

The Weekly Bottom Line

September 23, 2022

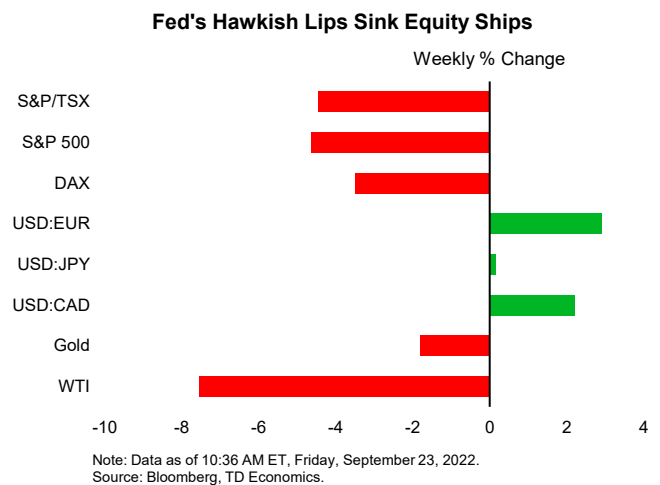
Highlights

United States

- The Federal Reserve raised interest rates by 75bps for the third consecutive meeting, bringing the federal funds rate to its highest level in 14 years.
- FOMC Chair Powell reiterated his Jackson Hole speech, stating that the Fed is willing to tolerate slower growth and higher unemployment to bring inflation back to its 2% target.
- Interest rate sensitive sectors continue to feel the effects of past rate hikes, with existing home sales down 0.4% (m/m) in August, marking the seventh consecutive month of declines.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	3692	3873	4797	3667
S&P/TSX Comp.	18516	19386	22087	18329
DAX	12298	12741	16272	12298
FTSE 100	7028	7237	7672	6959
Nikkei	27154	27568	30249	24718
Fixed Income Yields				
U.S. 10-yr Treasury	3.73	3.45	3.73	1.34
Canada 10-yr Bond	3.09	3.14	3.62	1.32
Germany 10-yr Bund	2.02	1.76	2.02	-0.39
UK 10-yr Gilt	3.81	3.14	3.81	0.70
Japan 10-yr Bond	0.24	0.26	0.26	0.04
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.74	0.75	0.81	0.74
Euro (USD per EUR)	0.97	1.00	1.17	0.97
Pound (USD per GBP)	1.09	1.14	1.38	1.09
Yen (JPY per USD)	143.2	142.9	144.6	110.3
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	81.0	85.1	123.7	65.6
Natural Gas (\$US/MMBtu)	7.74	8.00	9.82	3.34
Copper (\$US/met. tonne)	7739.0	7869.0	11299.5	7160.0
Gold (\$US/troy oz.)	1648.7	1675.1	2050.8	1648.7

*As of 11:36 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.



Global Official Policy Rate Targets	
Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	3.00 - 3.25%
Bank of Canada (Overnight Rate)	3.25%
European Central Bank (Refi Rate)	1.25%
Bank of England (Repo Rate)	2.25%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

TD Economics Key Financial Forecasts													
	Current Rate 9/23/22	2022				2023				2024			
		Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	3.25	0.25	0.25	0.50	1.75	3.25	4.00	4.00	4.00	4.00	4.00	3.50	3.00
2-yr Govt. Bond Yield	4.19	0.28	0.73	2.28	2.92	3.75	3.80	3.60	3.35	3.10	2.85	2.65	2.50
10-yr Govt. Bond Yield	3.73	1.52	1.52	2.32	2.98	3.45	3.60	3.50	3.35	3.20	3.05	2.95	2.85
30-yr Govt. Bond Yield	3.64	2.08	1.90	2.44	3.14	3.45	3.60	3.55	3.50	3.45	3.35	3.25	3.15

Forecast by TD Economics as of September 2022; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.

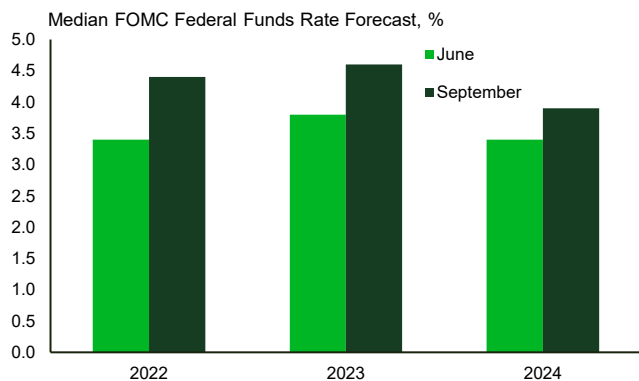
U.S. - The FOMC Aims High

The last days of summer 2022 were centered around the FOMC meeting which ended Wednesday with another 75bps hike, bringing the federal funds rate to its highest level in 14 years. The announcement was largely expected by markets after last week's CPI print came in hotter than expected, with core CPI rising to 0.6% month-over-month (m/m). However, the Fed's updated projections underlined a narrative that was more hawkish than what markets had been expecting, resulting in a volatile reaction from equity and bond markets. The S&P 500 ended the day down by 1.7% and the two-year treasury yield, which briefly rose above 4.1%, closed back at its pre-meeting level of 4%. Further digestion of the decision has seen the two-year yield rise to 4.2% and the S&P 500 retreat further, ending the week down 4.1% as of the time of writing.

Chair Powell used his press conference to reiterate his Jackson Hole speech, emphasizing that the Fed would not shy away from its fight to bring inflation back to its 2% target. Powell noted that a restrictive policy stance would likely be required for some time and that this would likely result in a sustained period of below trend growth and softer labor market conditions. Progress on the inflation front has been mixed so far with headline inflation showing early signs of peaking (largely due to falling gas prices), but core inflation has remained stubbornly high which has prompted the Fed to hold the line on its aggressive policy stance.

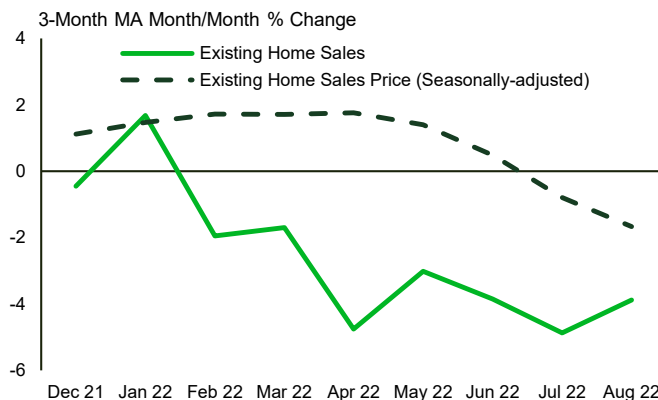
According to the updated Fed projections, the median estimate for the federal funds rate (FFR) is now expected to reach 4.4% by year-end, a full percentage point above their previous estimate in June (Chart 1). FOMC members ex-

Chart 1: Fed Raises Projected Policy Path To Combat Persistent Inflation



Source: Federal Reserve, TD Economics.

Chart 2: Higher Mortgage Rates And Reduced Affordability Weigh On Housing Demand



Source: The National Association of Realtors, TD Economics.

pect that further rate increases will be required in 2023, with the median projection for the terminal rate reaching 4.6%. This represents roughly 150bps of further rate increases from the current level of 3 – 3.25.

Elsewhere this week, the interest rate sensitive housing sector continued to show further signs of softening. Existing home sales declined by 0.4% m/m in August, marking its seventh consecutive month of declines. Seasonally adjusted median home prices also dipped deeper into negative territory, falling for the three straight months (Chart 2). Reduced affordability continues to act a headwind on consumer demand for housing, and with mortgage rates now well above 6%, that headwind is turning into a gale. Higher rates are not only affecting sales, but also residential construction. While housing starts rebounded in August (rising 12% m/m to 1.58M units), the 3-month moving average of year-over-year changes is still down 5.4%. Moreover, a pull-back in August housing permits suggests more weakness in the months ahead. This lines up with recent readings of builder sentiment, which has now fallen for nine consecutive months and currently sits at a 28-month low.

None of this will sway the Federal Reserve to lift its foot off the pedal as they continue to drive interest rates higher to bring down inflation. With the FOMC charting a course that nearly inverts the 2007/2008 run-down in the policy rate, the current and expected future path of monetary policy will continue to act as an increasing weight on the economy moving forward.

Andrew Foran, Economist | Andrew.Foran@td.com

Recent Key Economic Indicators: Sept 19 - 23, 2022					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Sep 19	NAHB Housing Market Index	Sep	Index	46.0	49.0
Sep 20	Building Permits	Aug	Thsd	1517.0	1685.0
Sep 20	Housing Starts	Aug	Thsd	1575.0	1404.0
Sep 21	Existing Home Sales	Aug	Mlns	4.80	4.82
Sep 21	FOMC Rate Decision (Upper Bound)	Sep 21	%	3.25	2.50
Sep 21	Interest on Reserve Balances Rate	Sep 22	%	3.15	2.40
Sep 22	Initial Jobless Claims	Sep 17	Thsd	213.0	208.0
Sep 23	S&P Global US Composite PMI	Sep	Index	49.3	44.6
Sep 23	S&P Global US Manufacturing PMI	Sep	Index	51.8	51.5
Sep 23	S&P Global US Services PMI	Sep	Index	49.2	43.7
Canada					
Sep 19	Industrial Product Price	Aug	M/M % Chg.	-1.2	-2.5
Sep 20	Consumer Price Index NSA	Aug	M/M % Chg.	-0.3	0.1
Sep 20	Consumer Price Index	Aug	Y/Y % Chg.	7.0	7.6
Sep 23	Retail Sales Ex Auto	Jul	M/M % Chg.	-3.1	0.6
Sep 23	Retail Sales	Jul	M/M % Chg.	-2.5	1.0
International					
Sep 19	JN National Consumer Price Index	Aug	Y/Y % Chg.	3.0	2.6
Sep 22	UK Bank of England Bank Rate	Sep 22	%	2.25	1.75
Sept 21 - 22	JN BOJ Policy Balance Rate	Sep 22	%	-0.10	-0.10

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Sept 26 - 29, 2022						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Sep 26	10:00	<i>Boston Fed's Susan Collins Speaks to Boston Chamber of Commerce</i>				
Sep 26	12:00	<i>Fed's Bostic Discusses Income Inequality</i>				
Sep 26	16:00	<i>Fed's Mester Discusses Economic Outlook</i>				
Sep 27	6:15	<i>Fed's Evans Discusses Economic Outlook</i>				
Sep 27	7:30	<i>Powell Takes Part in Panel on Digital Currencies</i>				
Sep 27	8:30	Cap Goods Orders Nondef Ex Air	Aug	M/M % Chg.	0.2	0.3
Sep 27	8:30	Durable Goods Orders	Aug	M/M % Chg.	-0.1	-0.1
Sep 27	9:00	S&P CoreLogic CS US HPI NSA	Jul	Y/Y % Chg.	-	18.0
Sep 27	9:55	<i>Fed's Bullard Discusses Economic and Policy Outlook</i>				
Sep 27	10:00	Conf. Board Consumer Confidence	Sep	Index	104.3	103.2
Sep 27	10:00	New Home Sales	Aug	Thsd	500.0	511.0
Sep 27	20:35	<i>Fed's Mary Daly Speaks at Banking Event in Singapore</i>				
Sep 28	8:30	Advance Goods Trade Balance	Aug	M/M % Chg.	-88.0	-90.2
Sep 28	8:35	<i>Fed's Bostic Takes Part in Moderated Q&A</i>				
Sep 28	10:00	Pending Home Sales	Aug	M/M % Chg.	-0.8	-1.0
Sep 28	10:10	<i>Fed's Bullard Makes Welcome Remarks at Community Banking Event</i>				
Sep 28	14:00	<i>Fed's Evans Speaks at the London School of Economics</i>				
Sep 29	8:30	Gross Domestic Product Annualized	2Q	Q/Q % Chg.	-0.6	-0.6
Sep 29	8:30	Initial Jobless Claims	Sep 24	Thsd	220.0	213.0
Sep 29	8:30	Personal Consumption	2Q	Q/Q % Chg.	1.5	1.5
Sep 29	9:30	<i>Fed's Bullard Discusses Economic Outlook</i>				
Sep 29	13:00	<i>Fed's Mester and ECB's Lane Take Part in Policy Panel</i>				
Sep 29	16:45	<i>Fed's Mary Daly Speaks at Boise State University</i>				
Canada						
Sep 29	7:00	CFIB Business Barometer	Sep	Index	-	53.5
Sep 29	8:30	Gross Domestic Product	Jul	M/M % Chg.	-0.1	0.1
Sep 29	8:30	Payroll Employment Change - SEPH	Jul	Thsd	-	114.6

*Eastern Standard Time. Source: Bloomberg, TD Economics.

Disclaimer

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.