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A MURKIER OUTLOOK, BUT SOLID GROWTH STILL EXPECTED

Bond markets appear to be in the midst of recalibrating with 10-year benchmark government yields surging as much as 25 bps in both Canada and the U.S. in a volatile final week of the quarter. Kicking off this sudden jump in yields was the surprisingly hawkish Federal Reserve that revealed last week its accelerated tapering schedule set to begin in November and end by mid-2022. Additionally, interest rate expectations are higher with central bank policy makers evenly split on the need for an increase as early as next year. While the Federal Reserve yet again tried to temper the financial markets and delink monetary policy from tapering, this time, the synchronized movements by its global peers in England, Norway and Canada have propelled yields upwards. However, even with this abrupt uptick, yields have not surpassed the highs set earlier this year.

The other main driver for market volatility continues to be the debate on inflation. Despite central banks acknowledging that inflation has been higher and persisted longer than expected, authorities continue to believe that it will be temporary. Supply chain bottlenecks have been the main culprit for rising price pressures and there are growing concerns that these issues could linger longer than originally expected. Container ships are backed up in the Southern California ports and the Port of Vancouver is sending back a record number of empty containers to Asia amid the surge in demand for goods. Rising oil prices have also been a contributing factor to inflation. Exacerbated by the developing energy crisis in Europe and China, inadequate inventories ahead of the winter months are leading to worries of energy shortages that could extend across the global supply chain. Not only are these disruptions driving up inflation, but they are also hampering economic growth. In fact, economists have largely attributed Canada's surprise GDP contraction in Q2 2021 to supply chain issues.

The global economic outlook has certainly become murkier with additional uncertainties on top of the existing COVID ones. Given ongoing supply chain issues, difficulties in replacing lost labour and the political strife surrounding the U.S. debt ceiling, these all pose significant risks to global growth over the near term. However, base case expectations are for these risks to be resolved and if all goes according to plan, result in solid economic growth for this year and next.

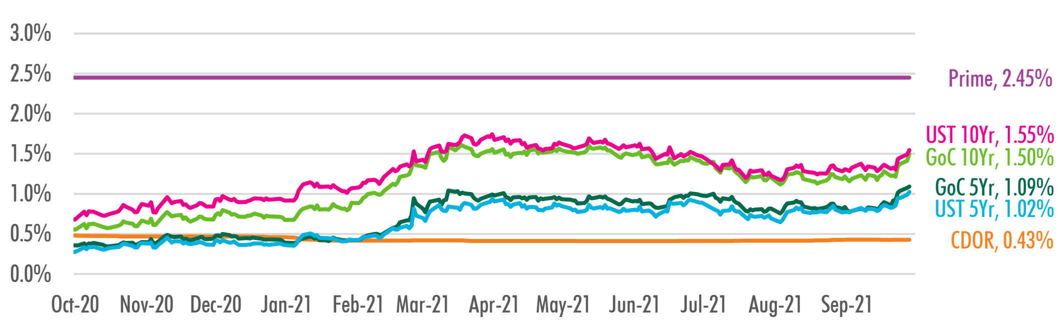
Key Indicator	Current	30 Days
5Yr Mortgage Spread	1.20%-3.25%	
10Yr Mortgage Spread	1.40%-3.40%	
5Yr Canada Housing Trust Spread	21 bps	4 bps
10Yr Canada Housing Trust Spread	31 bps	-7 bps
USD/CAD	$0.7881	-0.47%
WTI Crude	US$75.29	9.53%
WCS Crude	US$63.21	14.82%
S&P/TSX REIT Index	193.5	-3.40%

Source: Refinitiv Eikon, CBRE Research, September 28, 2021.

Economic Highlights:

- Real GDP for Q2 2021 contracted by an annualized rate of 1.1%.
- Employment rose by 90,200 jobs in August 2021 and the unemployment rate fell to 7.1%.
- Preliminary estimates suggest retail sales rebounded in August 2021 by 2.1% following a 0.6% decline in July.

Benchmark Yields



Source: Refinitiv Eikon, September 28, 2021.

ViewPoints:

- U.S., Canada bond yields surge after central banks send hawkish signals, taking traders by surprise
- Global supply disruptions could still get worse, central bankers warn
- Europe's Energy Crisis Is Coming for the Rest of the World, Too
- The global economy looks solid, but these are the big risks ahead

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