data



NBF Economics and Strategy (data via CREA)

Canada: Population growth on the rise

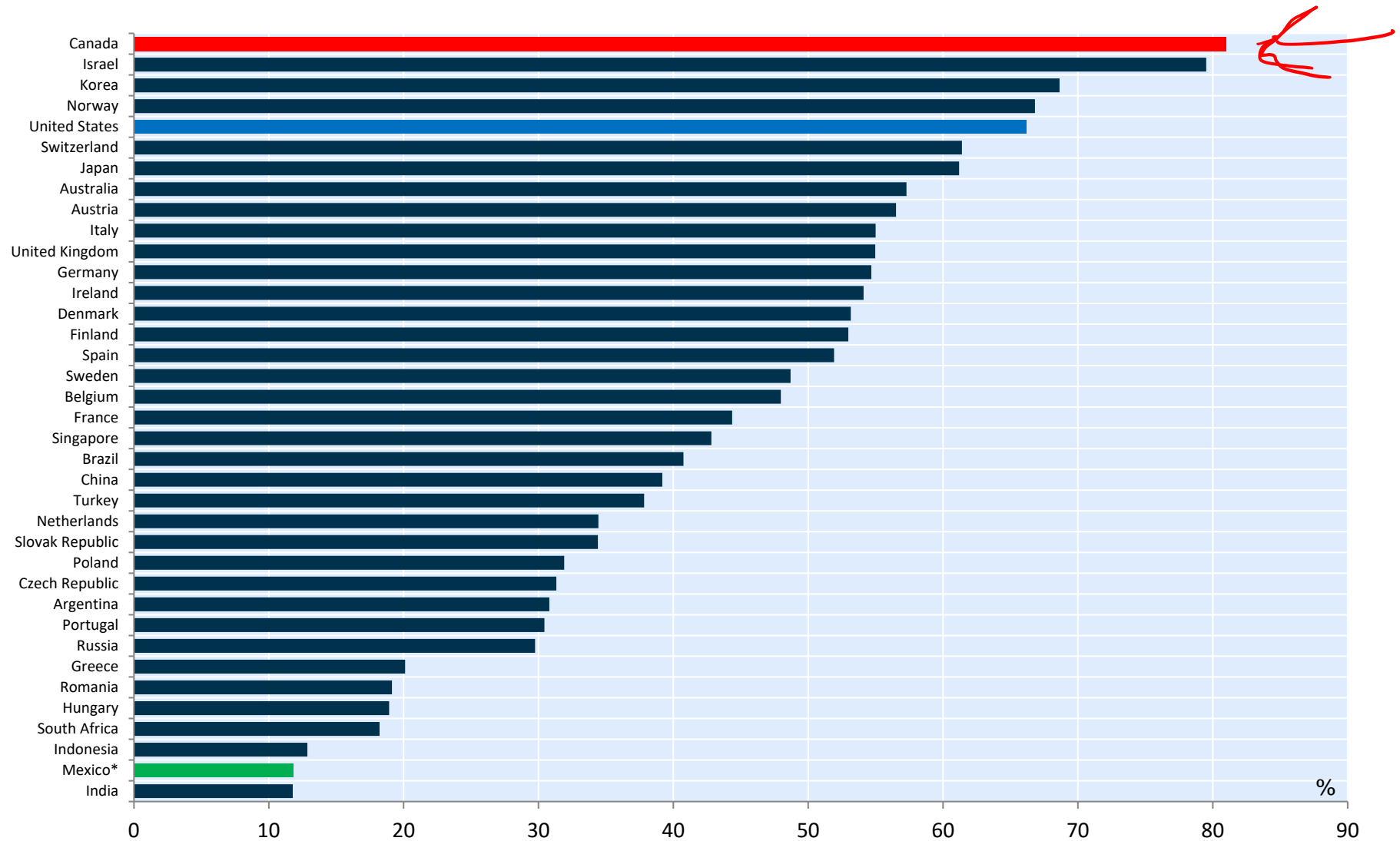
Annual growth in total population



NBF Economics and Strategy (data via Statistics Canada)

World: Canada's financial sector is the most widely used

Share of the population aged 15 and over borrowing from a financial institution, 2021*



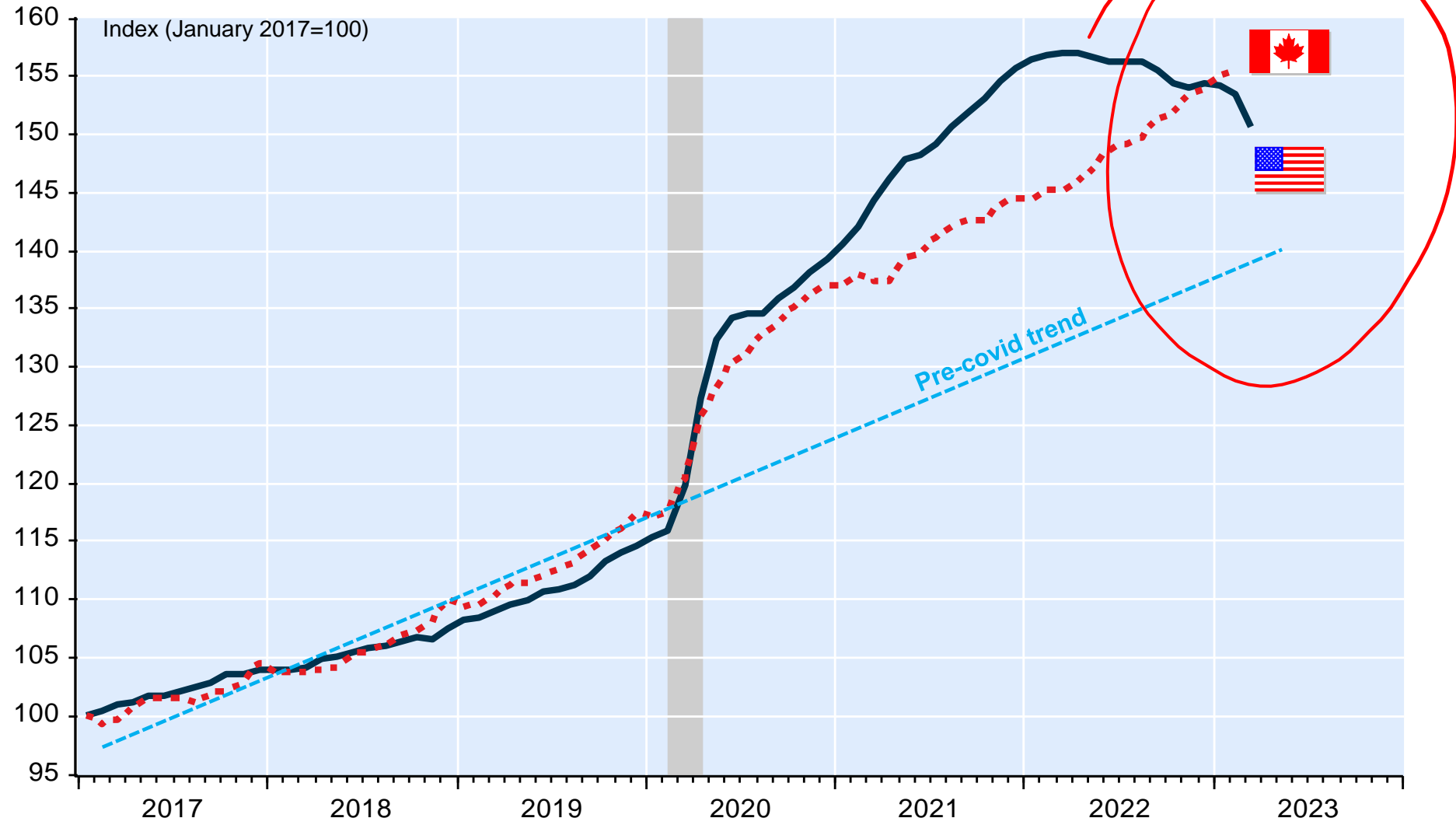
* 2017 data for Mexico

NBF Economics and Strategy (data via World Bank)



Canada: No erosion in deposits

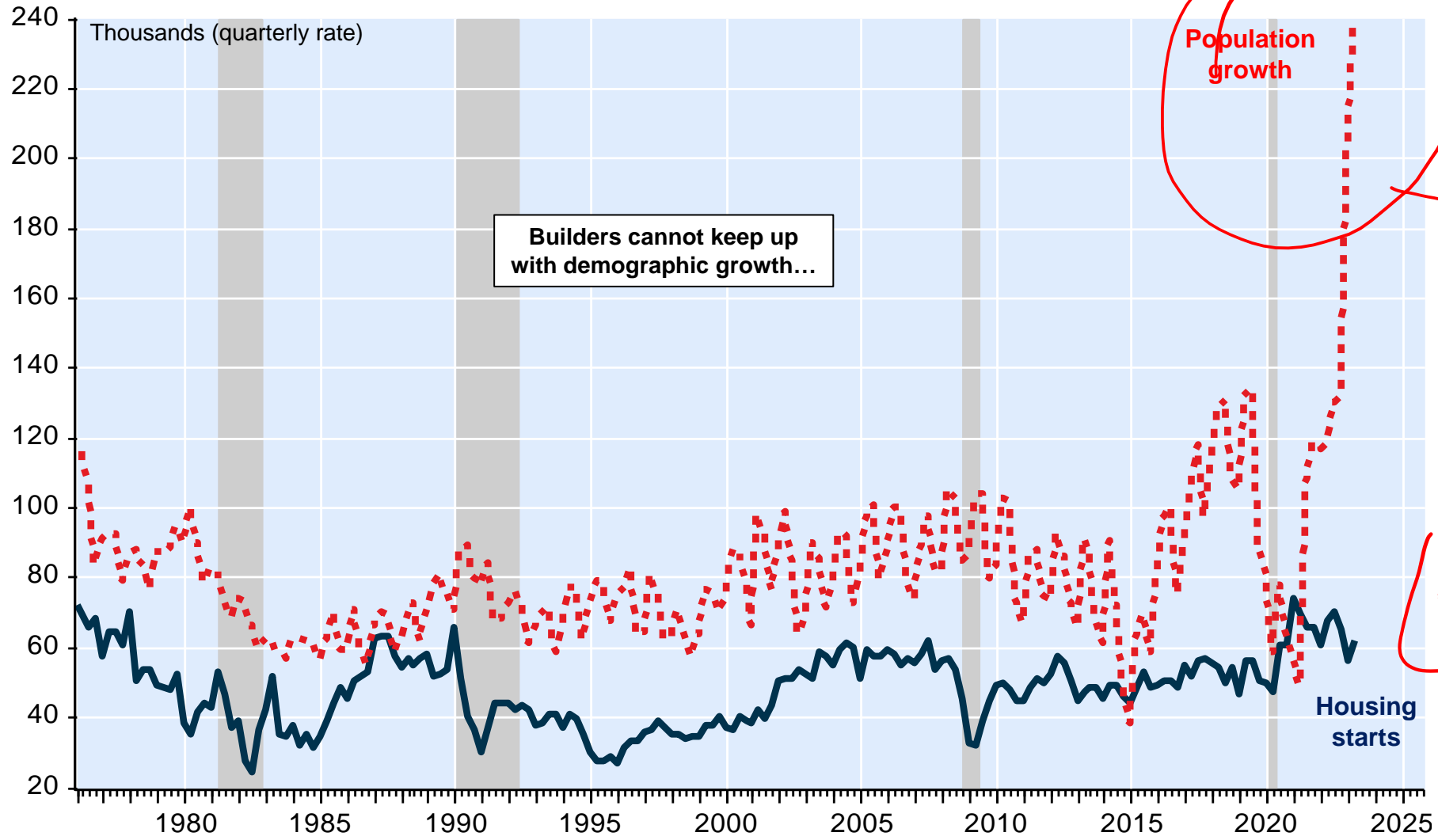
Total deposits at chartered banks, Month-end



NBF Economics and Strategy (data via [Bank of Canada](#), [Fred](#))

Canada: A housing affordability Armageddon?

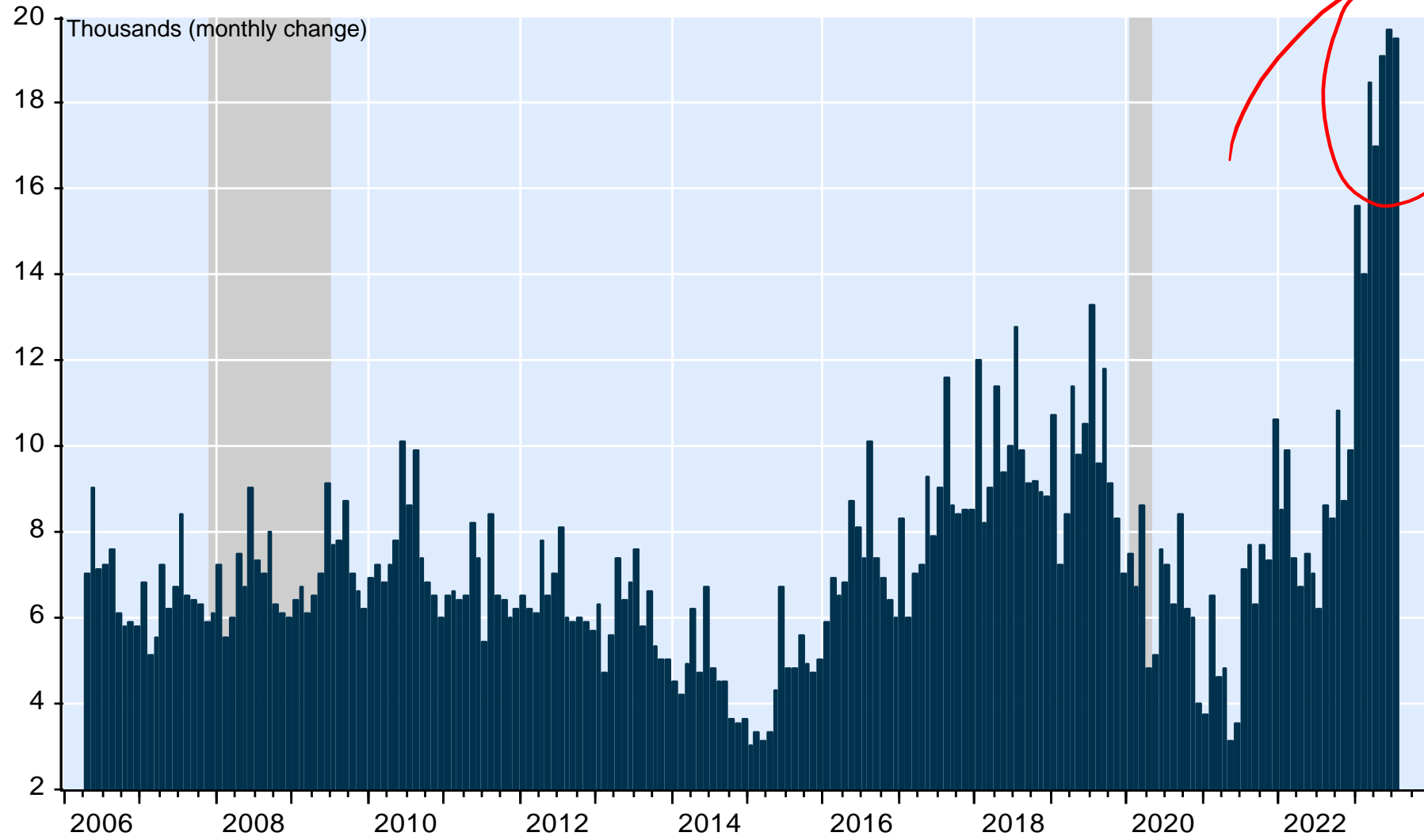
Quarterly change in population aged 15+ vs. quarterly residential home starts



NBF Economics and Strategy (data via Statistics Canada)

Canada: GTA population growing 20K per month !

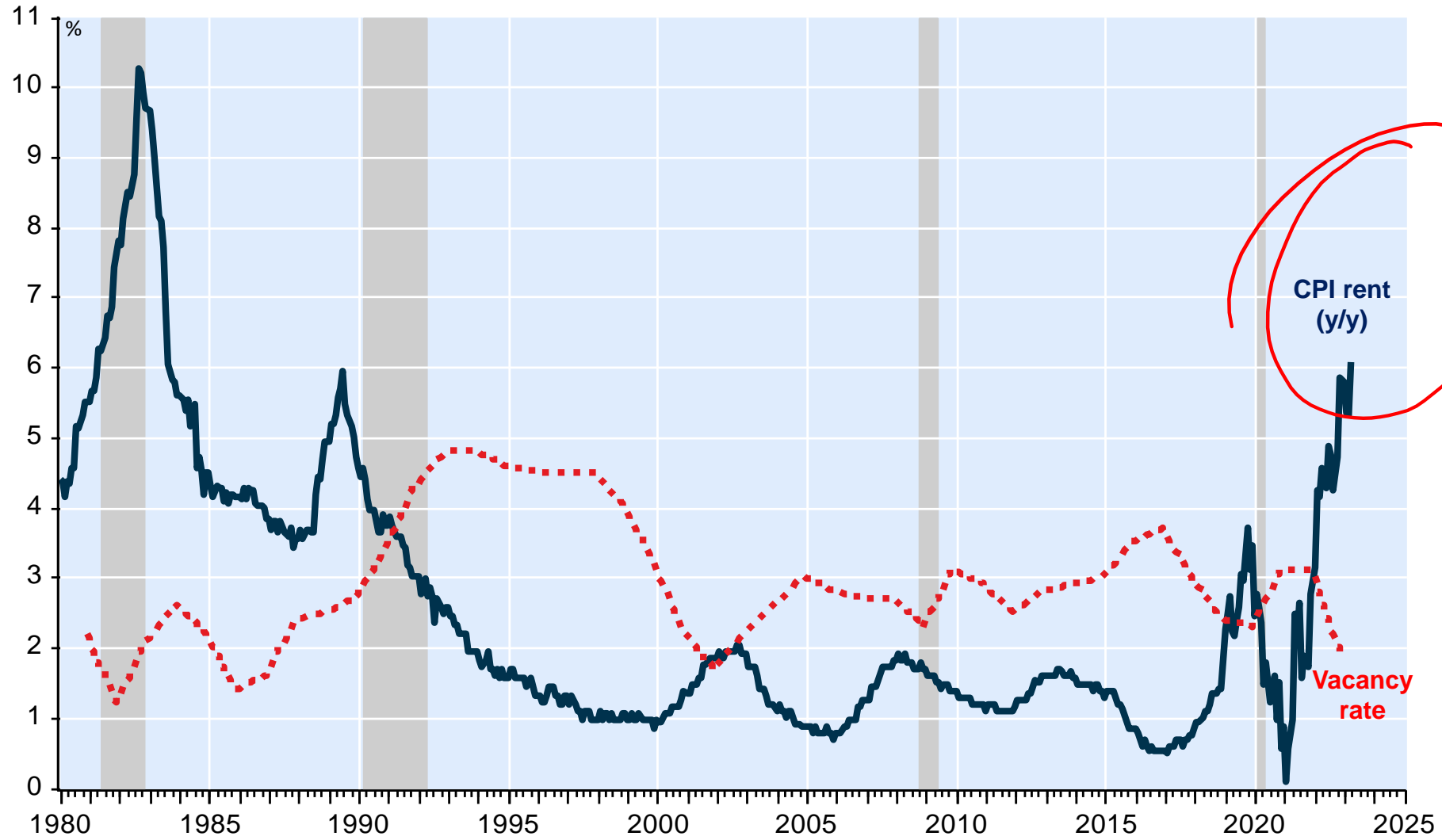
Population in Greater Toronto Area (GTA)



NBF Economics and Strategy (data via Statcan)

Canada: Rents are surging

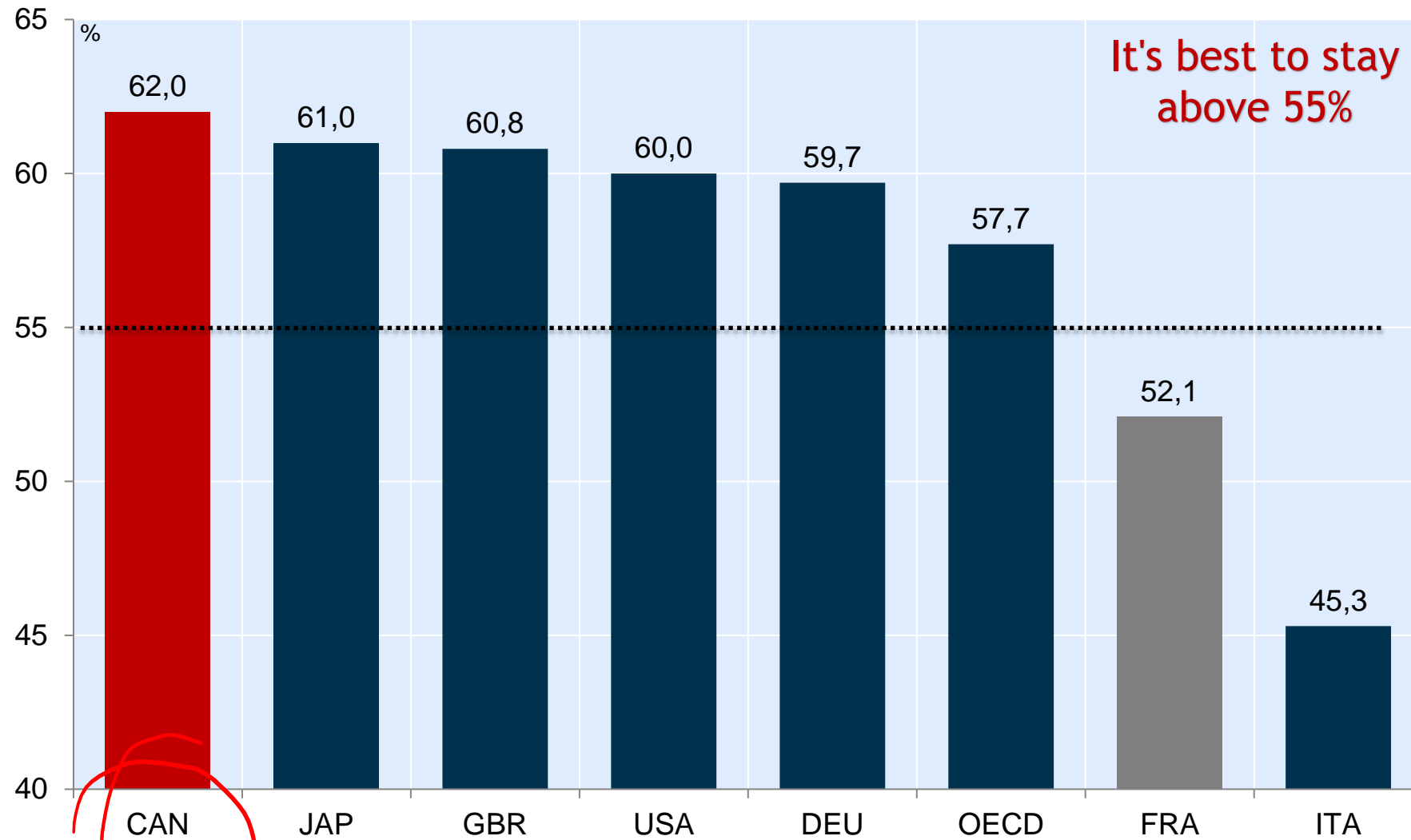
CPI for rent and vacancy rate for residential rental units



NBF Economics and Strategy (data via Statcan)

World: Taxpayers must fund the social safety net

Employment/population ratio (2022 Q4) - people aged 15 and over



NBF Economics and Strategy (<https://stats.oecd.org/viewhtml.aspx?datasetcode=STLABOUR&lang=en#>)

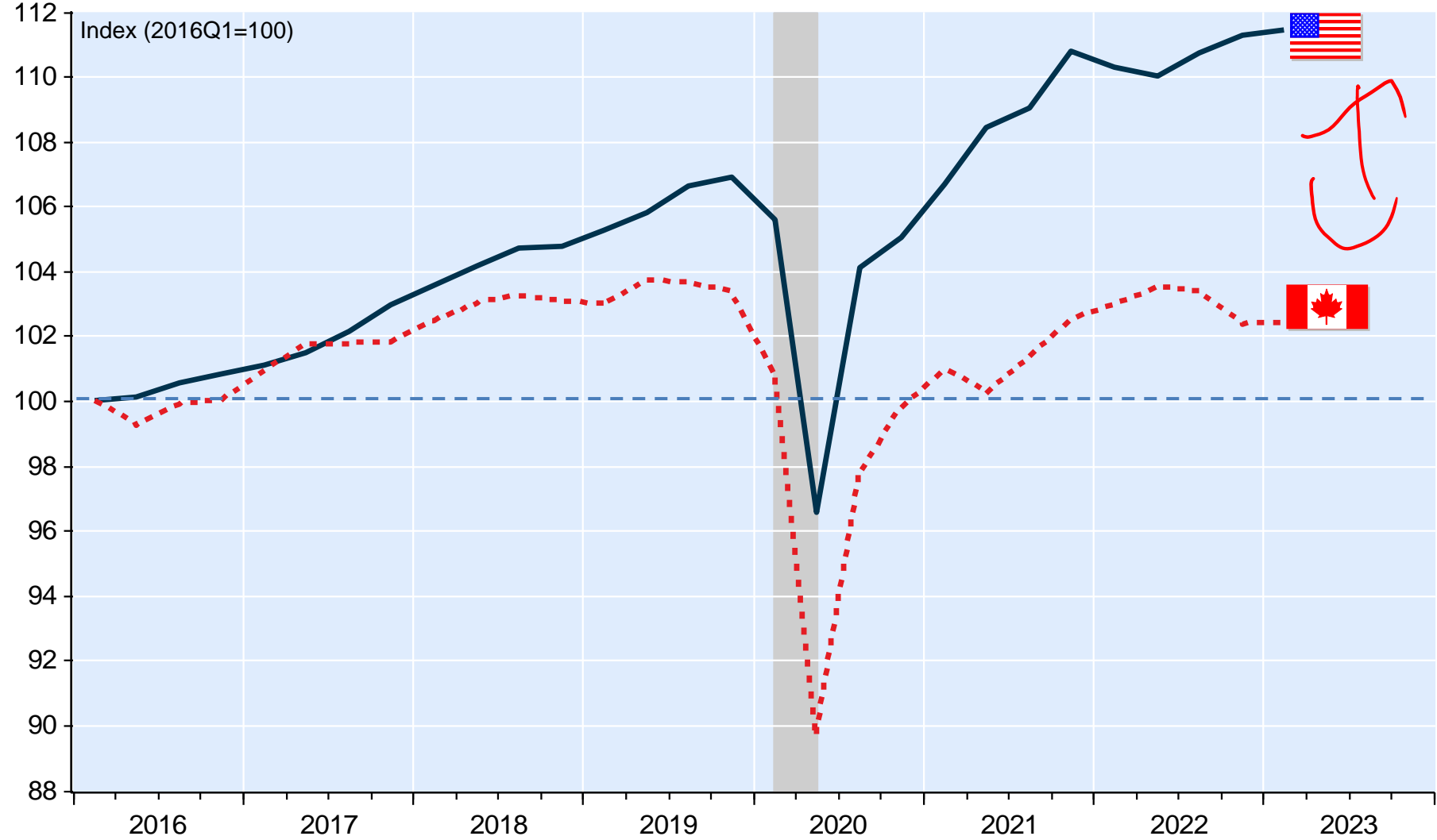


***" You cannot mandate productivity,
you must provide the tools to let
people become their best"***

Steve Jobs

Canada: Six years of stagnation due to low productivity

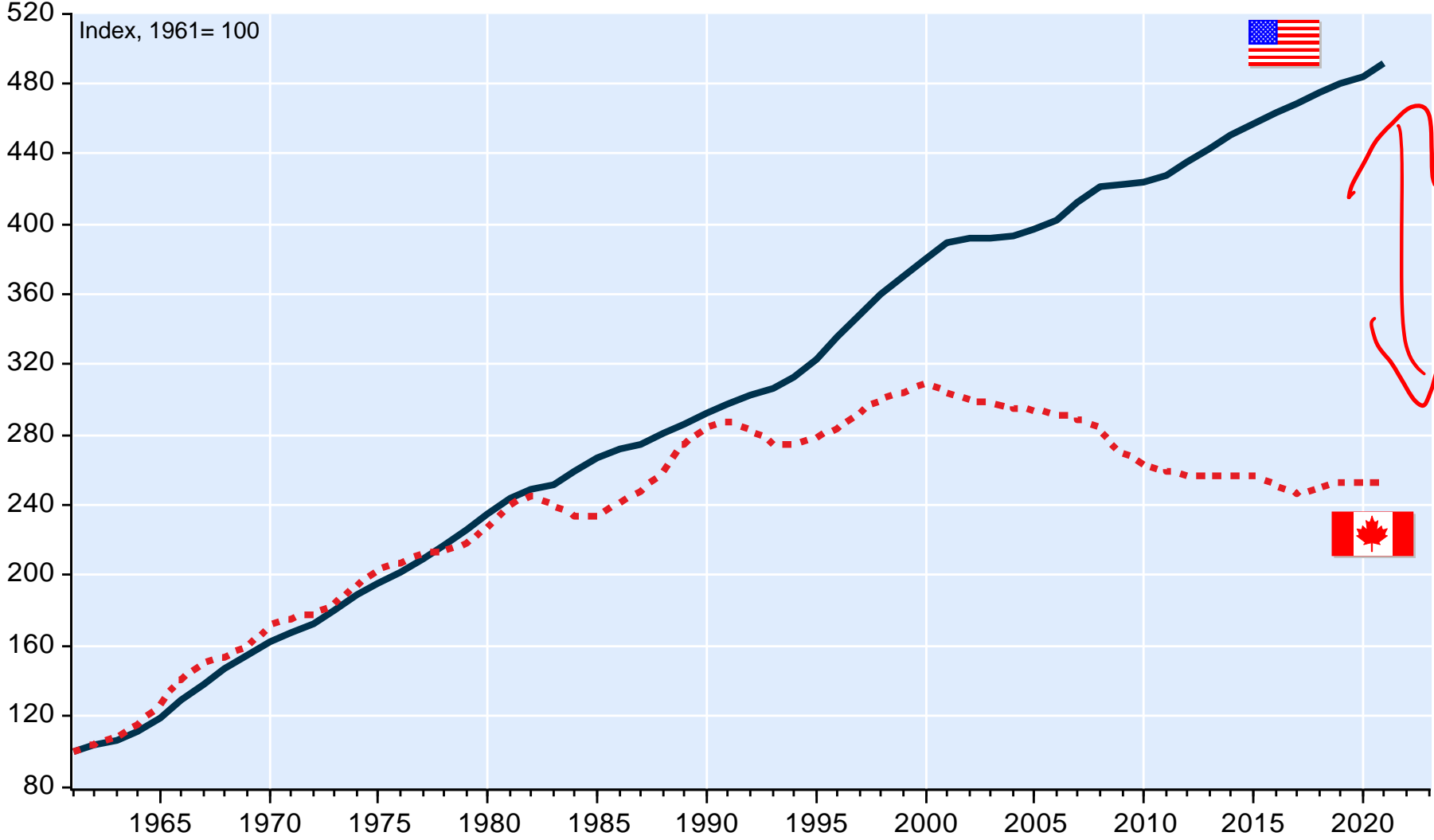
Real GDP per capita



NBF Economics and Strategy (data via Statistics Canada and BEA)

Canada: Manufacturing capital stock at a 40-year low

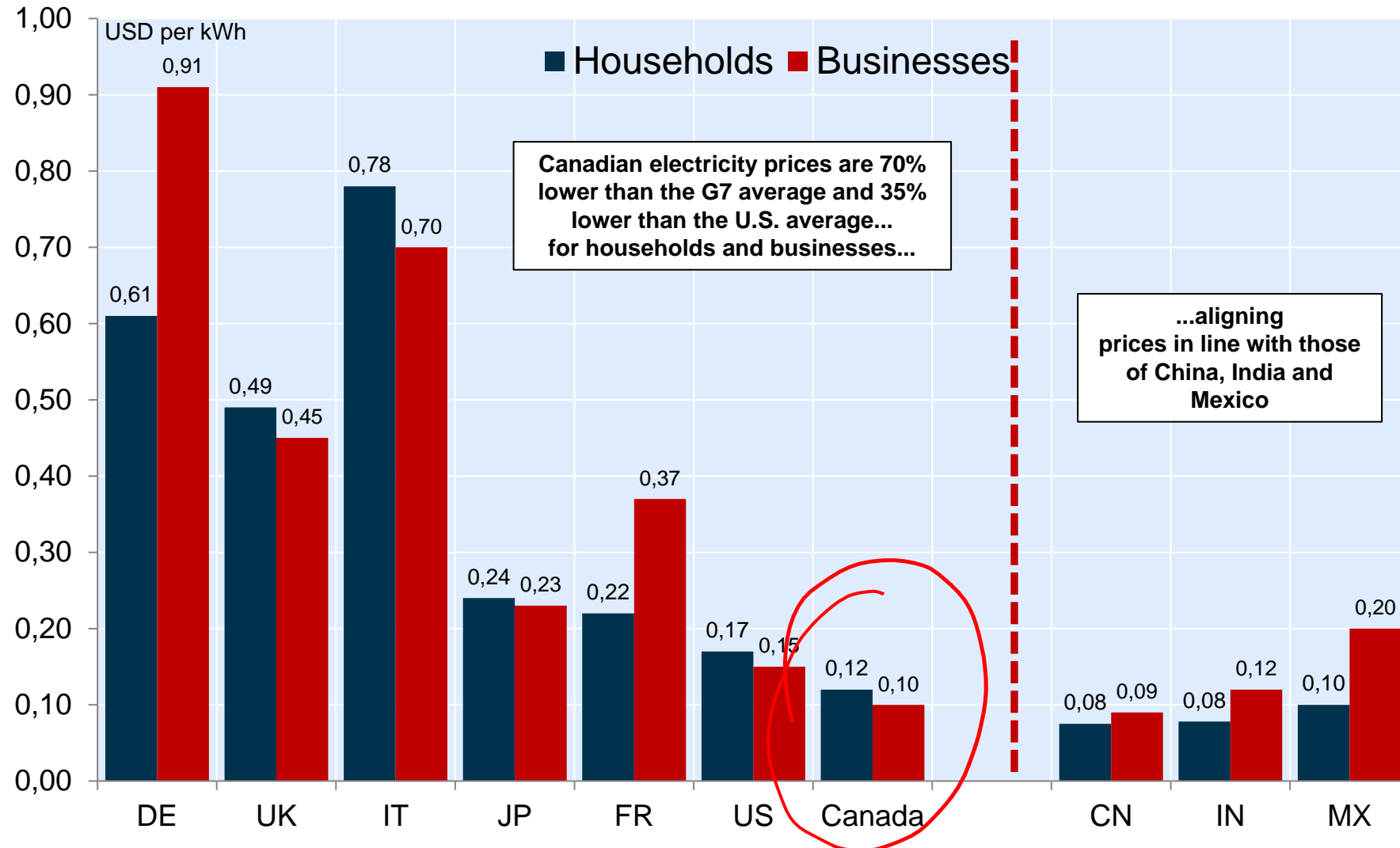
Net capital stock in the manufacturing sector at year-end, CA and U.S. (chained 2012 dollars)



NBF Economics and Strategy (data via Statcan, table [36-10-0096-01](#) and BEA table [3.2ESI](#))

Canada: Lowest electricity prices in the G7

Electricity prices in December 2022 for households and businesses (at market exchange rates)



NBF Economics and Strategy (data via [GlobalPetrolPrices.com](https://www.globalpetrolprices.com))



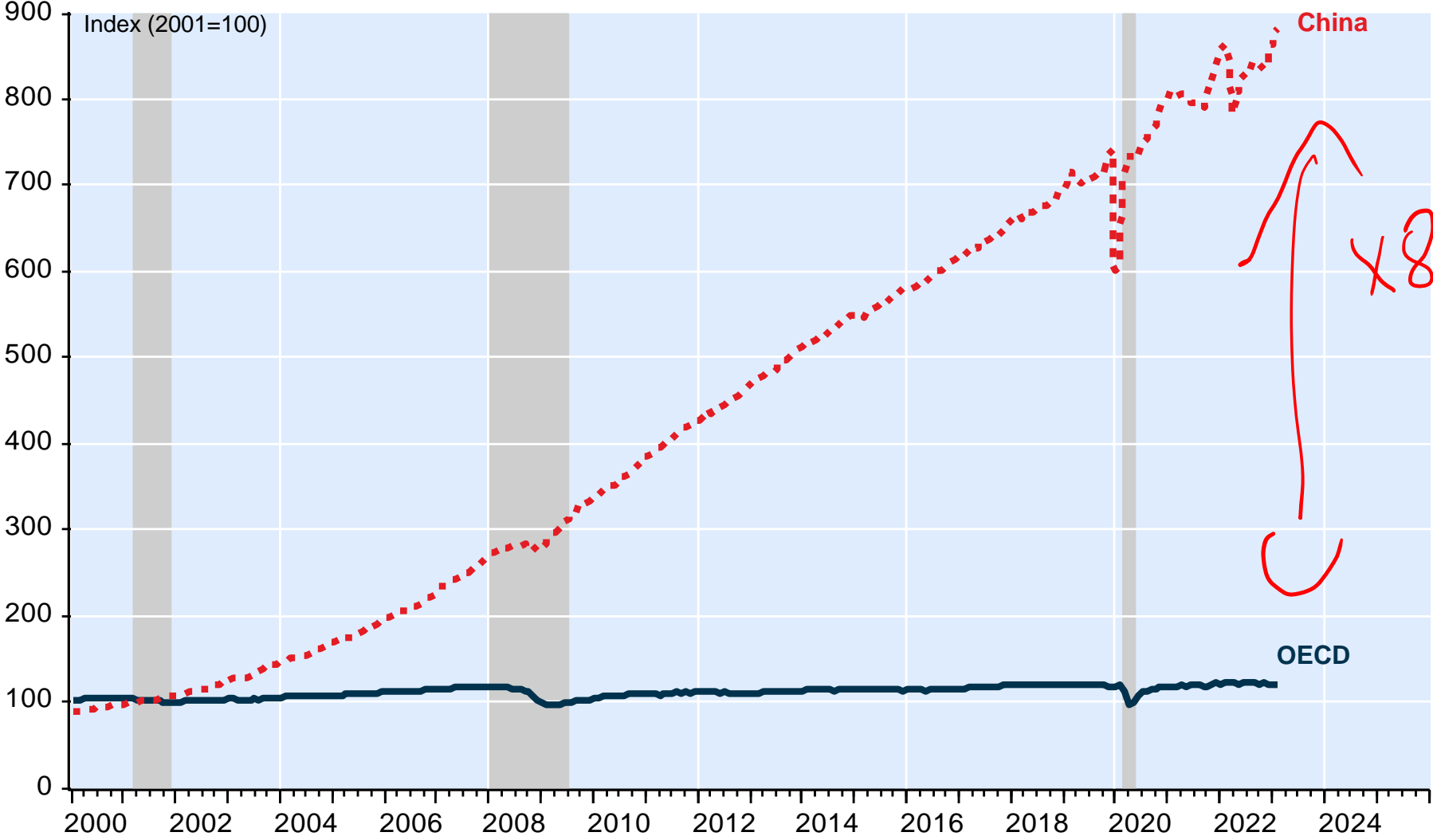


"The time to think about how to respond to changing geopolitics is not when fragmentation is upon us, but before"

Christine Lagarde, April 17, 2023

World: Relocation on an unprecedented scale

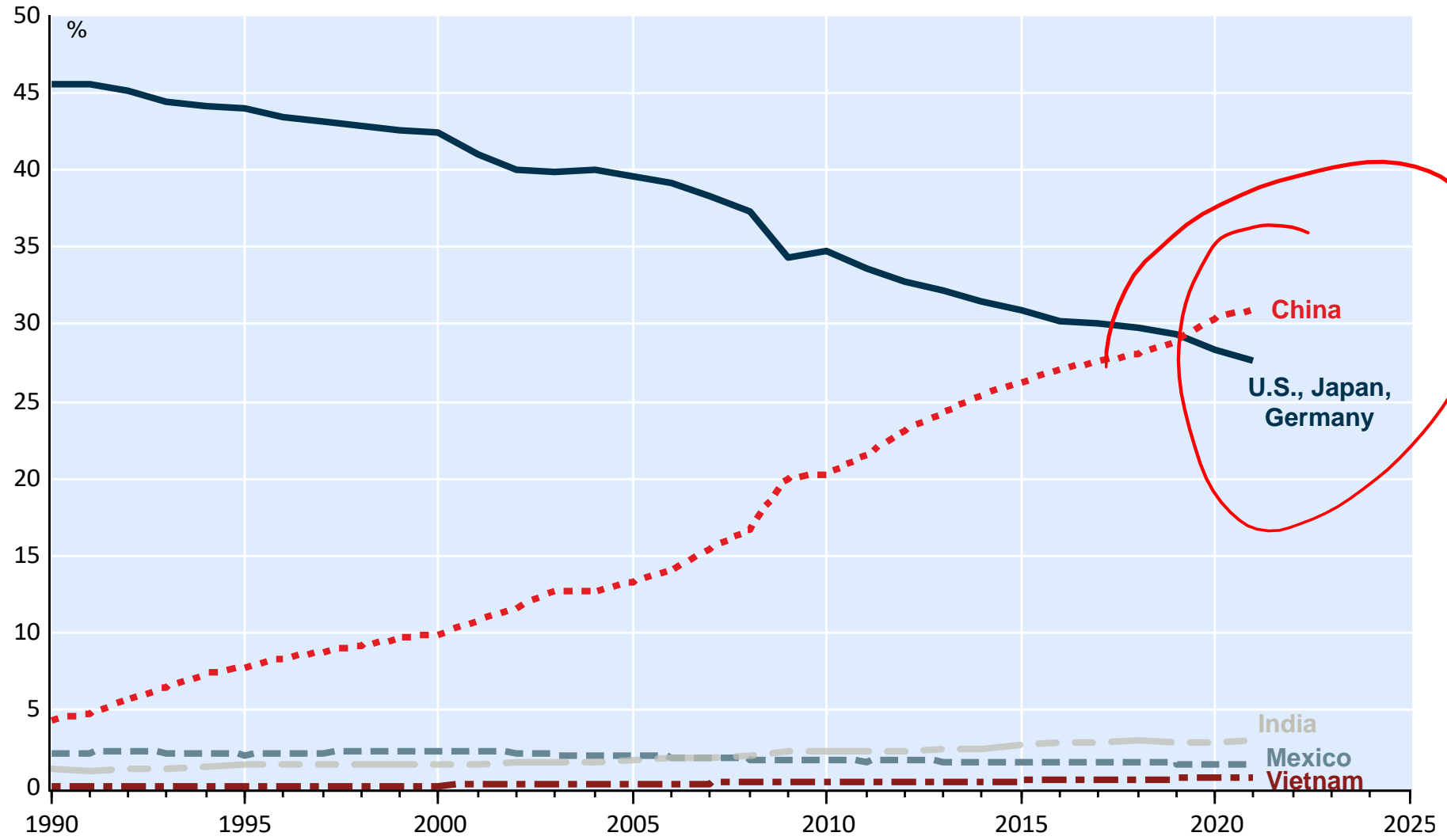
Industrial production (in volume) : China vs. OECD economies



NBF Economics and Strategy (data via CPB)

World: Distribution of manufacturing GDP

Manufacturing GDP as a share of world total in constant 2015 USD



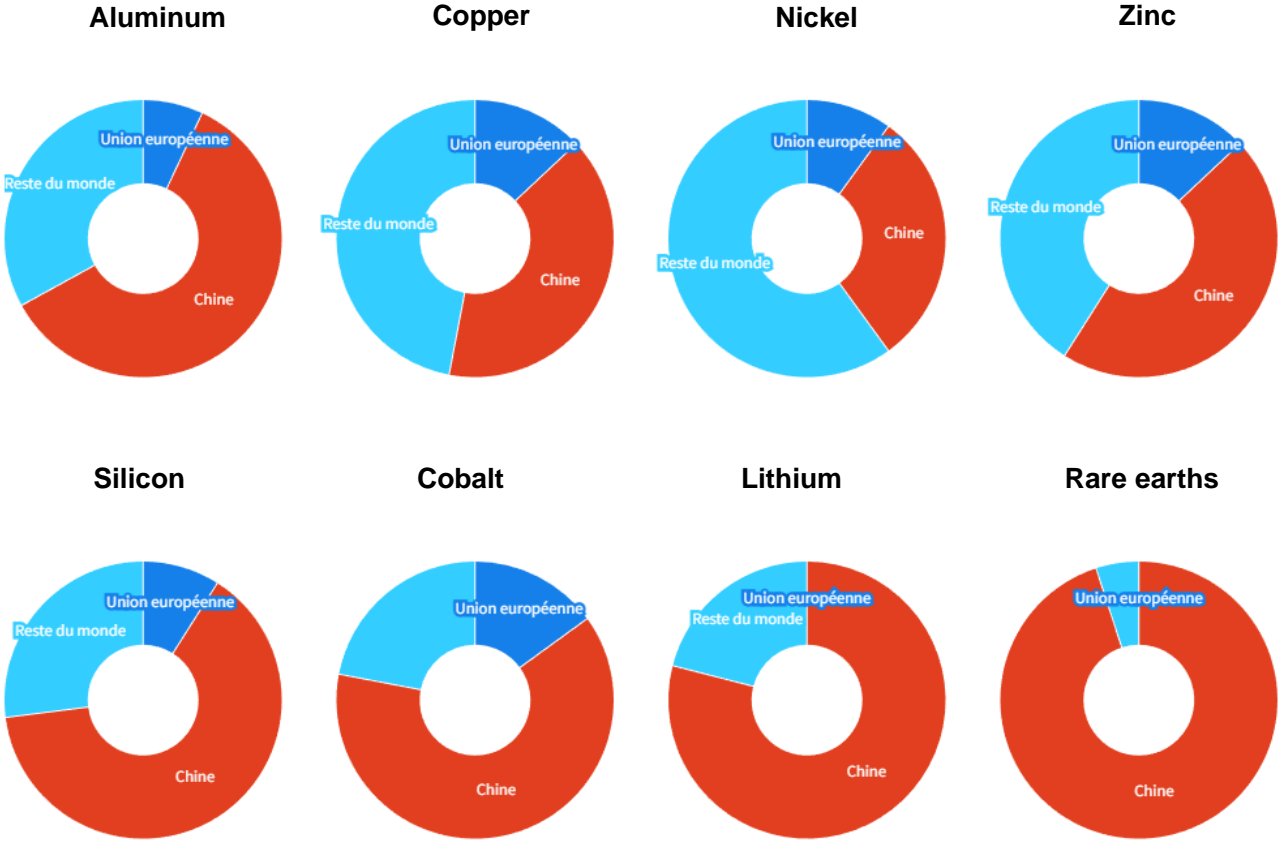
NBF Economics and Strategy (data via [United Nations](#))

Energy transition: refining, China's formidable weapon in the metal war

China sweeps the board in strategic metals refining
Global refined metals market share (% in 2018)

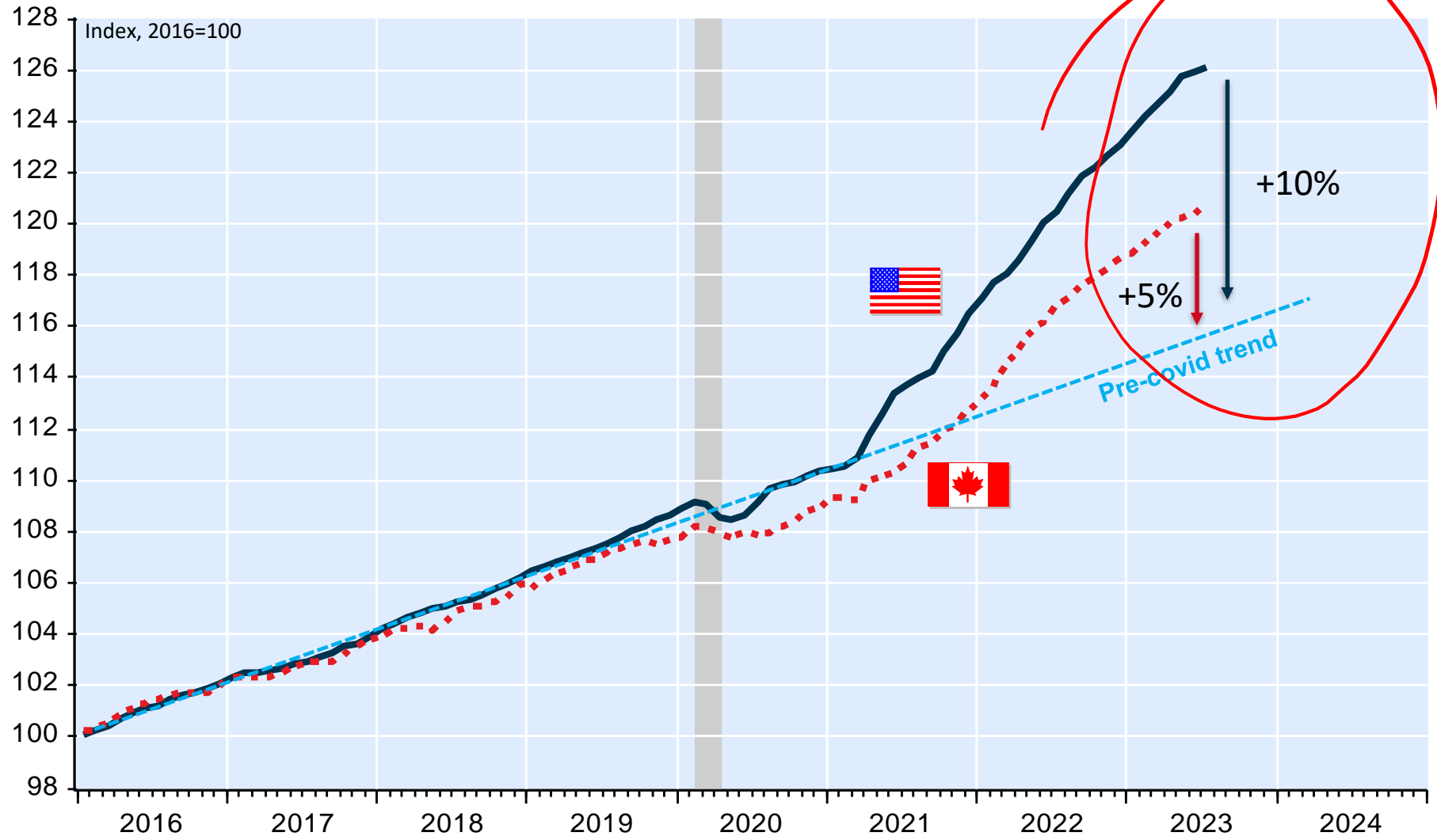
■ European Union ■ China ■ Rest of World

60-80%




Canada-US: Prices continue to diverge from pre-covid trend

CPI excluding food and energy



NBF Economics and Strategy (data via Statcan)

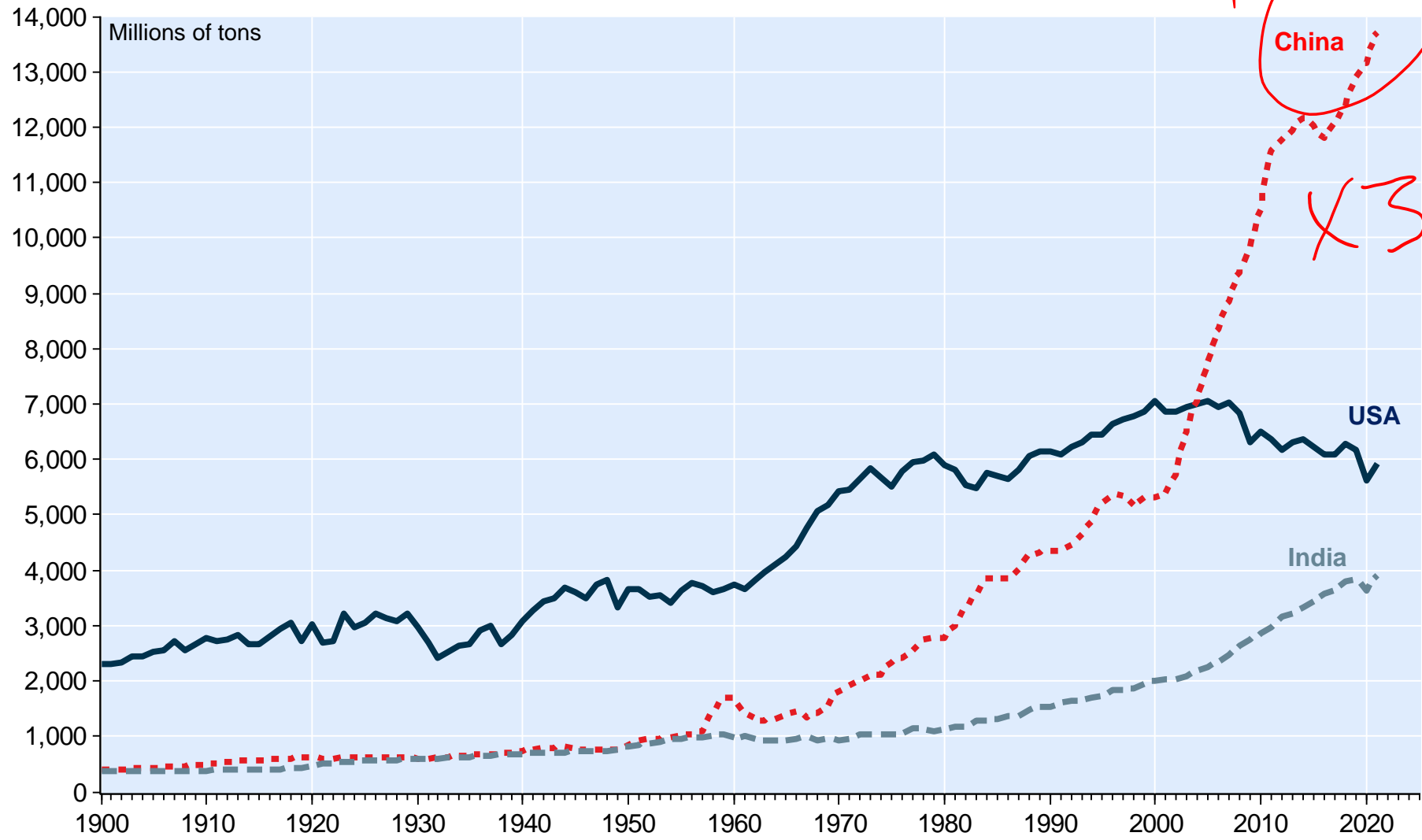
The background features abstract geometric shapes and lines. A large, dark blue shape is positioned in the upper right corner. A white shape with a red outline is situated below it. A light blue line curves across the top left, while a red line curves across the bottom. The text is centered in the middle-left area.

"The response to climate change can only be global and will require the commitment of all major countries producers of greenhouse gases and of those who will become so, which is far from certain"

Professor Daniel Gill, La Presse, April 11, 2023

World: Share of GHG emissions at a record high

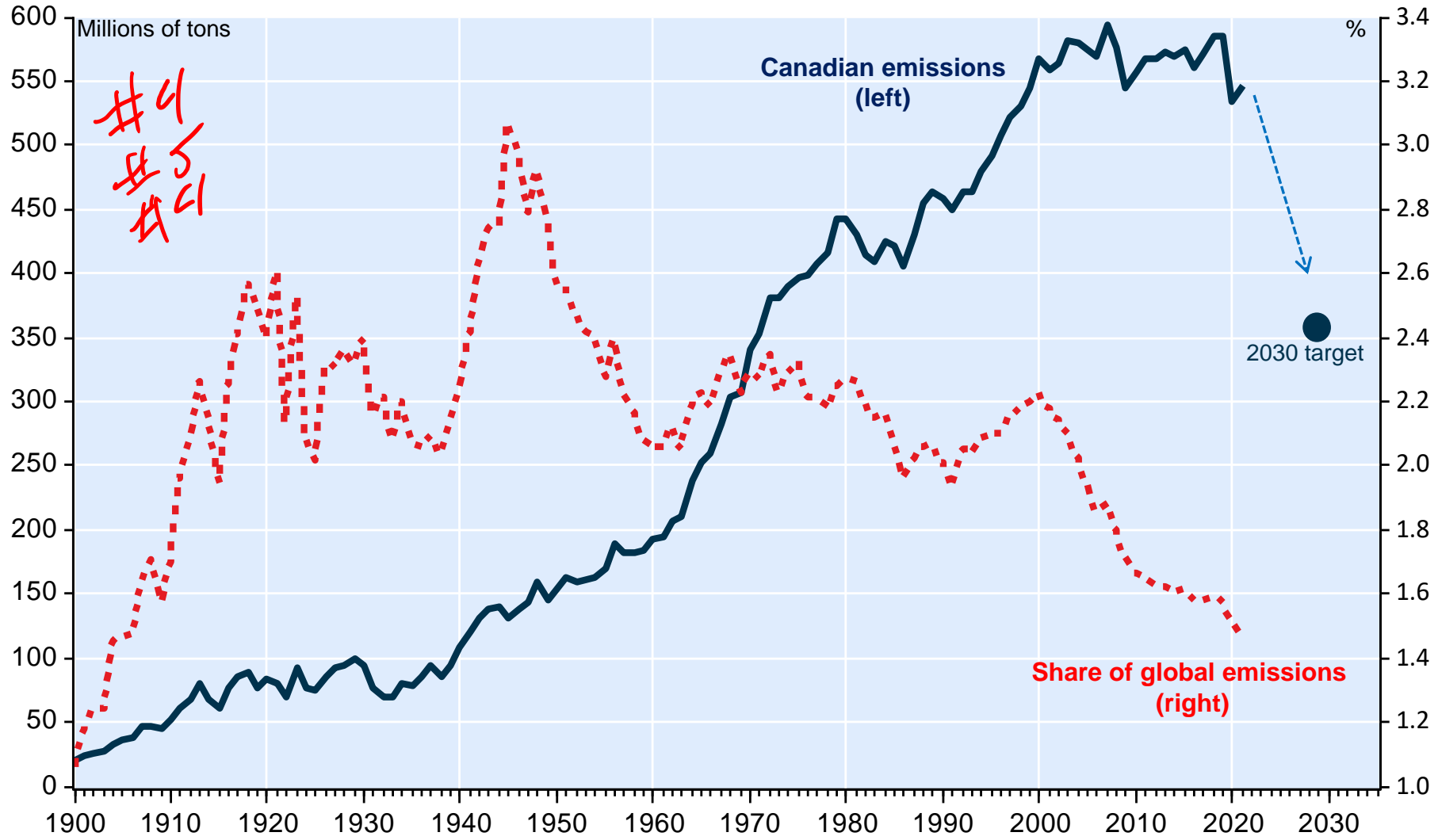
Annual GHG emissions



NBF Economics and Strategy (data via [Our world in data](#))

Canada: Share of global CO2 emissions at lowest level since 1906

Canada's annual CO2 emissions and share of total world emissions



NBF Economics and Strategy (data via [our world in data](https://ourworldindata.org))

THE MILLIONS OF TONS OF CARBON EMISSIONS THAT DON'T OFFICIALLY EXIST

How a blind spot in the Kyoto Protocol helped create the biomass industry.

By Sarah Miller

December 8, 2021

"IHS Markit estimates that if just 20 per cent of Asia's coal-fired power plants were converted to natural gas, global emissions would be reduced by more than the entirety of Canada's annual emissions"

Financial post (April 23, 2023)



The Drax power station, in the U.K., used to burn coal, but it has spent the last few years transitioning to "sustainably sourced biomass," more commonly known as wood pellets. Photograph by Bill Allsopp / Getty



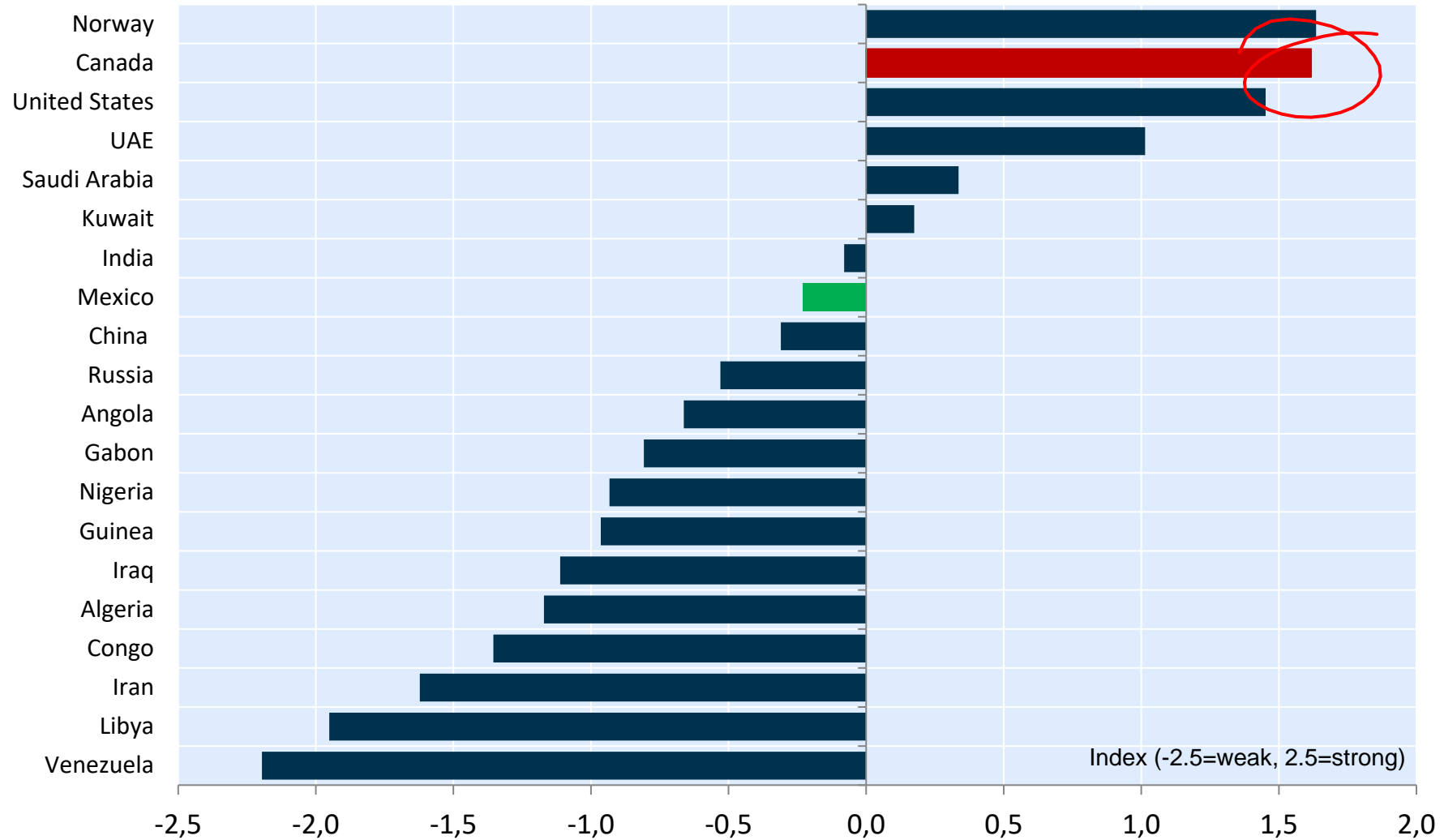
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Asia swaps coal for wood fuel, but emissions still a threat

Critics say biomass burning in South Korea and Japan poses logging, carbon risks.
Nikkei - 13 Feb 2022, 10:44am

ESG is meaningless without taking governance into account

Regulatory Quality Index for OPEC countries plus CA, MX, NO, CN and IN (2021)



NBF Economie et Stratégie (data via [World Bank](#))



Forecast summary

- Central banks determined to reduce inflation
- They have already tightened their policies considerably - global growth is declining.
- The pace of hiring is set to slow.
- The Canadian dollar goes to 1.40 before stabilizing in 2024 (WTI at \$70).
- The stock market is vulnerable (already high multiples).

Are we in a recession? No. The shape of the cycle will depend on inflation trends.
U.S. GDP growth below 1% in 2024, Canada flat

Risk factor: A complex geopolitical backdrop and ESG considerations could push inflation back above target beyond 2023: THE ENERGY TRANSITION IS INFLATIONARY.
Decarbonization targets are too ambitious in the current context of rising protectionism.

Canada is blessed with natural resources, but..:

- Need for a reindustrialization policy.
- We need to optimize our immigration policy for the trades.
- Better for the planet to decarbonize emerging countries.
- We must demand better governance for ESG accounting



United States						
Quarter	Fed Funds	3 Mth Bill	2YR	5YR	10YR	30YR
17-Aug-23	5.50	5.44	4.94	4.40	4.28	4.40
Q3:2023	5.50	5.40	4.80	4.25	4.15	4.25
Q4:2023	5.50	5.35	4.65	4.05	3.95	4.05
Q1:2024	5.50	5.10	4.30	3.80	3.80	3.90
Q2:2024	5.00	4.80	4.00	3.60	3.65	3.75
Q3:2024	4.75	4.55	3.75	3.50	3.50	3.65
Q4:2024	4.50	4.25	3.55	3.45	3.45	3.60

Canada						
Quarter	Overnight	3 Mth Bill	2YR	5YR	10YR	30YR
17-Aug-23	5.00	5.14	4.78	4.10	3.76	3.60
Q3:2023	5.00	5.05	4.65	4.00	3.60	3.45
Q4:2023	5.00	4.95	4.35	3.75	3.40	3.35
Q1:2024	5.00	4.65	3.90	3.45	3.25	3.25
Q2:2024	4.50	4.25	3.60	3.25	3.15	3.15
Q3:2024	4.25	3.95	3.35	3.10	3.10	3.10
Q4:2024	4.00	3.70	3.15	3.05	3.05	3.10



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General

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