Monthly Market Insights

Data and opinions as of September 30, 2021

Investors concerned about slowing growth, geopolitics, Evergrande

Equity markets experienced notable levels of volatility in September. The month started at record highs but stocks ended up in negative territory, snapping a streak of seven straight months of gains. This was not unexpected as September and October tend to be the most volatile months of the year, on a historical basis. That stated, there were specific sources of concern for investors as well. These included slowing global economic growth—amplified by worries of the U.S. nearing its debt ceiling—the U.S. Federal Reserve's potential tapering, and ongoing Chinese regulatory restrictions, as well as the more recent possible Evergrande Group default. Supply chain disruptions also worsened, in contrast to earlier expectations that these problems would start to abate during the second half of this year.

The NEI perspective

Market volatility picks up. Stocks exhibited considerable volatility in September. The month started at record highs but stocks ended up in negative territory, snapping a streak of seven straight months of gains. This is not surprising given that September and October tend to be the most volatile months of the year.

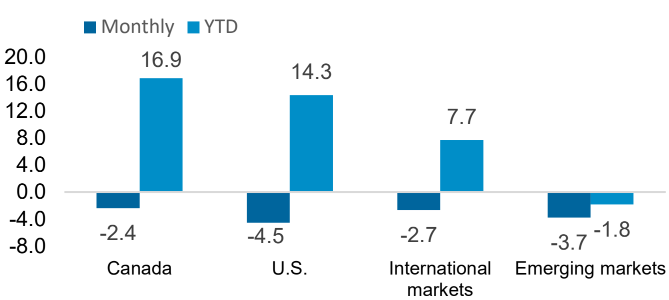
Tapering conditions may be near. U.S. bond yields rose sharply following the U.S. Federal Reserve's monetary policy meeting in September. Fed Chair Jerome Powell signaled that tapering of bond purchases could start as soon as the central bank's next meeting in November.

Wall of worries. Many concerns continue to weigh on investors, including slowing global economic growth, rising inflationary pressures, U.S. debt ceiling negotiations, the U.S. Federal Reserve tapering, and the potential Evergrande default. Nevertheless, periods of short-term volatility are not uncommon, particularly around this time of year, and we encourage investors to take a longer-term perspective.

From NEI's Monthly Market Monitor for October. Read the full report for more insights.

Equity

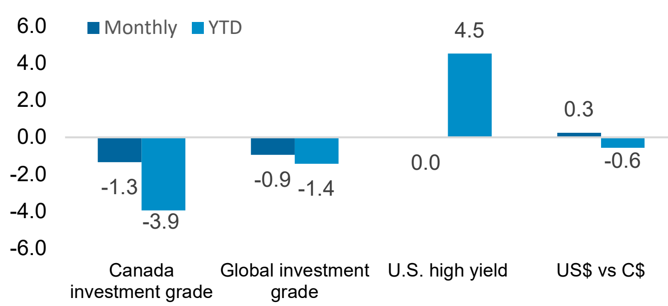
% return in C$



Canada: MSCI Canada; **U.S.:** MSCI USA; **International markets:** MSCI EAFE; **Emerging markets:** MSCI Emerging Markets. Source: Morningstar Direct.

Fixed income and currency

% return in C$



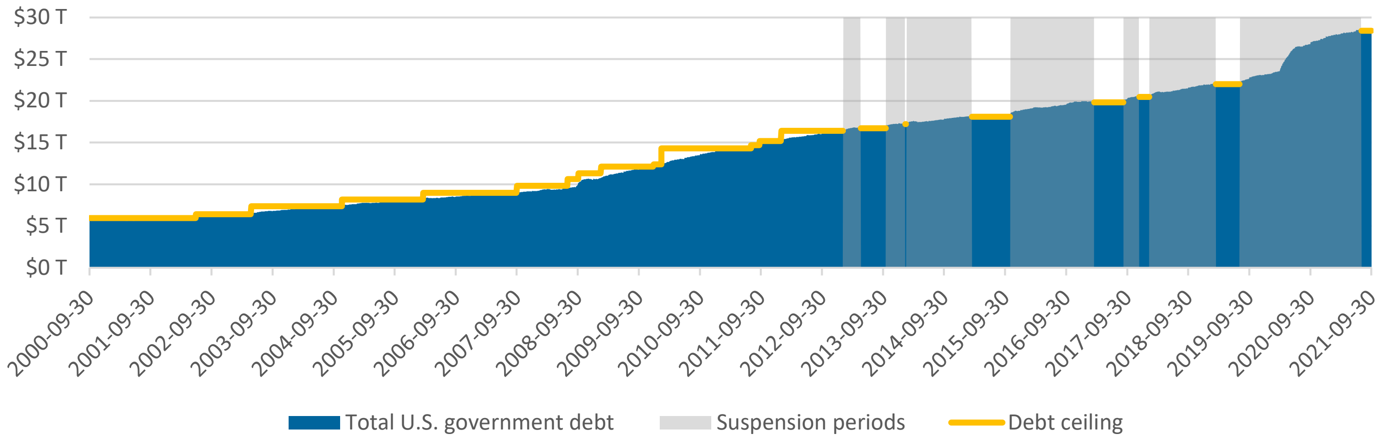
Canada investment grade: Bloomberg Barclays Canada Aggregate; **Global investment grade:** Bloomberg Barclays Global Aggregate; **U.S. high yield:** Bloomberg Barclays U.S. High Yield. Source: Morningstar Direct.

Eyes on the U.S. debt ceiling debate

The U.S. Treasury Department is reaching its debt limit of US$28.4 trillion, a maximum amount set by law that the government is authorized to borrow to finance its operations. Treasury Secretary Janet Yellen has indicated that if the debt ceiling is not raised or if another suspension is not granted, the government will likely run out of cash by mid-October. Government payments would cease, which could include a default on government bond payments that are coming due and an inability to meet an approaching ~$20B payments to social security recipients. Addressing the debt ceiling has been complicated by other issues, such as the $3.5T reconciliation spending package and the infrastructure bill.

This debate has major implications for the American economy and the wider market. A possible U.S sovereign default would impact credit markets, triggering a credit ratings downgrade, sending interest rates higher and ultimately stifling the prospects of the U.S. economic recovery while pressuring equity prices. In 2011, when similar political brinkmanship was heated and Treasury debt lost its AAA rating from Standard & Poor's, 5-year credit default swap spreads spiked 65 basis points on Treasuries. We expect that Congress will likely come to a decision within the final hours before the U.S. runs out of cash, as it is highly unlikely that the government will further add to its existing economic challenges with a debt default.

U.S. debt ceiling has risen historically, increasingly following periods of suspension



Source: U.S. Department of Treasury, Bloomberg. As of September 30, 2021.